



S U M M A R Y

CENTRAL AMERICA

STATE OF THE REGION ON  
SUSTAINABLE HUMAN  
DEVELOPMENT

2008

A REPORT FROM CENTRAL AMERICA  
TO CENTRAL AMERICA

STATE OF THE NATION – REGION PROGRAM

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## Foreword

The *Report on the State of the Region* (2008) contributes new academic research findings to the knowledge base and to deliberations on the current situation of and challenges of sustainable human development in Central America. It is the product of nearly two years of collective effort and the collaboration of many and diverse sectors and actors from the entire region. More than four 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, all of which ensured that this initiative is *from and for* Central America.

The preparation and dissemination of the 2008 report, and of the earlier 1999 and 2003 versions, as well as the institutional interest and arrangements already made to begin the 2010 report,

represent one more step forward to consolidate the *State of the Region* as a system for monitoring human development in Central America.

By reviewing, systematizing, and analyzing information, and conducting research on recent performance in the region, this endeavor offers a selective look at a set of important topics for sustainable human development in the isthmus. In addition to providing the countries with an instrument that will help them understand and rediscover their current conditions, the report hopes to contribute to the public debate and to the design of regional policy and regional action by identifying and studying the challenges and dilemmas currently facing Central America and its people.

In times of deep and rapid change, information is a powerful tool for understanding existing circumstances, assessing alternatives, and making

decisions. The analysis of information also serves as a valuable tool for effectively involving different social actors in efforts to define future courses of action and to formulate proposals.

A look at the current situation of Central America reveals a complex panorama of shortcomings and areas where it is lagging behind, as well as advancement and strengths that can help overcome them. Aside from describing these circumstances, this report calls on us to rediscover Central America and revitalize regional integration as an alternative for expanding its maneuvering room for addressing new and old challenges.

The *State of the Region* is an academic invitation to social and political dialogue. It is the hope of its sponsors that it will serve as a channel for understanding and a solid base for reaching agreements that will contribute to the well-being of the peoples of Central America.

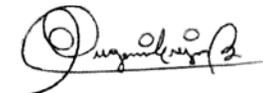


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# Preface

## An instrument for analysis

This *Report on the State of the Region* is an instrument *from* Central America and *for* Central America that analyzes and monitors the main challenges of 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 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.

The *State of the Region* reflects our current situation, the situation of the inhabitants of a Central America that has so many different faces –several million of them distant, but not 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), full of color. This report cannot introduce them all, in all their circumstances, but in attempting to get to know those faces, their aspirations, what they do and what difficulties they face, we have sought to meet the challenge of doing so with profound respect, balance and honesty. In presenting this edition and appraising our region’s performance in relation to sustainable human development, the coordinating team wishes to

### BOX 1

#### What is Central America?

When this report refers to Central America, it generally refers to six countries: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Where information was available, Belize was also taken into account. 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, between South America and North America.

The *First Report on the State of the Region* devoted a chapter to exploring the concept of Central America. From a cultural perspective, the isthmus forms part of Mesoamerica, which includes certain parts of Mexico and 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, everyone’s home.

Source: State of the Region Project, 1999.

acknowledge the efforts of the many researchers and organizations that worked to make this report a rigorous and useful tool for the citizenry of the region. The *State of the Region* is a report that focuses on the living condi-

tions of the human beings who live in the isthmus, one that recognizes their multicultural diversity and is committed to what they aspire to become. This approach is framed by the notion of sustainable human development.

The *Report on the State of the Region* aims to serve as a navigation instrument that can help us recognize real circumstances, identify challenges, create roadmaps and build alternatives for strengthening sustainable human development in Central America. To this end, it combines analysis and articulates knowledge with informed deliberation, and includes robust participatory mechanisms and practices. Informed participation was an integral part of the entire process to prepare the report, beginning with the identification of relevant issues through a broad consultation process. This was followed by the establishment of an Advisory Committee, and numerous research studies, conducted and led 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).

### 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 capacity 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 citizenry. For this reason 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 build a concept of sustainable human development and a system for measuring and appraising regional performance in that area, with ample institutional backing, legitimacy and social participation. It follows up on the subjects addressed in previous reports, includes new topics, and introduces, for the first time, a prospective and proactive section entitled “Strategic Dilemmas.”

In synthesis, the *State of the Region* is envisaged as an instrument for:

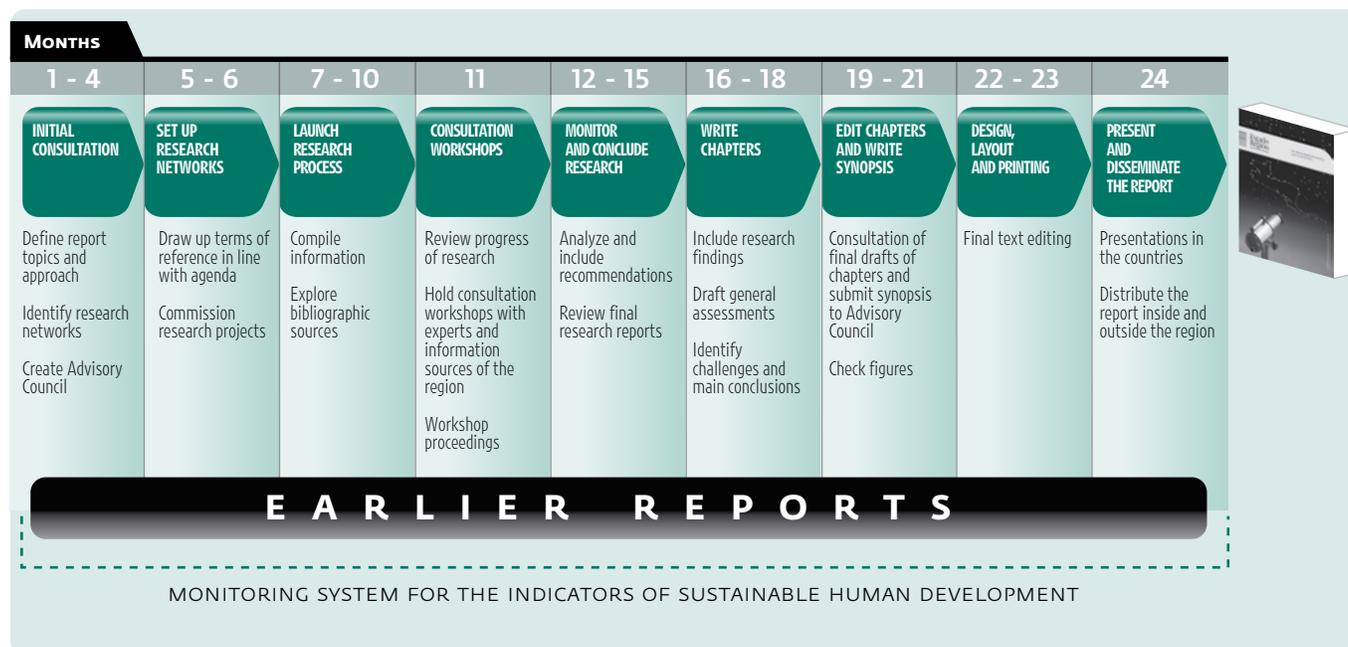
- promoting informed reflection on the present and future of the region;
- promoting effective processes for petitioning and for accountability;
- identifying possible actions for expanding opportunities and enhancing the capacities of the population, and
- laying the technical groundwork for a social and political dialogue that will contribute to promoting sustainable human development in the region.

### Why a regional report?

One of the most serious obstacles that must be overcome in order to be able 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), is the absence of systems for monitoring the governments' and societies' response to regional challenges. This lack affects the quality of public

DIAGRAM 1

## Process to Prepare the Report on the State of the Region



decision-making, especially vis-à-vis integration, and also hinders dialogue and participation in matters of public interest, given that a lack of information fuels prejudices that override informed opinion. It also undermines people's capacity to demand their rights and to insist on the fulfillment of social and political responsibilities.

In a region where an authoritarian legacy has left the countries with the challenge of introducing greater transparency in the management of development, it is imperative to expand the frontiers of information available to citizens. Greater transparency 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, as do governments that lack instruments for measuring their performance and determining how to mitigate or modify negative impacts, even when they are willing to do so.

A strengthening of transparency will provide the people of Central America with instruments they can use to gain a clearer insight into their region's situation and to act in accordance with their possibilities, opportunities, and aspirations. Accordingly, the ideal monitoring system would be based on a regional agenda of priorities, which would serve as the basis for dialogue and consensus-building among the different social and political actors of the isthmus.

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

the framework of the few internationally comparable indicators available.

The Central American societies have made significant headway 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* 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 examined. Country-by-country comparisons are only made 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 interpretation of the whole.

For the first time, this report analyzes two strategic dilemmas faced by Central America in its pursuit of development. Two chapters are devoted to these strategic dilemmas, both for the purpose of stimulating discussion and in the hopes of contributing to public policies and regional actions implemented to tackle them. If a different outcome is desired for the region in the medium term, solving these dilemmas in the short term is viewed as necessary, urgent and of the greatest importance. These dilemmas have been termed "public security and the rule of law" and "advantageous integration in the international economy." The two chapters combine a "look within" the region, focusing on the impact of certain development trends on the countries' domestic situations, with a "look outside," viewing Central America in the international setting in order to examine opportunities and threats facing the isthmus. The report describes the current situation and possible future scenarios for each dilemma if certain trends are not changed. It also proposes alternative courses of action that can be pursued by the region to overcome each dilemma.

### **An initiative of the region and for the region that is being consolidated and renewed**

As mentioned earlier, this report was prepared in the region and for the region, using a decentralized research strategy with the support of each Central American nation. To produce it –nearly twenty-four months from the time the coordination team was created until the document went to press– more than 650 bibliographical references were used, some 65 researchers of different nationalities and representing different approaches collaborated, and almost 300 people participated in the different consultations. 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 Report on the State of the Region in Sustainable Human Development* was introduced almost ten years ago within the framework of the "Human Development Reports for democratic consolidation and peace in Central America," an initiative of the European Union and the United Nations Development Program (UNDP) that also supported preparation of national reports. In 2003 a second report was published, with the backing of UNDP and the Royal Embassy of The Netherlands. The present (third) edition was prepared mainly with the support of the Danish cooperation agency, DANIDA, through its Regional Transparency and Justice Program, along with a group of sponsors that supported this initiative (Box 2). Work on the next regional report, to be published in 2010, is expected to begin immediately, also under the auspices of Danish cooperation. This will allow for a more systematic monitoring of the isthmus' performance in relation to human development, and will make it possible to reflect the rapid changes occurring both in the region and in the world.

This report was prepared within the institutional framework provided by the State of the Nation/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 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/Region Program is headquartered in San José, Costa Rica and comprises a multidisciplinary group of professionals with expertise in research projects in Central America. Its objectives include coordinating research capabilities in the entire region and ensuring that consultation arrangements are representative of the multiple social and political actors active in the isthmus. The team coordinates a broad group of research centers and consultants responsible for studies in the different countries. The research and dissemination strategy is executed through ongoing contacts and consultation with political, social, and institutional sectors in order to ensure that the report sinks deep roots in the Central American societies.

### A participatory research strategy

The research strategy was 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 link 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 a regional value added, which was undertaken, in practical terms, by combining four measures. First, the agenda was constructed at the regional level through a consultation process involving 82 eminent persons and not defined a priori by a small group of people. The purpose of the consultation was to identify

common challenges, that is, important issues that transcend political and intellectual boundaries in the isthmus. Second, the information was analyzed 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, a systematic identification of regional integration efforts in each thematic area –or the absence thereof– provided a counterpoint to a purely national perspective. This was strengthened by a broad view of regional integration, one that takes into account the efforts of numerous actors, including those listed in the boxes prepared by SICA's Secretary General and the Advisory Committee (see Chapter 2). Finally, workshops were held throughout the isthmus to discuss the research findings with a view to gathering reactions and suggestions for correcting the first drafts. A total of thirteen workshops were held, involving nearly 300 people from all the countries of the region.

The report's Advisory Committee was the organ par excellence of the participatory research process. It was created before launching the process with twenty-four 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. It selected and defined the thematic areas and approaches, participated in the consultation workshops, and validated the research findings set out in the final chapters.

The efforts to prepare the report were undertaken with modesty and circumspection, based on regional research capacities that were often constrained by limited comparable information and meager resources. Each topic was prepared 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, 65 researchers submitted papers on specialized topics (Table 1). The report gratefully acknowledges the contributions

of many secondary researchers and research assistants, others who provided valuable information, and critical readers and final editors, all of whom are recognized in the acknowledgments section at the end of each chapter.

In addition, numerous institutions provided valuable inputs that were included in special boxes or sections. The SICA Secretary General and the Advisory Committee contributed their views on the status of the regional integration process to supplement the analysis of this subject in Chapter 2. In addition, the Foundation for Due Process and the Arias Foundation for Peace and Human Progress provided texts on topics in their areas of expertise.

The research process was oriented by the following guidelines:

- Focus on specific topics so as to be able to analyze, as deeply as possible, matters of public interest identified as such by relevant actors; do not attempt to present an exhaustive portrait of the region (for example, instead of a general chapter on the environment, one was written on conservation areas and another on energy).
- Follow up on critical issues discussed in previous editions of the report, updating the indicators (statistical compendium) and analyzing trends (Chapter 2).
- Highlight regional actions undertaken in each thematic area in order to provide a comprehensive overview of how the Central American integration process plays out in specific areas.
- Show different approaches taken on the issues discussed, identifying points of agreement and disagreement among actors; avoid presenting a single interpretation or viewpoint.
- Illustrate the issues responsibly, although not exhaustively, and do not present an overall assessment of the

## BOX 2

**Sponsors and network of collaborators of the *Report on the State of the Region (2008)***

The principal sponsor of this initiative is the Government of the Kingdom of Denmark, through its international cooperation agency, DANIDA, as part of 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 for enriching and strengthening their regional endeavors. Thirteen institutional arrangements facilitated the study of specific topics and the active involvement of researchers and academic centers throughout the isthmus:

- The Institute for Local Development in Central America (IDELCA) provided financial support for the chapter on local government, which was prepared by a network of researchers working with national local government associations, under the coordination of the regional office of the Federation of Municipalities of the Central American Isthmus (FEMICA).

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

- The Nutrition Institute of Central America and Panama (INCAP), which serves as the technical secretariat of the Regional Program for Food and Nutrition Security in Central America (PRESANCA), within the context of a cooperation agreement with the Central American Social Integration Secretariat (SISCA), financed studies on "the market structure of certain critical sectors and the competitiveness of small- and medium-sized enterprises in the context of CAFTA," "inequality and

social investment," and "public security and the administration of justice," which were used as inputs for this report.

- The International Union for the Conservation of Nature (IUCN) provided resources and technical assistance for two studies, one on "asymmetries in the Central American environmental legal framework," and the other on "institutional capacities in Central America in the environmental area." It also provided support for preparing and conducting the consultations for the chapter on the protected areas of the region.

- The Program to Support Central American Regional Integration (PAIRCA) provided funding for the section on the region's institutional framework (Chapter 2 of the report) and for the consultations on the chapters on strategic dilemmas. Through the program "Studies to Support the Central American Regional Integration Process," implemented by the Central American University Council (CSUCA), it financed a study that provided inputs for the chapter on energy. It will also provide essential support for disseminating this report after publication.

- The Foundation for Peace and Democracy (FUNPADEM), through the coordinator and technical team of the "*Cumple y Gana*" project, funded and wrote a paper on labor rights in Central America for the chapter on employment.

- Transparency International (headquartered in Berlin) participated in preparing the chapter on corruption, with additional funding provided by DANIDA's Transparency and Justice Program. The management and staff of the organization *Acción Ciudadana de Guatemala* was mainly responsible for the regional coordination of field studies for that chapter, and a special section was written by the *Fundación para la Libertad Ciudadana* of Panama.

- The Central American Institute of Fiscal Studies (ICEFI) conducted a study on the financing of civil rights, with the participation

of its director and technical team. This research provided valuable inputs for several chapters of the report. The cooperation agreement signed with ICEFI also includes joint organization of dissemination and research activities for subsequent reports.

- The Central American Institute of Business Administration (INCAE), through its Latin American Center for Competitiveness and Sustainable Development (CLADS), contributed human resources for the study on Central America's preparedness for international trade.

- The United Nations Educational, Scientific and Cultural Organization (UNESCO), with the support of the Omar Dengo Foundation (FOD), sponsored research projects on the cost of illiteracy in Central America, and on the new literacies of the 21st century.

- Within the framework of its cooperation agreement with the State of the Nation/Region Program, the Advisory Council of SICA (CC-SICA) will facilitate activities and projects on integration and informed participation by civil society that are of common interest to the two groups.

- The Nature Conservancy (TNC), through its technical teams in Guatemala and Costa Rica, coordinated preparation of the chapter on protected areas, which tapped valuable research and information gathered in the region.

- From its headquarters in Mexico, the Economic Commission for Latin America and the Caribbean (ECLAC) provided technical support for the chapters on energy and on the dilemma of advantageous integration in the international economy.

TABLE 1

**Baseline studies and research networks**

<b>Chapter/study</b>	<b>Researchers</b>
<b>Chapter 2: Monitoring sustainable human development</b>	Pablo Sauma, Elaine White and Alonso Ramírez (Costa Rica), Juan Rocha (Nicaragua)
<b>Chapter 3: The challenge of providing jobs for the inhabitants of the region</b>	
Socio-demographic profile of working people Generators of work: labor markets in Central America	Juan Diego Trejos (Costa Rica)
Protection and promotion of employment at the regional level	Rodolfo Piza and the technical team of the project "Cumple y Gana," FUNPADEM (Costa Rica)
<b>Chapter 4. The regional challenge of having a healthy population</b>	
Social determinants and inequity in health	Daniilo Rayo (Nicaragua)
Social protection by the State	Juan Alberto Fuentes, Icefi (Guatemala)
Private spending on health	Rodrigo Briceño (Costa Rica)
<b>Chapter 5. The challenge of guaranteeing food for the inhabitants of the region</b>	
Food supply in the region The consequences of food access on people	Patricia Allen, Rafael Monge and Sonia Guzmán, Inciensa (Costa Rica)
<b>Chapter 6. The challenge of preventing a population exodus</b>	
Profile of migrant people and their households	Juan José García (El Salvador) and Luis Angel Oviedo (Costa Rica)
Macroeconomic effects of remittances	Manuel Orozco, Diálogo Interamericano (United States)
Migratory networks	Guillermo Acuña y Abelardo Morales, Flacso (Costa Rica)
Protection of migrants' rights	Ricardo Iglesias (El Salvador)
<b>Chapter 7. The challenge of democratic stability</b>	
Citizen support for democracy	Jorge Vargas Cullell (Costa Rica)
Financing of people's rights	Juan Alberto Fuentes, Icefi (Guatemala)
Management of electoral systems	Alvaro Artiga (El Salvador)
Extreme social exclusions that prevent citizens from exercising their rights	Arodys Robles (Costa Rica)
Illegal actors	Rafael Benítez and Georgina Sánchez (Mexico), Jeannette Aguilar and Marlon Carranza (El Salvador).
<b>Chapter 8. The challenge of the fight against corruption</b>	
Patterns of corruption in public services Institutional and political incentives for corruption in public services Implications of corruption for public services	Manfredo Marroquín, Alejandro Salas, Lilian Sierra and Luis Martínez, Acción Ciudadana (Guatemala)
Appraisal of anti-corruption activities and citizen participation	Angélica Maytín, Fundación para la Libertad Ciudadana (Panamá)
<b>Chapter 9. The challenge of strengthening local government</b>	
Local development and municipal finance	Juan González and Patricia Jager, Femica (Guatemala) and Red de Uniones de Gobiernos Locales en Centroamérica
Local democracy: elections and citizen participation	Alvaro Artiga (El Salvador)
<b>Chapter 10. The regional challenge of protecting the natural heritage</b>	
Current situation and environmental management of conservation areas Processes that impact on conservation areas Environmental, social and economic benefits of conservation	Carmen María López and Juventino Gálvez (Guatemala), and Lenin Corrales (Costa Rica), The Nature Conservancy (TNC)

TABLE 1

&gt;&gt; CONTINUE

**Baseline studies and research networks**

Chapter/study	Researchers
<b>Chapter 11. The regional challenge of having energy for production</b>	
The energy we produce The energy we consume The energy we will need in the future	Carlos González (Costa Rica)
<b>Chapter 12: The strategic dilemma of public safety and the rule of law</b>	
<i>Concept paper</i>	José María Rico (Costa Rica)
Status report	José María Rico and Max Loría (Costa Rica), José Miguel Cruz and Edgardo Amaya (El Salvador),  Reina Rivera (Honduras), José Antonio Pérez (Panamá) and Kathya Jaentschke (Nicaragua)
Preparation of scenarios	Jorge Vargas Cullell (Costa Rica)
Alternatives for action	José María Rico (Costa Rica)
<b>Chapter 13: The strategic dilemma of advantageous integration in the international economy</b>	
Competitive and comparative advantages in intraregional and extra-regional trade	Octavio Martínez, ECLAC (México)
Central American preparedness for international trade: the case of small and medium-sized enterprises (SMEs)	Víctor Umaña, Incae (Costa Rica)
International integration and consumers' rights	Ricardo Maguina, IPCyC (Perú)
Comparative analysis of small and open economies that have attained an advantageous position in the international economy	Gabriela Mata (Costa Rica)
<i>Concept paper</i>	Eduardo Alonso (Costa Rica)
Preparation of scenarios	Jorge Vargas Cullell (Costa Rica)
Alternatives for action	Carlos Pomareda (Costa Rica)
<b>IUCN Agreement</b>	
Inconsistencies in the environmental legal framework	Alejandra Sobenes and Edmundo Vázquez, Ideads (Guatemala)
Institutional capacities in the environmental area	Daniel Matul, Alonso Ramírez, Roberto Dinarte and Andrés León (Costa Rica)
<b>SISCA-PRESANCA Agreement</b>	
Market structures and competitiveness of SMEs	José Angulo and Alejandra Mata (Costa Rica)
Legal certainty and administration of justice	Emilio Solana (Costa Rica)
Inequality and social investment	Juan Alberto Fuentes, Icefi (Guatemala)

region's performance in the absence of sufficient comparable and relevant information.

- Base the information on quantitative indicators and on practices identified, not on opinions or value judgments.

- Document regional challenges and avoid making statements that do not

have a solid technical foundation and social and political legitimacy.

- Select two especially relevant issues for the dilemmas, formulate scenarios and identify possible courses of action.

In synthesis, the research process sought to combine academic rigor,

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

**What next?**

Once the report has been published, two tasks lie ahead: the first is to disseminate the report and the second is to begin preparations for the forthcoming *Report on the State of the*

## BOX 3

### "A grain of corn in the construction of Central American integration and the socialization, education and empowerment of the indigenous peoples of Abya Yala on the current state of the Central American region"

This is the name of a project being carried out jointly by the State of the Nation/Region Program, the *Asociación Sotz'il* of Guatemala and the Central American Indigenous Council to improve indigenous peoples' access to comprehensive, timely and truthful information on the actual circumstances and conditions of Central America, from the perspective of sustainable human development. This initiative is one of the projects of the Fund for Inclusive Regional Integration, sponsored by PAIRCA-FLACSO and funded by the European Union.

This effort is based on the conviction that, in order to meet social, economic and environmental challenges, the region needs informed people with constructive attitudes, hopes and aspirations. An informed citizen is a citizen with democratic power, but also one with greater responsibilities toward his or her community, country and region. Improving indigenous groups' access to information will enable them to better understand the realities and challenges facing the region, to be engaged as informed participants, and to promote actions that will contribute to improving those conditions and overcoming those challenges.

The production of educational materials and the training of indigenous leaders in the region are essential components of this initiative, the objectives of which are: a) to provide a working tool that will give indigenous peoples access to information on the situation in Central America and encourage discussion within their communities, organizations and partners on the challenges facing the isthmus, and b) to promote actions that enable organizations, communities and institutions to incorporate their knowledge of Central

America's actual circumstances and conditions into the strategies and action plans they formulate.

The educational materials present the findings of this report in a simple, clear, concise and attractive manner, and include a proposal for eight workshops to be implemented by indigenous communities and organizations. The methodological approach consists of three phases: a) "Starting": activities are proposed to encourage communities to explore their experiences with the given topics, identify their own knowledge of the given topics, and clarify concepts; b) "Learning": the aim is to become familiar with, analyze, and understand the Central American reality based on extracts from the report and inputs generated during its preparation; and c) "In conclusion": in this stage, a proactive discussion will be promoted to encourage communities and organizations to design work plans that take into account their knowledge of the region and the setting, enabling them to participate in improving their situation. In addition, a folder with supplementary materials was prepared to help organize the proposed activities. These materials will be translated into English, Miskito and Maya k'eqchi.

The preliminary versions of these materials were validated at consultation workshops attended by leaders of indigenous organizations and communities from the seven Central American countries. The workshops were held in July 2008 and were attended by approximately 300 representatives of the following indigenous communities: Miskitos, Kuna-yala, Ngöbe-buglé, Cabécares, Bribris, Ngöbes, Terrabas, Borucas or Brunkas, Huetares, Malekus and Chorotegas.

*Region.* A communications and feedback strategy lasting several months has been planned for disseminating the report. This will involve activities with different audiences to publicize and discuss its main findings, both through the mass media and with specific groups and sectors. One important aspect of this task will be the preparation of a series of teaching modules on the *State of the Region* for indigenous organizations, which will be translated into three languages (Box 3). Once again, the support of our sponsors, partner organizations, researchers, and members of the Advisory Committee in each country will be essential for successful implementation of these tasks.

Preparation of the next *Report on the State of the Region* begins with the publication of this report. The initiative to disseminate the 2008 Report will serve as a platform for organizing the regional activities needed to implement this process. This immediate start offers important advantages: for example, it will give continuity to the work of a group of researchers whose expertise is the region; it will consolidate the academic ties forged with strategic partners; and it will maintain the momentum achieved with information sources. Moreover, the periodic (every two years) publication of this report will make it possible to monitor the region's performance at a time when both the national and the international milieus are changing very rapidly.

### Limitations and closing remarks

This report is an effort that is fully aware of its own limitations. First of all, and unfortunately, treatment of the region as a whole is uneven in several areas, and the information on Belize was 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 limited time and resources, it was impossible to use primary research except in a few cases, although source material was very frequently repro-

cessed. Thirdly, not all subjects could be researched to equal depth due to a scarcity or lack of information. Finally, researchers had relatively little time to conduct their studies because of the pressures of a tight schedule. For all these reasons, special care was taken to cite all the sources that support the assessments made by this report. In addition, extensive notes were added, where necessary, to facilitate correct interpretation of the data.

The regional project's technical team had the task of coordinating the research strategies and providing support during preparation of the report. It was also

responsible for editing and publishing the final text. Despite all the support received, which is acknowledged in detail in the different sections of the document, any errors in this report are the exclusive responsibility of the project's coordinating team. In addition, the assessments made in this report do not necessarily reflect the views of sponsoring institutions.

This *Report on the State of the Region* gives continuity to a system that monitors the challenges of sustainable human development and the evolving patterns of regional integration. It is not a "snapshot" of actual

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, the report is based on the premise that the future of Central America, and the form its integration takes, will depend fundamentally on the respect for diversity, beginning with the recognition of social gaps and of the social, economic, political and cultural plurality that characterizes the isthmus. In this regard, the report not only reaffirms the region's diversity, it is also an exercise in Central American pluralism.



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# Synopsis

## BRIEF APPRAISALS FROM PREVIOUS REPORTS

### **General appraisal from the *First Report on the State of the Region (1999)***

A positive decade for the first time in thirty years ... thanks to the countries' efforts to bring about political, social and economic stability, and to complete the transition to democracy. Decades of authoritarian government and armed conflict have come to an end; after a deep recession, Central American is back on the path to economic growth. Milestone: Esquipulas II (1987). Its vision of peace helped the transition to democracy, stimulated regional trade that had been interrupted by war, and fostered the emergence of a new round of regional integration as a means to promote human development. A new round of integration: more countries, more topics, more pressure to achieve results.

Economic and political achievements are unstable, and social equity and environmental sustainability outcomes are negative for the region, though not necessarily in all countries. Central America is torn by regional fractures in human development.

### **Appraisal from the *Second Report on Human Development in Central America and Panama (2003)***

Central America has lost its momentum in the drive for progress ... advances in human development have not maintained the vitality of the previous decade when the region recovered social and political stability, leaving armed conflict and recession behind. Improvements in life expectancy, infant mortality, educational and health coverage achieved at the beginning of the 21st century were eroded by economic deceleration, a lack of articulation between the production sector and employment, some deterioration in equity, environmental and social vulnerability, and a democratization process that is holding its own but moving forward slowly.

The presidential summit in Esquipulas and, a few years later, the signing of the Tegucigalpa Protocol, strengthened the promise of sustained economic and social progress to leave behind the wreckage of civil war and social gaps. This goal has not been entirely achieved. Considering the underlying historical, economic and social conditions, however, it is not an easy task. While

advances in human development have been encouraging, they have been insufficient to overcome the historical lag in the region because they have not always been linked to endeavors that aim to generate opportunities for broad sectors of the population.

To reach development objectives, it is necessary to combine a broad set of economic and political initiatives, such as increasing the quantity, quality, and supervision of public social spending, forging new production linkages among different economic sectors, reducing levels of inequality, and strengthening the institutions of the rule of law.



# Synopsis

## General appraisal (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 it needs to contend with new world circumstances. This panorama poses strategic challenges that will not only require innovative and bold regional and national responses, but also major improvements in the collective capacity to implement them. This report proposes the option of addressing these challenges collectively, that the region and integration be rediscovered as strengths that can supplement the actions that each State, individually, must undertake for the well-being of its population.

The international situation surrounding the isthmus is characterized by the destructive geopolitics of security associated with drug trafficking, the growing 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 is 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 pointed out 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 those areas.

This report recognizes that, from many perspectives, Central America is no longer what it used to be. Its countries have larger populations, they are more urban, their economies have opened up to the international system, and their governments are electoral democracies. These are remarkable transformations. Nonetheless, the sum

total of 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 within the countries.

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 regimens 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 address the challenge of ushering forth an important period of progress in human development, within 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 node of world trade, it is rich in biodiversity and offers great potential renewable energy

sources, 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 (though 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 national States, and implement coordinated public policies in order to move regional actions forward while promoting the interests of each country at the same time.

### Central America is experiencing rapid change

All of the societies of Central America are undergoing profound and rapid change. With regards to population, the 41.3 million people living in the isthmus in 2007 are almost 20% (8 million) more than those registered in 1995, despite the fact that in 2006 more than four million Central Americans had migrated within or outside the region. (The results of El Salvador's April 2008 population census require a negative adjustment of nearly 1.3 million people in the population figures for the region; see Chapter 2). By and large, the societies of today are mostly urban, which contrasts with its historical situation when most people lived in the countryside. In Honduras, the country where urbanization has been less intense, 47.8% of the population live in urban centers.

All the societies are experiencing demographic transitions, though to different degrees, which have created a benefit called the demographic dividend (Figure 1). Due to a decline in the fertility rate, the current young generation will have the advantage of a relatively low burden of dependents (children and elderly) throughout its productive life, in comparison with earlier periods. This offers a great opportunity for human development: if this young generation takes advantage of educational opportunities, improves its health, and boosts its productivity, it can give a strong impetus to development

during the coming decades, as has been the case in Europe and Asia. For El Salvador, Honduras, Nicaragua, and Guatemala, this advantage will last for several generations; for Costa Rica and Panama this is the last generation that will be able to take advantage of this situation due to the advanced state of their demographic transitions. If this opportunity is missed, the danger exists that these groups will not have the strength or tools needed to promote progress, and they could become a heavy burden for the following generations, which will be smaller.

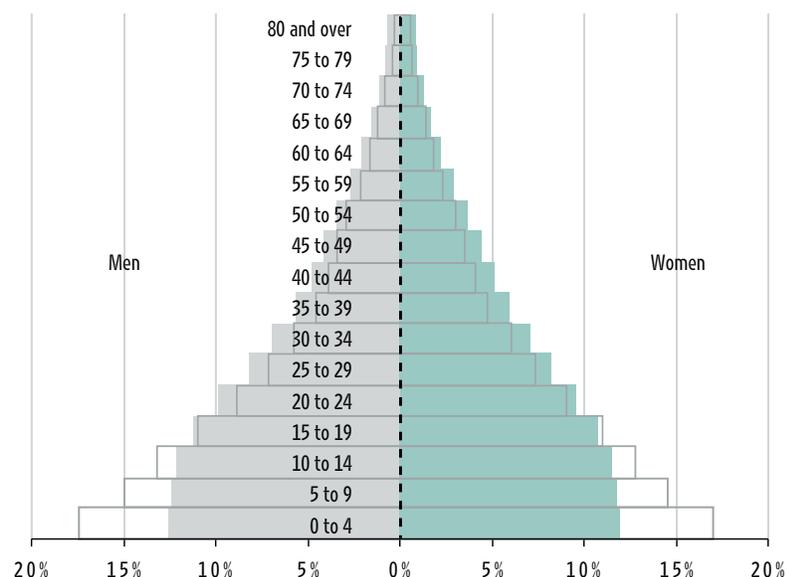
In little more than one decade, the structure and orientation of most of the Central American economies have changed notably. All are more open to the international economy than they were a few years ago, which is evident in the growing weight of exports and imports in their output (liberalization ratio); this is much more so when migration, family remittances, and direct foreign investment are taken into consideration. The weight of traditional agroexports has fallen consid-

erably. The tertiary sector, driven by financial services, tourism, and trade, has become the most important sector in the region's production structure. It is a dynamic creator of jobs and generator of foreign exchange, while the primary sector, which groups both extractive and agricultural activities, has lost relative importance and barely exceeds 10% of regional GDP. Moreover, all the economies have diversified their production, some to a much greater degree than others. In all these areas, Panama and Costa Rica have shown the greatest progress.

Following a period of economic crises affected by the instability and recessions of the 1980s, the Central American nations have achieved considerable macroeconomic stability through public policies to combat inflation and the control of fiscal variables. In all the countries of the isthmus, inflation and interest rates fell relative to the previous decade, although with different degrees of success, partly due to international conditions. This led to a significant improvement in the business

FIGURE 1

### Central America: Distribution by sex and age of the population 1980 AND 2008



Note: The dashed line refers to data from 1980.

Source: Prepared by authors with information from the Latin American and Caribbean Demographic Centre (CELADE).

climate throughout the region (although the recent sharp increases in international oil and food prices are generating strong and troubling inflationary pressures). To a much lesser degree, improved tax collection contributed to stability throughout the isthmus during the last five years; nonetheless, tax revenues are still far below the levels needed to finance development on a sustainable basis. On average, tax revenues grew from 11.5% of GDP in 1999 to 13.9% in 2006.

Efforts to improve tax collection have been undermined by the States' difficulties in improving public services, and in increasing transparency and accountability in government management. In several countries, remittances sent by emigrants to their families are the main factor of economic stability: the weight of remittances is double that of export revenues in El Salvador and Honduras. In Honduras, remittances represent 28% of GDP. All this reflects an enormous change with respect to the situation in the mid-1990s. Nonetheless, although remittances do finance stability they do not generate high and sustained levels of economic growth.

Finally, political violence has declined significantly in Central America (although it continues to be unacceptably high in at least one country). The emergence of electoral democracies and civilian governments made it possible to control the systematic violence that the armed forces, and security forces in general, waged against the populations. As a result, there was a decline in State-sponsored human rights violations. However, the waning of political violence has not translated into peaceful societies, and violence has acquired a radically different profile in recent years. Several countries are characterized by high levels of social violence, among the highest in the world for societies not engaged in military conflict, and others have seen a notable rise in same. Social violence is associated with different types of crime and citizens' often unlawful reaction to the lack of security.

The problem is so severe that, as noted in this report, insecurity repre-

sents a threat to the rule of law and to the very existence of the constitutional State in several nations of the isthmus.

### More progress on several fronts, though sluggish and inadequate

With regard to other social, economic, and environmental areas that are key to human development, although improvements have been noted vis-à-vis earlier regional reports (Table 2), these changes have been sluggish and inadequate to fulfill the promise of human development. All the countries improved their rating on the human development index (HDI) of the United Nations Development Programme (see Statistical Compendium). Costa Rica and Panama had the best scores and ranked with the high human development countries, while the rest of the countries placed with the countries in the average human development group.

During the period 2003-2007, the economic growth of the countries and the isthmus was the best since the 1960s and represented the highest average rate for Central America over the long run. During that same period the United States economy was experiencing strong expansion. This growth was fleeting, however, at least for the region as a whole. Since 1995, per capita GDP experienced a moderate and volatile increase: average regional per capita GDP growth rate was an annual 1.6%. The values, however, are very diverse and characterized by sharp peaks and deep valleys in most of the area. In general, performance was much more favorable in the two higher-income nations (Panama and Costa Rica). Because of different starting points and disparities in growth, the gaps in per capita GDP between countries persist or have grown. With regard to real per capita GDP, many of the countries (with the exception of Nicaragua) that wanted to recover their historical highs reached that goal in those years. Only two, however, managed to recover their historical path of growth (again, only Panama and Costa Rica), although without distinguishing themselves much from the Latin American trend as a whole (Figure 2).

Central America has progressed on several social fronts in the last decade, although at a sluggish and inadequate pace. For example, educational coverage improved at all levels and in most of the countries. At the primary level, net enrollment rates approached or held steady at over 90% during the period 2000-2006 (with the exception of Belize, for which available information shows a certain setback). Net enrollment rates in secondary education improved in all countries, especially Guatemala, although starting from a very low baseline in 2000. Similar progress was noted during the period in preschool education. Nevertheless, primary education is still not universal in most of the countries of the isthmus (except Panama and Costa Rica), and the coverage of secondary and preschool education, despite progress, is low, generally less than 60%, with the aforementioned exceptions. Viewed from an international standpoint, the most aggregated educational indicators for Central America are clearly inadequate.

Life expectancy at birth rose by two years (average for the isthmus) and infant mortality fell to 23 per thousand live births (regional average), the lowest figure in history. However, important disparities persist for indicators both within and between the countries. The panorama for morbidity and mortality is being transformed by improvements in water supply and sanitation, and changes in lifestyle, which have contributed to bringing the nations of the area into different stages of epidemiological transition. Basic vaccine coverage (BCG, DTPE, HepB3, HibB3) rose overall during the period 2000-2006, reaching or maintaining levels equal to or higher than 85% throughout the isthmus.

Although malnutrition declined in this decade, it declined slowly and unequally and continues to affect broad sectors of the population, especially rural inhabitants, children, indigenous people and the elderly. In the last few years, the region achieved surplus food availability. However, this was due to food imports and not to food produc-

TABLE 2

**Central America: Selected socioeconomic indicators and recent trends, by country**

Indicator	Belize	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama	Central America
Total population 2007 (millions)	0.3	4.5	7.1	13.3	7.2	5.6	3.3	41.3
Regional distribution 2007(percentage)	0.7	10.9	17.2	32.2	17.4	13.6	8.0	100.0
Annual growth 2000-2007	2.3	1.9	1.8	2.5	2.0	1.3	1.8	2.0
Rural inhabitants 2005 (percentage)		37	42	50	52	43	34	46
Total territory (thousands of km <sup>2</sup> ) 2006	23.0	51.1	21.0	108.9	112.5	131.8	75.5	523.8
Regional distribution 2006	4.4	9.8	4.0	20.8	21.5	25.2	14.4	100.0
Density (people / km <sup>2</sup> ) 2006	13	87	338	123	64	42	44	79
Output 2006 (US\$ millions at current prices)	1,202.3	22,229.2	18,653.6	30,636.9	10,850.9	5,300.8	17,133.8	106,007.5
Regional distribution 2006 (percentage)	1.1	21.0	17.6	28.9	10.2	5.0	16.2	100.0
Annual growth 2000-2005	6.3	5.7	6.0	10.1	7.1	5.1	6.7	7.2
Human development index 2005	0.778	0.846	0.735	0.689	0.700	0.710	0.812	0.729
Position among 177 countries	80	48	103	118	115	110	62	107
Trend 2000-2005		Improved	Improved	Improved	Improved	Improved	Improved	Improved
Per capita social spending 2004-2005 (US\$ of year 2000)		772	120	100	120	90	724	230
Macroeconomic priority (percentage of GDP)		17	6	6	12	11	17	12
Fiscal priority (percentage of public spending)		36	31	54	53	48	40	40
Trend 2000-2005		Improved	Improved	Improved	Improved	Improved	Improved	Improved
Poverty by income-incidence (percentage) 2006 (2002)	34 (2002)	19	48	60 (2002)	72	69	31	55
Trend 2000-2006		Declined	Declined	Declined	Declined	Declined	Declined	Declined
Inequality (Gini coefficient with a view to 2006) (1999)	0.530 (1999)	0.478	0.493	0.543	0.587	0.579	0.548	
Trend 2000-2006		Increased	Declined	Declined	Increased	Declined	Increased	

Source: Trejos, 2007, based on ECLAC, 2007; UNDP, 2005 and 2007; and State of the Region Project, 1999.

tion, especially in the case of staple grains, the cultivation of which was in fact discouraged. Dependency on imported food in a setting of mounting international prices represents a serious challenge to food security in Central America.

Particular attention should be given to the relative improvement in the poverty level in the isthmus. During the period 2002-2007, poverty declined by five percentage points (regional average), reaching a historical low. Even so, more than 40% of Central Americans

are poor, which means that, in absolute terms (number of people) it increased.

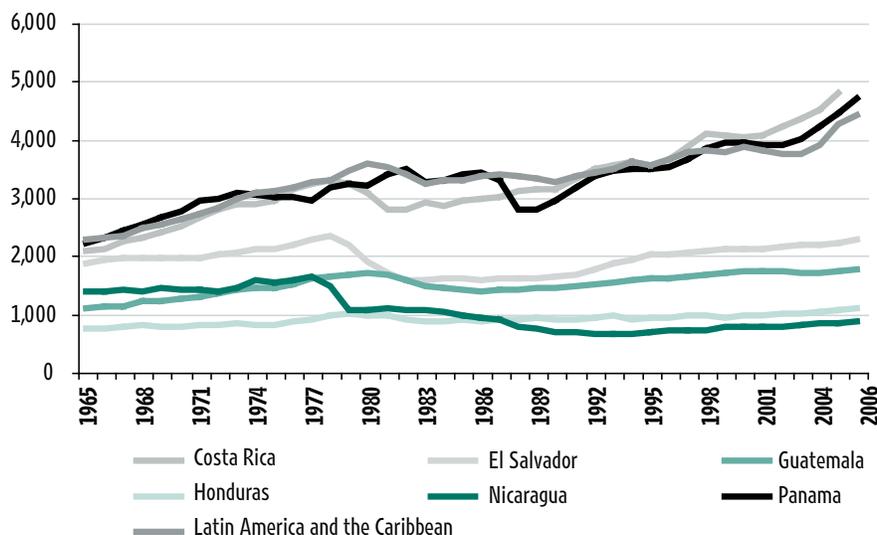
In general, public social policies received more funding in all the countries than five years ago. For several countries, however, social spending continues to be among the lowest in Latin America. In addition, there is a seven-fold gap in per capita social spending among the countries of the isthmus, reflected in disparities in human development. This report's findings show that low investments in health and education reduced the possibilities of

improving the quality of the region's labor force, an issue that all successful economies have given strategic priority. Today, inspection of workers' rights is allowed throughout the isthmus although efforts continue to be weak and only take place in certain urban centers. Also, consumer protection agencies have been established in all the countries as a means to protect citizens' rights.

Central America has made major efforts since the 1980s to create arrangements to protect and conserve

FIGURE 2

### Central America: Per capita gross domestic product 1965-2006 (CONSTANT US\$ OF THE YEAR 2000)



Source: Prepared by authors, based on World Bank data, 2006 and 2007

biodiversity. At present, more than 10% of its territory is under some type of protection and almost all the countries have made progress with their environmental legislation. Nevertheless, institutional capacities to enforce conservation regulations are deficient, as documented in this report, and certain ecosystems are virtually unprotected (wetlands, for example). The environmental agenda set out in the Central American Alliance for Sustainable Development (ALIDES), signed by the governments in the early 1990s, has been relegated both in practice and in terms of the assignment of public resources.

#### On other fronts the lack of progress is a strategic liability

In other social and economic areas, Central America's lack of progress is holding it back from becoming an expanding development area.

This report has not documented significant change in the levels of social inequality in the region despite the economic growth and reduction in poverty experienced in the 2002-2007 period. While El Salvador experienced a slight decline in social inequality, in Costa Rica social inequality has grown. It is

important to point out, however, that inequality is difficult to measure.

Labor market segmentation also did not show improvement. Most of Central America's working population continues to be employed in low-productivity and low-income sectors. Some 41% of the jobs in the region are characterized as low-productivity self-employment—a measurement for estimating the informal sector. The possibility of getting a good job is dampened both by the low skills of the labor force and by the lack of articulation between labor supply and demand. Only 28% of workers hold jobs that offer some kind of social benefit. This situation has not changed in spite of the economic progress of the past years.

There has also been no progress in the region's capacity to retain its inhabitants. Emigration, chiefly to the United States because of job opportunities, continues to affect Central America. However, because of the contribution of family remittances to macroeconomic stability in several countries of the region, and their influence on reducing poverty incidence, emigration has become a structural need for some of the economies and societies of the isthmus.

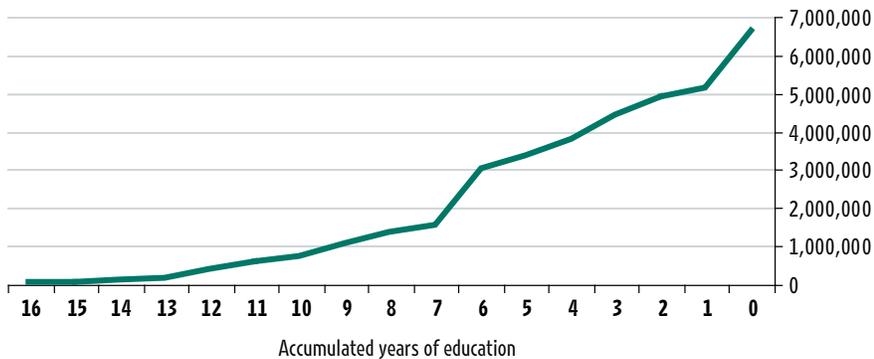
For a region experiencing a favorable demographic situation, one that requires rapid progress in human development, rigid and high levels of inequality, segmented labor markets, and continuing emigration constitute a serious strategic liability. In fact, in the next few years the countries will have to sharply increase the productivity of the working population if they are to tap the positive dependency ratio of the demographic dividend. To this end, increased savings and investments (both private but especially public) need to be allocated to upgrade the quality of the labor force through the universalization of secondary education (academic and technical) and the creation of job and business opportunities, among other things. A person's educational level continues to be the principal agent of social mobility (Figure 3). However, emigration constitutes a drain on the workforce, the informal sector continues to perpetuate low productivity and reduces the tax yield, and sharp inequalities block broad segments of the population from opportunities for social and economic advancement.

The region's capabilities for managing its rich biodiversity, a strategic resource, are low and recent improvements in this area have been marginal. While it is true that budgets of environmental regulatory agencies (relevant ministries) rose from US\$70.4 million (current) in 2002 to US\$152.4 million in 2006, this did not imply a significant change in public priorities: the weight of this budget in the central governments' final spending rose from 0.9% to 1.6% in those years. This represents an annual per capita expenditure (in the best case: Panama) of just US\$8.1. (Annual per capita spending of the United States Environmental Protection Agency is nearly US\$24.)

As will be seen in Chapter 10, environmental protection and the rational use of natural resources are weak and insufficient to counteract the trend that is endangering the natural heritage. For example, in the region as a whole the number of species declared at critical risk soared from 94 to 220 between 2002 and 2007 while those

FIGURE 3

**Central America: Accumulated population between 15 and 64 years of age living in poverty, by accumulated years of education. 2006**



Source: Prepared by authors, based on national household surveys.

classified as “endangered” rose from 257 to 389 during that same period. The emission of polluting gases into the atmosphere (carbon dioxide and substances that exhaust ozone) grew considerably between 2003 and 2005, the last period for which information is available. Fertilizer and pesticide use, with little regulation, increased sharply during the 2003-2006 period throughout the region, although notable disparities were reported in volumes and rates, depending on the country. While necessary for agricultural activities, fertilizers and pesticides used without appropriate controls can become a public health threat; for example, there have been frequent episodes of contaminated water sources in different locations. It is also worth noting that, although fertilizer consumption in crop areas has tended to increase throughout the region (no information is available on pesticides), it is still much lower than in Brazil and Chile.

Finally, the democratization of political regimes is clearly one of Central America’s greatest achievements and today all the countries have competitive elections. However, the democratization process has lost its vitality and, in some cases, it has stagnated in some countries, which is a cause for concern. In at least one country (Nicaragua), electoral democracy has still not been fully realized, and the Guatemalan

electoral campaign of 2007 was marked by high levels of political violence (more than fifty assassinations). In several countries, the basic requirement of universal inclusion in the body politic has not been met because socially excluded groups tend to participate less in politics, including in national elections.

The area in which democratization has shown least progress is in the establishment of the rule of law and the institutional framework needed to guarantee transparency, accountability, and sound management of public resources. A comparison with the appraisal reported five years ago in the *Second Report on the State of the Region in Sustainable Human Development* reveals few changes. In several countries the judicial branch is controlled by the ruling party and operates with limited resources (annual per capita judicial spending is less than US\$10 in three countries). Also, important procedural imbalances stem from the extreme weakness of public defender services in countries where a great number of people, if not the majority, are poor. This, perhaps, is where the differences between Costa Rica and the rest of the countries of the region are most pronounced. Moreover, despite regulatory progress, the agencies responsible for overseeing public management throughout the isthmus have serious limitations. In general, the Central American countries are among

the lowest placed on global corruption rankings, and the best case (Costa Rica) just barely ranked average.

Central America’s difficulties in consolidating the rule of law constitute a barrier that must be overcome to be able to ensure the full enjoyment of civil rights, attract direct foreign investment, and bring about local reinvestment of profits, all of which are vital for the isthmus’ development given its scarcity of capital.

### Emerging challenges give rise to a new strategic situation

In recent years (and up to the time of this report’s writing), a series of events has dramatically changed the global setting, giving rise to complex strategic challenges for Central America. In general, the region has less maneuvering room than before because of a convergence of factors that severely penalize its human development shortcomings.

In the economic arena, this report shows that most of Central America’s nations undertook a relatively simple, unilateral program of trade and financial liberalization based on cheap labor and the isthmus’ privileged geographic position in relation to the world’s principal market. It is worth noting, however, that once the civil wars had ended and international aid dried up, these countries had few alternatives. To this objective situation, one can add a subjective one: the belief that economic liberalization would be sufficient to bring about sustained and rapid improvements in human development.

Without that process, the region today would probably be in worse shape economically and socially. However, it is now clear that the easy stage of economic liberalization—which bypasses the challenge of creating more competitive production systems—is not enough to meet even strictly economic goals, let alone promote rapid development. The strategy of engaging in the international market based on cheap, unskilled manual labor has been dramatically undermined by the emergence of China, India and Vietnam on the world scene, countries with greater capacity and productivity and lower production costs

than Central America. This situation is threatening entire production sectors in the isthmus.

On top of this, there is another adverse situation which must be dealt with simultaneously: unlike the rest of Latin America, every Central American nation, without exception, has seen a systematic and significant deterioration in its terms of trade (Figure 4). Each has to spend more to purchase from overseas the same amount or less products and services than in the past. The findings of studies undertaken for this report show that a good part of the isthmus' exports have lost their competitive edge.

In the political arena, Central America faces a serious, multi-faceted problem of public safety. As mentioned earlier, in several countries social violence and crime are among the highest in the hemisphere. In others, although the situation is less severe, social violence and crime are also on the rise. The feeling of insecurity is widespread and people are spending more and more of their incomes (large or small) on protection systems.

Moreover, public insecurity is a problem of the public order that questions the legitimate authority of the States. It contributes to social breakdown because it weakens trust and reciprocity within communities. It is also an obstacle to economic growth as it generates higher operating costs for the production sector. Current crime levels undermine and diminish people's support for political systems and have created a current of opinion that, in the best of cases, tolerates extra-legal solutions.

Regarding energy, the emerging challenge is linked to high dependence on imported fossil fuels, which account for 45% of total energy consumption in the region, and to inefficient consumer habits (here, the region lags behind Latin America as a whole). The transport sector and electricity generation are the biggest consumers of oil products, while firewood –the second largest energy source in the region (38%)– is the main source of energy in rural settings. This heavy dependence on oil is

exacerbated by a complex international setting characterized by high prices and the prospect of depleting petroleum reserves, which reduces competitiveness, triggers inflation and widens the economic trade deficit in countries where growth is strongly linked to energy use. At the close of the writing of this report, oil prices had risen to more than US\$138/barrel, and countries' oil invoices had doubled between 2000 and 2006, coming to represent more than 7% of regional GDP.

Lastly, a further complex challenge emerging at the international level is food and nutrition security. Until recently, the relative buoyancy of emerging economies including China and India, combined with low world market prices, enabled the Central American countries to supply domestic needs with imported food products, given their wider availability. This panorama changed abruptly with the sharp increase in food demand and climbing international food prices stemming from the relative instability of food production. This, in turn, was linked to recurring major weather events and variable rainfall attributed to climate change, and also to the use of food crops for bio-fuels in coping with the oil crisis. In a region highly dependent on imported food, this could become a threat in the very near future and give rise to scenarios of food insecurity and

a sharpening of nutritional deficiencies among the poorest sectors of the population.

### Opportunities for regional action

Central America can reap benefits from the new international situation if it identifies the advantages and opportunities it offers, and taps them by expanding and strengthening regional actions to address common challenges. Regional action does not override the responsibility of each State toward its citizens but, in difficult circumstances such as these, it can help generate more opportunities. To achieve this, innovative thinking and bold action are needed.

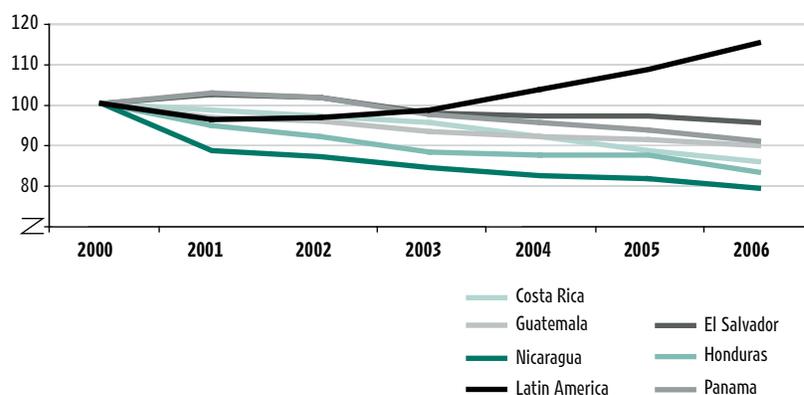
Regarding energy, the region's enormous potential to generate energy from renewable sources could serve as a stimulus for regional investments, while the scarcity and high price of fossil fuels could, in turn, stimulate the development of common strategies for transforming transport systems and consumer habits.

In addressing the problem of public security, the reaction in Central America has ranged from "strong arm" tactics to inaction, which have borne no fruit and have had negative social and political implications. In light of this situation, this report calls for a balanced and reasonable approach.

FIGURE 4

### Central America: Evolution of the terms of trade in comparison with Latin America. 2000-2006

(INDEX YEAR 2000 = 100)



Source: ECLAC, 2007.

Regional cooperation can contribute to the development of carefully designed interventions –of varying complexity and natures– targeting a number of risk factors within the context of strengthened State institutions bound by the rule of law.

Recent international food-market trends may afford opportunities for Central America. Its fertile soils and abundant water, especially in the central part of the isthmus, combined with its long agricultural tradition, could contribute favorably to the expansion of agricultural production. For such an initiative to take shape, however, robust public policies are needed, opening up possibilities for regional action to boost rural development and overcome the socio-economic lags affecting almost half of the population in the area.

To see opportunities where there are threats is not unfounded optimism. Two decades ago, under extreme conditions, Central America undertook solid efforts to open the way for a transition to peace, democracy and international engagement. After twenty years, the region must once again reject certain temptations and dare to do what it has never done before.

This report takes the position that “more of the same” is a course of action that will jeopardize the future of the isthmus. Keeping spending on education and health low, or cutting such spending when production growth is down or when State revenues are low, as in the times looming ahead, will only exacerbate the problems. Abandoning efforts to protect forests and increasing the use of firewood to offset energy spending will threaten the natural heritage –one of the region’s great advantages internationally. Resorting to “strong arm” tactics and eroding institutional democracy to fight public insecurity can seriously undermine political stability.

To cope with the new challenges, we must rediscover Central America –this shared space, somewhat bypassed as a world priority after playing its part in the last cold-war conflict– so it can enter the global arena. Neither excuses nor hiding will be acceptable; nor will

isolated action. Not one single country in the region can afford the luxury of dispensing with its neighbors; none is so powerful or self-sufficient.

Rediscovering Central America means more than “being” in Central America. It means, specifically, undertaking joint actions to manage common assets (biodiversity, advantages of location, world business node) and addressing common challenges (geo-politics of security, dependence on fossil fuels, food crisis).

The regional institutional framework can be a valuable tool for such action. Although the Central American Integration System (SICA) was remodeled during the post-civil war reconstruction, the conditions and needs of today are different. This report warns that the isthmus’ integration process is at a crossroads: it should either be useful or it should be set aside. Today there are strong and diverse incentives for taking joint action. The main task is to build a political agreement that articulates region-wide endeavors with the interests of each country vis-à-vis a series of strategic issues. To this end, the States, which are the parties to the integration process, must overcome their traditional lack of discipline concerning Central America, their shared home.

This *Report on the State of the Region (2008)* is presented to the societies of Central America at a time when it is crucial to determine what direction to take, which path to follow, and to have access to pertinent, reliable and up-to-date information that can be used to evaluate the consequences and omissions of our actions today. Ultimately, this will have a long-lasting impact on the quality of life of the inhabitants of the isthmus. Seen in those terms, a lack of information affects the quality of decisions made by decision-makers and, obviously, those relegated by their decisions.

### Strategic dilemmas facing the isthmus

Central America is immersed in a new and difficult historical period. The convergence of historical lags (social,

institutional, economic) in an increasingly complex international environment obliges the countries to reconsider their strategies for development and for bringing more prosperity and integration to the region. Since this report is about Central America, the analysis has a regional focus without, however, overlooking the fact that many human development possibilities depend on the actions taken by the individual States. Even with this regional approach, the main conclusion is that to keep on “doing the same” can have serious consequences for the isthmus’ future.

In order to nourish the Central American discussion on the isthmus’ options and strategies, this report adds something new: a prospective approach to examining the “strategic dilemmas” of human development in the region, current trends, scenarios, and possible courses of action. More specifically, it examined two dilemmas at the request of the report’s Advisory Council. The first is whether a democracy can provide the core public good of public order while at the same time ensuring security for citizens and respecting human rights and freedoms. The second dilemma takes into account the historical lags and the complexity of the new international scene in order to assess how the Central American countries’ styles of integration in the international economic system can be reoriented to generate rapid growth and progress in human development and social equality.

Today, the situation of public insecurity and the weaknesses of the countries’ integration in the international arena pose significant and strategic threats and risks for the region because, to a greater or lesser extent, they affect the isthmus as a whole and seriously undermine its potential for human development and democratic advancement. They are considered dilemmas because, to resolve them it will be necessary to overcome real or perceived hurdles among objectives that are desirable but difficult to reconcile in practice.

In the full report, the dilemmas crown the study as the final chapters

of the report. In the synopsis, however, the dilemmas are presented at the beginning because the dilemmas bring together the complex economic, political, environmental, social and institutional challenges addressed in the rest of the report, and therefore offer a framework for interpreting the other chapter summaries.

## The strategic dilemma of public safety and the rule of law (Chapter 12)

### Summary

At the end of the first decade of the 21st century, Central America is experiencing a serious problem of public safety, even though it is not affecting all the countries equally. The nations of the isthmus can be grouped into at least three different strategic security situations that share a generalized perception of public insecurity but that differ in terms of level of existing violence, government response, and the degree of institutionalization of the rule of law.

The first strategic situation is the most serious and is characterized by high levels of social violence and crime, combined with institutional weakness and “strong arm” policies (i.e., northern Central America). The second strategic situation also has weak institutions but, as opposed to the first case, there has been a reluctance in the past decade to use “strong arm” tactics; in addition, social violence and crime indicators are low but climbing. Nations closest to this prototype are Nicaragua and, to a lesser extent, Panama. The third strategic situation is similar to the second in that it is marked by low levels of social violence and crime, and resistance to the use of “strong arm” policies; here the main difference is the strength of the rule of law. Costa Rica is the nation that best fits this prototype.

In the three strategic situations, the link between security policies and the rule of law is conditioned by a series of regional factors that override the specificities of the countries and, in some cases, their capacity to take action. These include Central America’s immersion in the geo-politics of drug trafficking, the

criminal activity of gangs (*maras*), weak rule of law, and easy, widespread access to light weapons.

### Scenarios

Unless actions are taken to change present conditions, the three strategic situations may cause deep economic and political fractures in the isthmus that will further block human development and regional integration. For the first strategic situation, by 2020 the most serious scenario would be nations that are highly vulnerable to political instability, with higher rates of violent crime than today, linked to unlawful gang activities, and warfare among rival gangs. This scenario implies a weak institutional framework for the rule of law.

The second strategic situation would produce a “balkanization” of the public order throughout the territory. This means that public insecurity would probably put democratic public order at risk but without reaching full destabilization. In this scenario, weak State institutions would manage to keep social violence at a moderate level throughout most of the territory, but they would have relinquished control to organized crime in other areas.

Finally, in the third strategic situation, if no action is taken, the most likely

scenario will be democracies coexisting with higher levels of violence. The focal points of greatest social violence and crime would be urban pockets of poverty. Outbreaks of unlawful violence (“social cleansing”), which are still rare, would occur in different parts of the countries with the complicity of the population and some police authorities.

These scenarios, however, are not inevitable. They represent a logical progression of today’s conditions, assuming relatively little change over time. The point is that these conditions can be changed. International experience shows that even in very complex situations, public security can be lastingly improved. This is an objective basis for hope. The key lies in designing and implementing public interventions that modify the risk factors simultaneously and from various fronts.

### Proposal

To change the course this strategic dilemma may take, this report urges that “strong arm” policies be abandoned. Not only have they proven to be ineffective, they are also based on false assumptions and weaken the institutions of the rule of law. The report also criticizes public inaction vis-à-vis serious security problems, as well as blind adoption of international experiences.

TABLE 3

### Central America: Prototypal strategic situations and medium-term scenarios for public insecurity and the rule of law. 2007

Prototypal situation	Countries approaching it	Outcome of the medium-term scenario exercise
High social violence and crime, intense public insecurity, weak or incipient rule of law and use of “strong arm” policy	Guatemala, Honduras and El Salvador <sup>a/</sup>	Very high probability of severe threats to the democratic order.
Low social violence and crime, rising public insecurity, weak rule of law and little or no use of “strong arm” policy	Nicaragua and Panama <sup>a/</sup>	High probability of severe threats to the democratic order.
Low social violence and crime, rising public insecurity, robust rule of law, and no use of “strong arm” policy	Costa Rica	Low probability (but not negligible) of severe threats to the democratic order.

a/ Cases showing at least one significant difference vis-à-vis the others in the same category.

Source: Prepared by the authors

The report advocates a balanced and practical approach to public policy on public security. The aim would be to find solutions by introducing and reaching agreements that balance two values which, to date, have been in opposition to each other: social protection and respect for due process of law. From this vantage point, two main objectives can be set: first, a containment plan to prevent a worsening of situation in all the countries, especially where security has deteriorated significantly (first strategic situation); secondly, a development objective to improve the conditions in the most acute cases, or to change the scenario itself.

The report includes proposals for general and specific interventions. General interventions include:

- reaching agreement on socially accepted, mid- and long-term policy guidelines for public safety,
- creating a basic organizational structure (or reform and improve the existing one) with a view to strengthening institutional capacities, and
- improving existing information-gathering systems.

The specific proposals target risk factors:

- Prevent murder and rape by strengthening police investigations, passing stronger weapons-control laws, and conducting campaigns to raise public awareness.
- Reduce assaults, robberies and theft (the main causes of insecurity) in certain areas, using preventive actions, especially through programs that involve at-risk children, youths, and their families.
- Reduce the incidence of drug trafficking with a stronger and better-trained police presence, and intervene (if necessary with the armed forces) in areas presently controlled by drug traffickers and, for preventive purposes, in areas that have economic

development projects of considerable importance to the region (ports, highways, etc.).

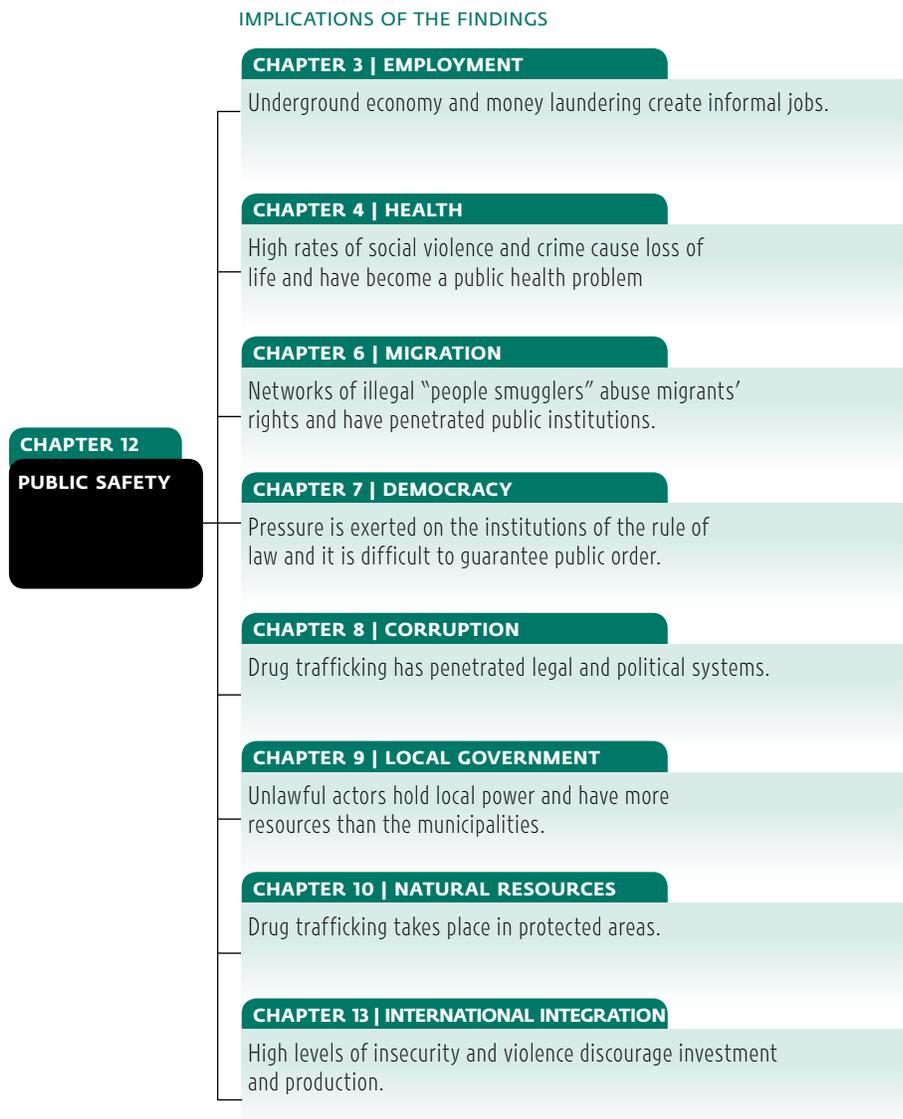
- Improve police intelligence and maintain joint patrols, both between the countries of the region and with the United States
- Strengthen civic values, which are indispensable for a democratic society.

Particular attention should be given to how violent crime is covered by the media.

Finally, the report makes specific suggestions regarding the penal system, the aim being to strengthen crime control and increase public confidence in such efforts. Interventions are proposed both to strengthen the effectiveness of law enforcement (to reduce

DIAGRAM 2

Connections with other chapters



Note: Implications of public security for food security (Chapter 5) and energy (Chapter 11) were not documented.

impunity) and, especially, to expand protection for the victims of crime. In addition, the report's Advisory Council requested that consideration be given to the importance of developing policies for reintroducing ex-convicts into the workforce.

## The strategic dilemma of international integration in Central America (Chapter 13)

### Summary

Beginning in 1990, all the countries of the region took action to promote improved integration in the international economy by implementing explicit export-promotion policies, lowering tariff and non-tariff barriers on imports, opening capital accounts and, most recently, signing free trade agreements with their main trade partners.

Today, however, since its economic and social outcomes have not met expectations, Central America's integration in the international arena is fraught with serious challenges. Compared with other countries of the world that have liberalized their economies and promoted exports, the Central American countries have been less able to squeeze the most out of the export drive and translate it into higher, sustained growth rates that help improve the social welfare of the population.

Because the Central American economies are small and their domestic markets limited, integration in the international economy is a *conditio sine qua non* for growth and development. But integration alone does not guarantee development. The dilemma faced by Central America is how to attain an advantageous position in the international economy; in other words, how can it make the most of international integration to maximize opportunities for economic growth and human development? Experience worldwide has shown that the relationship among liberalization, integration, growth and development is not automatic. Linkages between these factors are inextricably tied to taking advantage of conditions afforded by the international environment and making maximum use of one's own resources.

Although all the countries of the region share certain factors, such as their strategic geographic position, their proximity to the Panama Canal, and the multilateral trade agreements they have signed, this report suggests that there are two distinct ways in Central America for integrating into the international economy.

One way combines: a) integration into the international economy with a low level of technology, based on agro-exports and garment-assembly plants, b) high levels of emigration and remittance inflows, c) low capacity to attract direct foreign investment, d) low to average levels of exports, primarily targeting Central American markets, and e) meager economic and social results.

The other combines: a) integration into the international economy based on a higher level of technology, either in non-traditional export products, industry or services, b) little or no emigration and remittance inflows, c) greater capacity to attract direct foreign investment, d) high export levels, targeting extra-regional markets, and e) intermediate economic and social results.

### Scenarios

The report describes scenarios for each of these strategic situations, with 2020 as the reference point, to illustrate the most likely results if trends and conditions observed in recent years remain unchanged. In the first strategic situation, the most likely scenario is one of vulnerable integration in the international economy without human development. In the mid-term, economic liberalization will be more deeply entrenched, but without progress in human development or factor productivity; the latter would have stagnated at levels similar to today's. In the second strategic situation, the most likely scenario is that integration in the international economy will yield sub-optimum results for human development. Although human development will have improved, the achievements and overall progress will be significantly less than in newly industrialized countries (NIC).

The main conclusion to be drawn from the scenarios is that the easy stage of liberalization and integration into the international economy is over for Central America. The next steps will play out in a setting with less maneuvering room for the region's small economies, owing to stiffening competition in other parts of the world plus high oil and food prices.

The scenarios described herein are not inevitable, however. They are logical projections based on the assumption that current conditions will remain relatively unchanged over time. These conditions can be changed. International experience has shown that even in very complex situations, changes in the style of integration in the international economy can produce significant improvements in human development

### Proposal

In Central America it is common to promise "magic solutions" for attaining an advantageous position in the international economy: the complexity of problems is downplayed and a relatively simple public policy program is recommended. Because such strategies are incapable of spurring rapid improvements in social conditions, the result is a backlash that rejects the need for open economies and maintains that Central America can basically live on its own resources, thanks to its agricultural tradition.

In order to create conditions that will enable the region to integrate advantageously into the international economy, a number of difficult truths must be accepted: serious constraints for significantly bettering social and economic results; notable gaps in economic and social development among the countries; increasingly divergent business strategies; absence of clear economic leadership in the isthmus; and lack of strategic commodities.

A realistic look at today's conditions reveals not only the limitations but also the interests shared by Central America as a whole, despite the diversity of the countries that make it up. These interests can be described as proactive, that is, to create conditions

for a new phase of integration into the international economy, and defensive, to prevent its weaknesses from hindering the achievement of an advantageous international position.

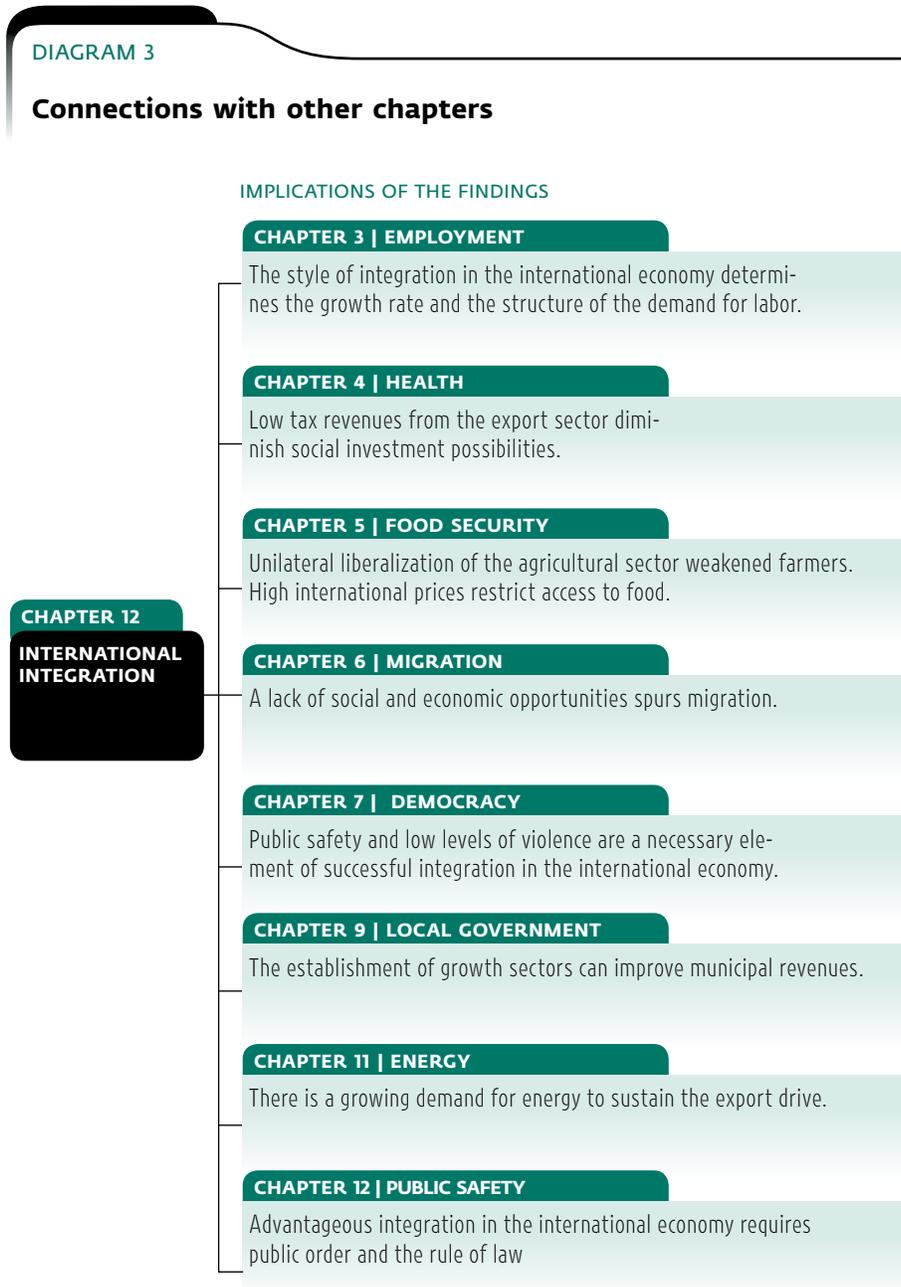
From the proactive position, the main regional interest is to take advantage of its privileged location in the international economic system to create a platform for production and a portfolio of goods and services for extra-regional partners. Several existing conditions make this a reasonable objective. For one, the Panama Canal (and current efforts to widen it) is an important element of one of the principal international trade routes. Another is the successful experience gained in the region with attracting investments and developing new production sectors (Panama and Costa Rica).

In the past ten years, a variety of ideas have been proposed for taking advantage of Central America's strategic location. They all agree on the need for the countries to undertake joint actions to:

- strengthen the institutional framework and policies of regional integration;
- promote regional policies for the purpose of urgently and rapidly upgrading the skills of the labor force ("human capital");
- promote linkages in production, employment, salaries, and consumption; and
- make sound and sustainable use of environmental resources.

For the most part, this report agrees with those proposals. It also suggests other actions for moving forward quickly to convert Central America into an international platform for production and trade:

- Create a single, Central America-wide legal entity that enables companies that meet requirements to do business as a matter of law in all the countries, enabling them to consolidate their operations and accounts.



Note: Implications of international integration for the fight against corruption (Chapter 8) and natural resources (Chapter 10) were not documented.

- Develop regional infrastructure for transportation, electricity and communications.
- Design a common framework of incentives for direct foreign investment linked to the requisites of productivity, the creation of skilled jobs, and being located in priority zones.
- Develop a regional system for the protection of biodiversity, creating common standards for conservation, prospecting, and rational use of high-value resources for bio-genetics.

From the defensive position, Central America's main interest is to create production and social linkages within

the countries and between them, with a view to preventing intra-regional inequalities from fracturing the isthmus and strangling possibilities for establishing the extra-regional platform of goods and services. Some actions that would support this are:

- At the domestic level, raise taxes to levels near or above 20% of GDP by eliminating tax exemptions in the fastest growing sectors, stepping up tax collection efforts, and strengthening mechanisms to increase transparency and accountability in public spending.
- At the regional level, create cohesion funds, access to which will depend on the progress each country makes in the tax area. Its core financing would be international cooperation resources secured through joint negotiations.
- Develop large-scale training programs for the workforce and accelerated literacy programs leading to 9th grade literacy with resources stemming from increased tax collection efforts. The report's Advisory Council suggested that public-private partnerships be used for designing work training programs.
- Implement a regional staple food production program. To this end, regional investments would be used to recover agricultural areas suitable for staple grains (wheat, corn, rice) that had been abandoned or used for other crops. A deliberate effort would be made in those areas to involve small- and medium-scale farms and to boost productivity and the quality of products.

The question, however, is why should countries whose interests have historically focused on short-term, national and even more specific goals, cooperate in implementing a region-wide proposal? In other words, why would countries that historically have been undisciplined with regard to regional endeavors and have bailed

out at the first opportunity to gain advantages over their neighbors find it necessary and desirable to modify their modus operandi? For the more favorably positioned countries –Panama and Costa Rica– a regional breach between a more developed “south” and a stagnating “center-north” would be problematic. The capacity to attract a broad spectrum of investments requires a supportive and integrated “neighborhood.” For the less developed countries, once the easy stage of integrating into the international economy is over, they don't have many other options for expanding development.

### The challenges of sustainable human development

The *2008 Report on the State of the Region* follows up on the human development challenges examined in earlier reports. Nine of its chapters update information and delve deeper into issues that were previously discussed. In addition, new topics emerged during the first rounds of consultation to take into account circumstances that had changed since the publication of the Second Report (2003). In selecting the challenges examined by this report, Central America was envisaged as a living organism whose needs can be satisfied with higher levels of human development.

### The regional challenge of providing jobs for people (Chapter 3)

#### Summary

Central America's labor markets have improved their capacity to provide job opportunities for the population. During the last five-year period the number of formal jobs increased, the workforce's educational profile improved, and some progress was made in labor inspection procedures as a means to ensure compliance with relevant legislation.

Despite these positive developments, the job markets have severe structural problems: there is a clear and continued predominance of employment in

low-quality, low-productivity jobs (self-employment and micro-businesses); a significant portion of the workforce has not completed primary school, limiting their access to better jobs and better incomes; and women are at a clear disadvantage even though their share in the job market has increased and, generally, they are better qualified than men. These problems are compounded by weaknesses in labor legislation protection and enforcement; labor inspection bodies continue to be shackled by major technical and material constraints, which vary according to the country and the given area. Further, workers are largely unaware of their labor rights and the legal mechanisms available for their protection.

A wide range of the characteristics and development patterns characterize the countries' job markets. Job markets perform least effectively in Guatemala, Honduras and Nicaragua, while those in Costa Rica and Panama perform the best; El Salvador is in an intermediate position. This reveals the widening gaps among the countries, particularly between highly qualified workers and unskilled laborers, whose only options are to take poor-quality jobs or to migrate.

For a region in the process of demographic transition, this imbalance could mean that the advantage associated with having an expanding working-age population might translate into deep frustration vis-à-vis both economic and social performance. This is too high a cost to bear for a group of nations that must maximize their labor market opportunities in order to reduce poverty, boost incomes and reduce inequalities. The findings of this report show that efforts to upgrade workers' skills are not being matched in all the countries with new production projects and more and better jobs.

#### Most significant findings of the 2008 Report on the State of the Region

- The Central American workforce is relatively young (29% of workers are under the age of 25), growing (by nearly 3% annually), and women's

participation is increasing steadily (38% of the workforce).

- A total of 42.3% of new jobs generated during the 2001-2006 period were in highly productive non-agricultural activities.
- Workers with some degree of post-secondary education account for only 12% of the region's workforce (24% in Panama; 6.5% in Guatemala).
- Workers with post-secondary education earn up to four times more (Costa Rica) and almost eight times more (Panama and Honduras) than workers with no education.
- Self-employment (especially in low-productivity activities) accounts for 41% of employment in the region. In 2006 only about half of the employed (55%) were salaried workers.
- There are major gaps between countries in terms of average wages (US\$397 in Costa Rica versus US\$146 in Nicaragua) and between genders (men earn between 2% and 61% more than women in Honduras and Guatemala, respectively).

### Appraisals from the 1999 and 2003 Regional Reports

- Underemployment is the leading problem in the region.
- Most of the workforce is employed in the informal sector, which is characterized by low wages, exclusion from social security coverage, low skills, and almost no use of technology.
- With the exception of Costa Rica and Panama, the bulk of the countries' populations is poor and suffers from nutritional and educational deficiencies that restrict their performance in modern labor markets.
- The isthmus is currently experiencing a demographic dividend. For several decades, the countries will have a very favorable proportion of working-

DIAGRAM 4

## Connections with other chapters

### IMPLICATIONS OF THE FINDINGS

#### CHAPTER 4 | HEALTH

Self-employment and underemployment reduce social security coverage.

#### CHAPTER 5 | FOOD SECURITY

Poor-quality jobs do not generate sufficient income to guarantee nutrition and food security.

#### CHAPTER 6 | MIGRATION

A lack of job opportunities and low wages encourage emigration.

#### CHAPTER 7 | DEMOCRACY

Poor protection of labor rights weakens political representation. Unemployment and underemployment restrict citizen inclusion.

#### CHAPTER 10 | NATURAL RESOURCES

Low agricultural productivity brings negative pressure to bear on protected areas.

#### CHAPTER 9 | LOCAL GOVERNMENT

The establishment of growth sectors can improve municipal revenues.

#### CHAPTER 12 | PUBLIC SECURITY

Unemployed or underemployed youths are at risk of engaging in criminal activity.

#### CHAPTER 13 | INTERNATIONAL INTEGRATION

A poorly qualified workforce reduces opportunities for advantageous integration in international markets.

Note: Implications of employment for the struggle against corruption (Chapter 8), local government (Chapter 9), and energy (Chapter 11) were not documented.

### CHAPTER 3 EMPLOYMENT

age population vis-à-vis the dependent population (people under 15 and over 64 years of age).

- In order to take full advantage of this demographic dividend, major improvements are needed in the quality and coverage of education and health, as well as employment policies.

## The regional challenge of having a healthy population (Chapter 4)

### Summary

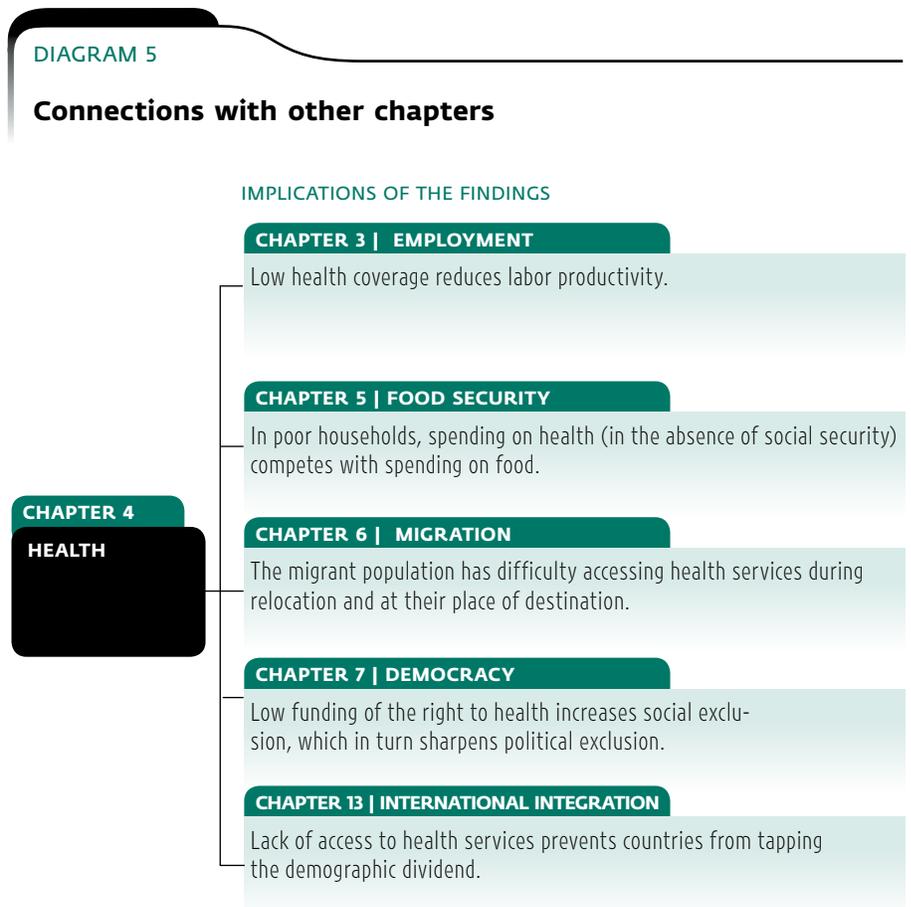
Since 1999, overall health conditions in the Central American region have improved: life expectancy for both sexes has risen by more than two years, infant mortality has fallen, and access

to potable water and sanitation services has improved. Moreover, during this decade the countries' economies have expanded and the region's poor population has declined by nearly 5%. However, these positive developments have been insufficient to reverse the region's historical backwardness or bridge existing health gaps between and within the countries.

The region's morbidity and mortality rates are determined by poverty, social behavior, and lifestyles. Improvements in the water supply and sanitation services have created a situation in which the countries are at different stages of epidemiological transition, where patterns of infectious, nutritional, and pregnancy-related diseases exist side-by-side with chronic illnesses such as neoplasias and circulatory diseases. Noteworthy is the significantly high mortality related to external causes, such as homicides, traffic accidents, and violence-related injuries. The incidence of HIV-AIDS and the difficulties of controlling dengue and other reemerging diseases provide a timely warning regarding the need for effective policies to cope with public health problems.

Poverty as a social determinant of health is a fact in all the countries and contributes to the disparities between population groups, and to the possibility of improving their health status and quality of life. Poverty has a particular effect on children, rural inhabitants, indigenous populations and women. These disparities can be alarming, as in Honduras, for example, where the infant mortality rate is four times the national average in some departments, or in Panama, where 86% of the indigenous population lives in extreme poverty, which means they lose almost one decade in life expectancy at birth in relation to the national average.

Given the imperative of taking full advantage of the demographic dividend, which occurs when the dependency rate declines as part of the region's demographic transition, ensuring better health conditions in the isthmus takes on greater importance. The working-age population, on which Central America will depend for the next fifty



Note: Implications of health for the struggle against corruption (Chapter 8), local government (Chapter 9), protected areas (Chapter 10), energy (Chapter 11) and public security (Chapter 12) were not documented.

years, is faced with the challenge of financing a health system that will require increasingly larger amounts of resources to serve a larger proportion of aging inhabitants, who will need more frequent and more complex services, and who, for the most part, are not contributing to a pension system.

The relative growth in health coverage and public spending on health has been insufficient to guarantee universal and timely access to health care, particularly in rural and indigenous areas. With the exception of Costa Rica's health system, which offers different insurance arrangements that cover the entire population, and Panama, where 65% of the population is covered, the social security systems of the other countries cover less than 20% of their populations. Almost 70% of Central Americans are not covered by social

security. Poor people who have no access to public health must pay for private services out of their own pockets. It is estimated that around 25% of the population (10 million people) does not have reasonable access to health care.

Per capita social investment is around US\$700 a year in Panama and Costa Rica, while in the other countries it does not surpass US\$200. In recent years, earmarked investment in health has been equivalent, on average, to 2.1% of GDP, reaching 4% if social security spending is included. In 2004, average per capita social spending on health in the region was US\$114; only Costa Rica and Panama exceeded that amount, spending more than double that figure on health, while in El Salvador it was around US\$75 and in the rest of the region it was less than US\$50.

### Most significant findings of the 2008 Report on the State of the Region )

- In 2007 the region's infant mortality rate fell to 23 per 1,000 live births; however, in some rural areas and indigenous communities it is up to four times higher than the given country's national average.
- Life expectancy at birth has increased in all Central American countries. In Belize, Costa Rica, and Panama it is more than 75 years (average for both sexes).
- Between 1980 and 2008 the percentage of people under 20 years of age declined (from 56% to 47%), those between 20 and 59 years of age increased (from 39% to 46%), as did the population over 60 years of age (from 4.9% to 6.5%).
- Per capita public health spending was an average US\$114 for the region (2005). In Costa Rica and Panama it was more than double that amount.
- Social security institutions cover less than 20% of the population except in Costa Rica and Panama.
- In Guatemala and El Salvador, out-of-pocket spending accounts for more than 50% of health spending, while in Belize, Honduras, and Nicaragua it represents between 40% and 50%. Most of this is spent on medicines.

### Appraisals from the 1999 and 2003 Regional Reports

- In the 1990s, key indicators such as life expectancy and infant mortality improved throughout the region.
- Four equity gaps restrict people's opportunities to enjoy a long and healthy life: unequal access to health services; unequal access to potable water and sanitation services; inequalities suffered by indigenous populations; and morbidity and mortality rates linked to poverty and violence.

- The targeting of highly effective health interventions makes the epidemiological situation in the region's least developed countries similar to that of more highly developed countries.
- Violence, AIDS and the emergence of socially excluded urban groups have contributed to rupturing the formerly close tie between national income and health.

### The regional challenge of guaranteeing food for the people (Chapter 5)

#### Summary

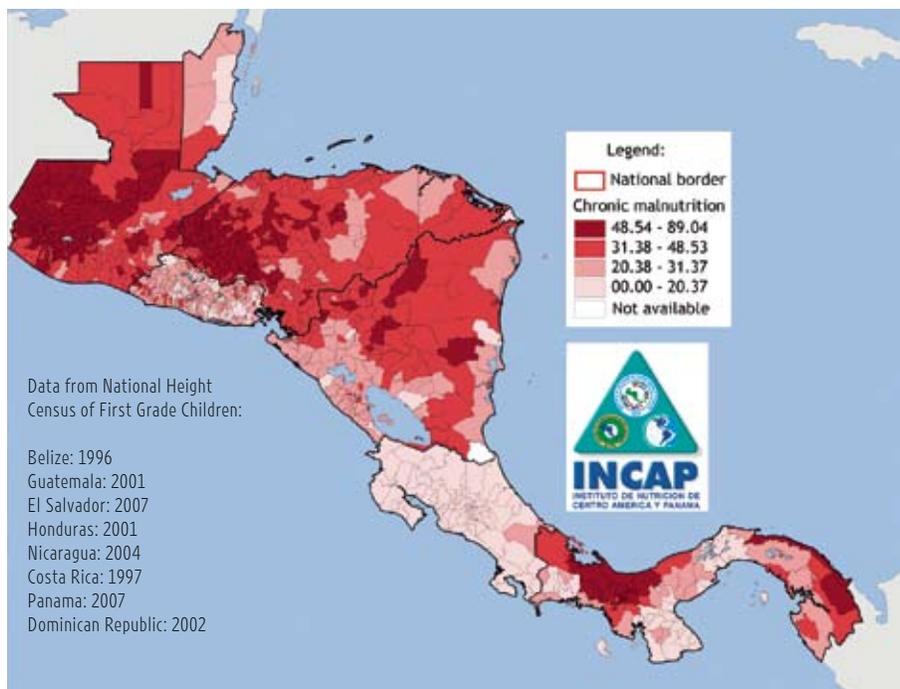
Although the region's overall progress in social indicators has contributed to improving nutrition and food security (NFS) as compared to earlier periods, the level of improvement has been inadequate. Broad segments of the population are still subject to acute food and nutritional vulnerability due to social inequality, poverty and food supply problems.

Until now, food availability has not been a problem in Central America. However, as a result of the styles of integration in the international economy, the agricultural sector was sidelined, particularly in terms of producing food for the domestic market. In part this was because the factors of production were redirected to non-traditional agricultural exports, which led to increased dependency on food imports, especially staple grains. In an international context of cheap food prices, this was not a problem. But the situation was recently complicated by a rapid increase in food prices caused, in part, by the use of food crops to produce biofuels.

This situation poses a threat to Central America, a region where a significant portion of the population is poor and has low purchasing power. Undernutrition and malnutrition levels among rural and indigenous populations are substantially higher than for the rest of the region's inhabitants (Map 1). Despite the progress achieved during the last few decades, nearly one

MAP 1

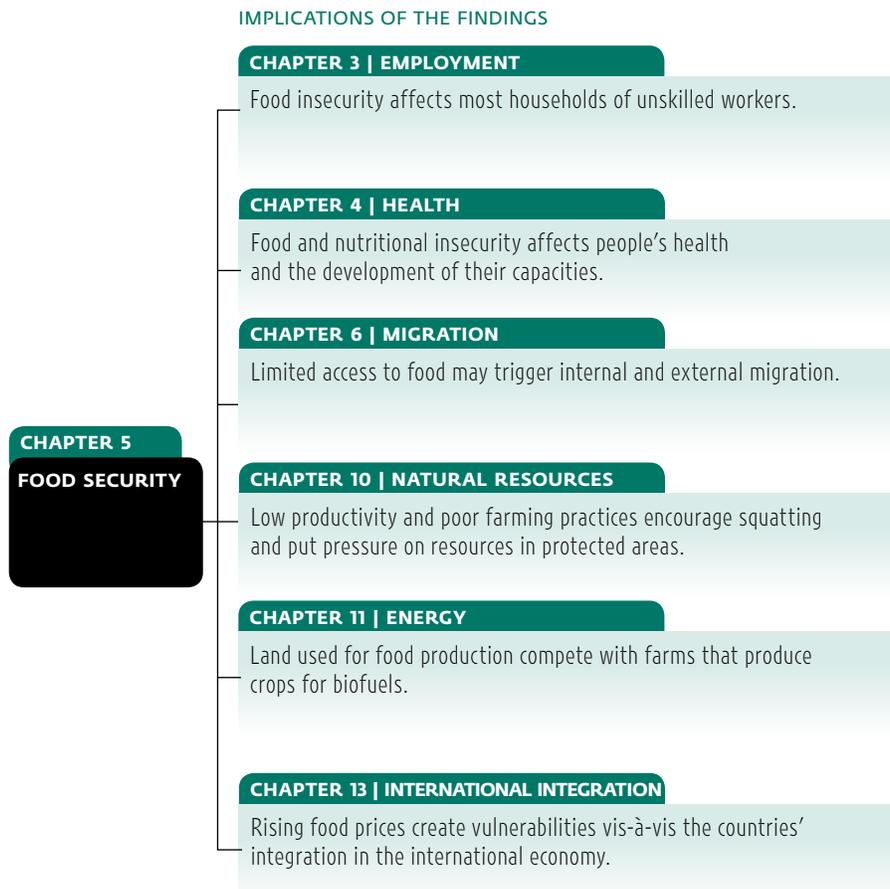
### Central America: Chronic malnutrition in students at the municipal level. VARIOUS YEARS.



Source: INCAP. Geographical information system. Food and nutrition security surveillance, monitoring and assessment unit.

DIAGRAM 6

## Connections with other chapters



Notes: Implications of food security for democratic stability (Chapter 7), the fight against corruption (Chapter 8), local government (Chapter 9), and public security (Chapter 12) were not documented.

fifth of Central Americans suffer from undernutrition.

The countries' actions to improve nutrition and food security (NFS) generated a fair amount of institutional projects, strategies, policies, new legislation and institutional frameworks. These initiatives, however, have been poorly coordinated, are limited in scope, and their impact evaluation mechanisms have been ineffective. In some countries these programs are strongly dependent on international cooperation, which limits their financial sustainability and dampens efforts to develop

and upgrade the public institutional capacities needed to ensure continuity. Moreover, political cycles have interrupted the continuity of many of these initiatives.

The current situation of high international commodity prices could provide an opportunity to overcome these setbacks and spur rural development in Central America, based on production strategies that maximize the region's advantages: fertile soils, an experienced agricultural workforce, and climatic conditions favorable for farming during most of the year. This could expand

human development opportunities for the rural poor in the isthmus.

Viewed in this light, improving domestic food production capacities becomes a matter of strategic importance. More than two decades of emphasis on trade liberalization without developing production linkages and without strengthening domestic markets have revealed its weaknesses. In order to consolidate the progress made and address new challenges, both intersectoral actions and strong political determination are needed to make the most of existing efforts and available resources through emerging partnerships and strategies. The risk of exposing a segment of the young population to food insecurity is too high for a region that needs to take full advantage of the opportunities offered by its current demographic transition to promote sustainable human development.

*Most significant findings of the 2008 Report on the State of the Region*

- Between 1990 and 2005, the amount of land planted to rice, beans, corn, and sorghum fell by half, while the area planted to non-traditional export crops doubled.
- All the countries experienced an increase in the aggregate availability of staple foods, though this was due to a greater dependency on imports (mainly staple grains). In the 1990-2003 period wheat and rice imports represented more than 80% of the total available.
- Between 2003 and 2006, the cost of the basic food basket rose throughout the region. In 2006, it represented more than 70% of the agricultural minimum wage, except in Nicaragua and Honduras.
- A 15% increase in world food prices could increase the number of extremely poor people in Central America by 2.5 million, primarily in Honduras and Guatemala.

- Iron deficiency anemia continues to be a public health problem in all countries of the region, especially among preschool children. This nutritional deficiency affects more than 30% of the population in Panama, Guatemala, Honduras, and Nicaragua.

### Appraisals from the 1999 and 2003 Regional Reports

As this is a new topic it was not covered in earlier reports.

### The regional challenge of preventing a population exodus (Chapter 6)

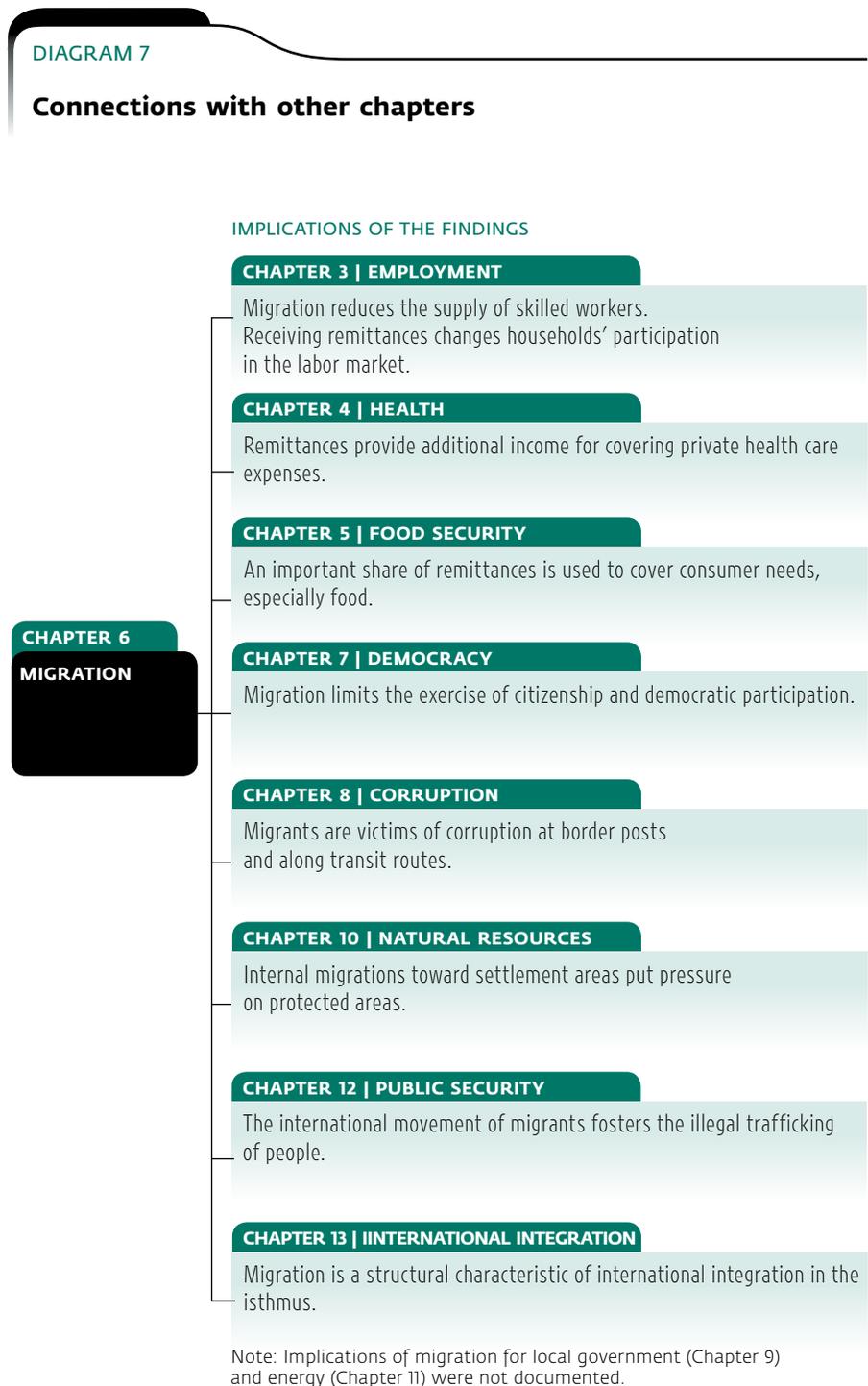
#### Summary

More than four million Central Americans –approximately 10% of the region’s population– currently live outside their countries of origin. Most live in the United States, the result of a mass exodus from the isthmus over the last thirty years.

The large migrant population has generated a sizeable flow of family remittances, which came to represent nearly 10% of regional GDP in 2006. Remittances are the main source of revenues in several countries in the region, enabling these nations to pay off their growing trade balance deficits and strengthen their exchange rates.

Families primarily use remittances to cover their consumption needs and to mitigate poverty. While the weight of this source of funding in household incomes is greater in El Salvador and Honduras (nearly 37%) than in the rest of the region, in Guatemala it helps most to alleviate poverty. Without remittances, the number of poor households in that country would rise by 5.2 percentage points.

The economic impact of migration is not only seen in the flow of remittances; it also affects the socio-productive dynamics of the migrants’ places of origin and destination, through commerce generated by nostalgia marketing and *encomenderos* (parcel delivery services). The growing exodus of mostly working-age people with some level of education, however, is eroding the countries’ production capacity.



Although various international and national legal instruments have been signed, efforts to protect migrants’ rights are still weak. The progress of new legislation has not been matched by increased institutional capacity and coverage to guarantee effective enforcement. At the same time, tougher mechanisms have been put in place to regulate and control migration, particularly in

the United States, the main destination of Central American migrants. This highlights the strain between economic incentives for the free flow of capital and technology, and rising barriers to the free movement of people and labor market integration.

The tightening of migratory controls, along with the illegal operations of “coyotes” and human traffickers,

creates extremely vulnerable situations for migrants and sometimes results in serious risk to their physical integrity and property. This is illustrated by the fact that nearly 300,000 Central Americans were deported from the United States during the period 2004-2006.

In recent years, numerous social organizations have emerged, offering migrants protection, legal counseling and other types of assistance along the main transit routes and at their places of destination. These organizations have filled an institutional void and have been expanding their scope of action to include political advocacy and social cohesion efforts, especially at places of destination.

With regard to the protection of migrants' rights, regional efforts are still emerging, revealing major gaps between institutional capacities and actions to effectively integrate these population groups.

### Most significant findings of the 2008 Report on the State of the Region

- Most of the Central American nations are net expellers of population. Only Costa Rica and Panama had positive migratory balances during the period 1995-2005.
- In 2007 family remittances totaled US\$12.18 billion, almost four times higher than in 2000. Honduras and Guatemala's share of the total more than doubled during that period (from 29% to 56%).
- The unemployment rate is higher among heads of households that receive remittances than among those who do not.
- Without remittances, the absolute number of poor households in the isthmus would rise by 239,509, or a 2.7% increase in the regional incidence of poverty.
- Efforts to protect the rights of migrants are weak; the most vulnerable groups are women and youths.
- Violations of migrants' rights are significantly under-reported. This is largely due to migrants' lack of awareness of their rights and their reluctance to report abuses due to their undocumented status.

### Appraisals from the 1999 Regional Report

- During the period 1970-1999, there was a dramatic increase and diversification of migration in the Central American region.
- Two new phenomena were added to the tradition migratory flow across national borders: the forced movement of large segments of the population and a sharp increase in emigration to destinations outside the region.
- In terms of migration, the main challenge facing the region is to strengthen people's right to choose between remaining in their places of origin or emigrating to another country, in or outside the region, without risk to their integrity and property.

### The regional challenge of democratic stability (Chapter 7)

#### Summary

The democratization of political systems in Central America remains its greatest political achievement of the last decades, and most of the region's political systems are now electoral democracies. However, for various reasons, the democratization of some systems is an unfinished process, as evidenced by the situation observed in some countries. This poses certain threats and risks to stability in the isthmus.

It is true that all the countries in the region have adopted free and contested elections as the mechanism for selecting national and local authorities; in addition, citizen participation levels are similar to those in the rest of Latin America. However, this report identified some significant operational problems: a lack of regulation and transparency in political financing in all the

countries and, with few exceptions, the limited independence of electoral authorities. Moreover, in the case of Nicaragua, the institutional design of the electoral system is flawed, giving unfair advantage to certain political parties (and governments). In two countries (Guatemala and, again, Nicaragua), the make-up and dynamics of the party systems pose a threat to democratic stability.

Weak rule of law and the slow pace of progress make this the aspect of democratization that has advanced least in the isthmus. Obstacles to citizens' access to justice are aggravated by strong budget constraints and a lack of transparency and accountability in several judicial branches. This poses a serious threat to democracy and, in recent years, has given rise to social unrest in at least one country (Nicaragua).

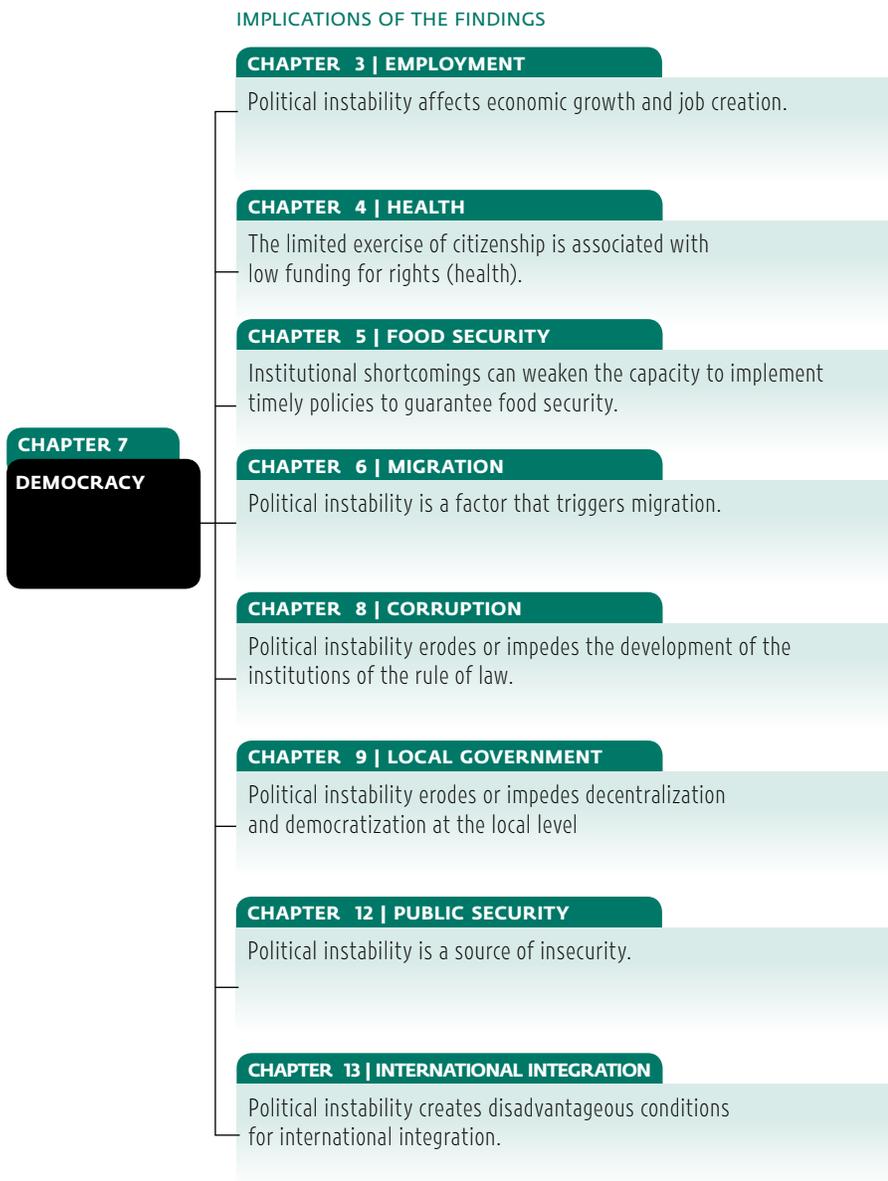
One of this report's most significant findings is that citizen inclusion is still an unfinished task. In several countries, large segments of the population that are considered citizens under their political constitutions are unable to effectively exercise their citizenship because they lack identification documents or because other factors prevent them from exercising their right to vote. This is associated with social exclusion. In Guatemala, El Salvador, and Nicaragua, people who are socially excluded tend not to be formally recognized as citizens.

The countries with the lowest rates of citizen inclusion are those that spend the least on social rights (Figure 5). The low tax revenues of these countries weaken their capacity to promote and protect citizens' rights.

Although the Central American democracies have had difficulty generating social and economic progress for the masses, public opinion does not support breaking with the democratic system. Nonetheless, diffuse (not advocated by specific groups) but widespread support has emerged for a "miracle" leader, someone with the special powers needed to tackle the country's problems. Although this tendency is troubling, so long as it is not taken up by any political force in particular it

DIAGRAM 8

Connections with other chapters



Note: Implications of democratic stability for natural resources (Chapter 10) and energy (Chapter 11) were not documented.

Most significant findings of the 2008 Report on the State of the Region

- Electoral management problems have raised questions about the transparency of voting results in Central America.
- The lack of regulation, transparency, and oversight makes political-party financing a risk factor for democracies.
- The tax burden is low and insufficient for ensuring the enforcement of the growing number of civil rights recognized by law in the region.
- Serious limitations persist in the operation of the justice systems and the guarantee of legal certainty; there is unequal access to justice associated with due process and the right to defense.
- In several countries drug trafficking and “maras” (gangs) undermine the State’s legitimate authority and its monopoly of the use of force.

Appraisals from the 1999 and 2003 regional reports

- The strength and consolidation of the new thrust toward democracy in Central America is a hard-won achievement and a regional commitment (First Report, 1999).
- The thrust toward democracy has lost its drive as compared to the last decade of the 20th century (Second Report, 2003).
- The main weakness of the region’s democratization process is limited progress in developing democratic institutions based on the rule of law.
- Accountability and administration of justice systems in Central America run on meager budgets and are subject to attack by other branches of government and social actors.
- Recognition and protection of the right to petition and to accountability have not yet been consolidated.

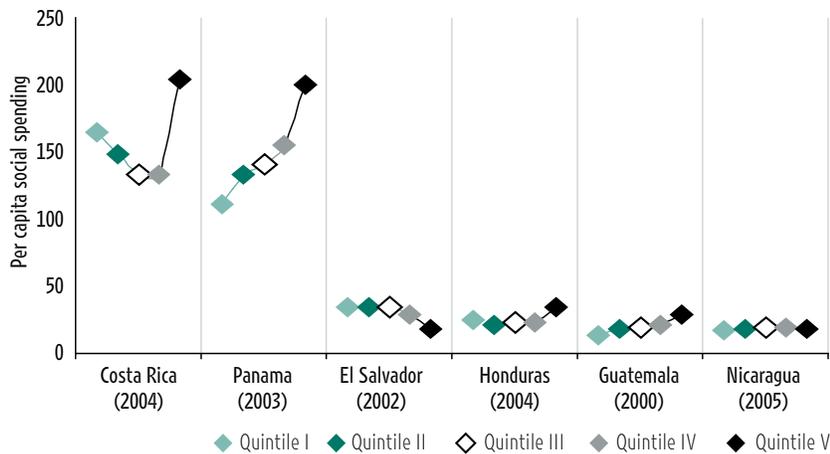
does not represent a risk to democratic stability in the short term.

With respect to social cohesion, the main threat stems from the complex

situation of insecurity in the region. Because of its strategic importance, this issue is analyzed in depth in Chapter 12.

FIGURE 5

### Central America: Distribution of public social spending<sup>a/</sup> by income quintiles<sup>b/</sup>. CIRCA 2004 (US DOLLARS)



Notes: a/Sectors included: E=education, H=health, SS= social security, SA= social assistance, Hou=housing, SAN=sanitation, and O=others. The figures for Costa Rica are from 2004 and include the sectors of E, H, SS and SA. The figures for El Salvador are from 2002 and include E and H. The figures for Guatemala are from 2000 and include the sectors of E, H, SS and SA. The figures for Honduras are from 2004 and include the sectors E, H, SS and SA. The figures for Nicaragua are from 2005 and include the sectors of E, H, SA, Hou, SAN and O. The figures for Panama are from 2003 and include the sectors of E, H, SS and SA.

b/ To calculate the amount of spending in each quintile, the proportion of social spending in each quintile was multiplied by the per capita spending corresponding to each country. Thus, spending in each quintile was divided among the country's total population.

Source: Prepared by authors with data from various sources, 2007.

## The regional challenge of the fight against corruption (Chapter 8)

### Summary

Corruption, understood as “the abuse of power for a person’s own benefit,” poses a challenge to the Central American democracies. Public administration in the region is very vulnerable to corrupt practices, which is facilitated by weak oversight and accountability systems. As noted in the Second Report (2003) in the section on accountability mechanisms –with the exceptions of Costa Rica and Panama, also mentioned in that report– serious institutional limitations persist and in some cases have worsened.

Nonetheless, political corruption is a central topic in the public debate throughout the region. Citizens have become more active in denouncing corruption, encouraged by new institutional channels, the surge of investigative

journalism, and the work of various civic organizations concerned with corruption. In addition, numerous international agreements and commitments on this topic have been ratified; for example, all the Central American countries are parties to the Inter-American Convention Against Corruption (IACAC), and in 2007 the presidents signed the Guatemala Declaration for a Corruption-Free Region.

The growing demand for accountability from citizens and the media is not being matched, however, by the efforts of State institutions responsible for monitoring and fighting corruption. Instead, in several countries these institutions act as a bottleneck that curbs the progress made in terms of regulation and civic awareness. The main bodies involved in the struggle against corruption –the judicial branch and the audit or comptrollers’ offices– have serious difficulties to investigate and sanction corrupt officials. Even in

Costa Rica, where such organizations were established more than fifty years ago, and in Panama, which has one of the strongest comptroller’s offices in region, corruption control and monitoring is constrained by a lack of institutional capacity.

This report has identified two institutions that have a key role to play in the struggle against corruption: the ombudsman’s offices and consumer protection offices. This report has documented shortcomings in the performance of the former.

Although it is impossible to quantify the extent of corruption or the magnitude of its cost and impact, the report was able to confirm that corruption impacts negatively on the quality of services and citizens’ access to services in three specific areas: government procurement, health services, and business procedures. The impact of corruption in the area of government procurement is major, given the sheer magnitude of the losses and their impact on meager public budgets. In the case of health services, the impact is felt by a large segment of the most vulnerable population, who cannot afford to pay for private health care. With regard to business procedures that require some type of public intervention, the cost of obtaining permits or licenses is higher, and registration processes take longer, in countries where bribes are more prevalent. This has an adverse impact on the business climate, in terms of setting up companies and attracting investments.

### Most significant findings of the 2008 Report on the State of the Region

- International indicators on corruption and victimization place most Central American countries in a troubling position, although better than the African nations.
- Opinion polls and reports on national cases paint a more serious picture of corruption than is reflected in international indicators, given the widespread belief that corruption permeates the State apparatus.

DIAGRAM 9

## Connections with other chapters

## IMPLICATIONS OF THE FINDINGS

## CHAPTER 4 | HEALTH

Weak monitoring and supervision encourages corruption in health systems.

## CHAPTER 7 | DEMOCRACY

Corruption weakens the democratic rule of law and encourages interference in politics by illegal actors.

## CHAPTER 9 | LOCAL GOVERNMENT

Corruption weakens the development of local government institutions.

## CHAPTER 10 | NATURAL RESOURCES

Corruption creates vulnerabilities in the command and control principles used in protected areas.

## CHAPTER 12 | PUBLIC SECURITY

Corruption among public (judicial) authorities facilitates interference by illegal actors.

## CHAPTER 13 | INTERNATIONAL INTEGRATION

High levels of corruption weaken efforts to attract external investments.

Note: Implications of corruption for employment (Chapter 3), food security (Chapter 5), migration (Chapter 6), and energy (Chapter 11) were not documented.

- In several countries the official audit office (or comptroller's office) faces a triple challenge: meager budgets, weak oversight powers, and political efforts to co-opt them.

- In several countries, conflicts between the executive and legislative branches and the supervisory bodies have led to changes in the latter's political autonomy and institutional organization.

- Political corruption scandals in some countries have negatively impacted on their international relations.

- Evidence shows that citizens tolerate certain forms of public corruption.

### The regional challenge of strengthening local government (Chapter 9)

#### Summary

Almost twenty years after the countries of the Central American isthmus decided to decentralize resources and public competencies to local governments, this aspiration has still not materialized. There is a clear lack of consistency between the political discourse on decentralization, the institutional framework, and the realities of public administration. Moreover, little progress was made to democratize municipal political systems during the first decade of the 21st century; the momentum of the efforts of the 1990s to decentralize and democratize local governments has slowed down considerably.

The main obstacles to decentralization are the municipalities' financial and administrative constraints. In the last ten years, the revenues of Central America's municipalities have been dwindling due to their growing dependence on transfers from the central government. This has been aggravated by the absence of a policy to decentralize revenues that would foster the generation of new sources of income. In addition, the framework of responsibilities and authority of municipalities have remained largely unchanged, as has their tax structure.

- Although the media has been the preferred channel for reporting corruption in public administration, its influence is limited by the concentration of media ownership in a few hands, persistent legal obstacles to freedom of expression, and even threats to the physical integrity of journalists.

- Corruption scandals have occurred inside the oversight bodies of at least three Central American countries.

- Appointment of senior officials of oversight bodies continue to be influenced by the ruling political party.

#### Appraisals from the 1999 and 2003 Regional Reports

- Public administration controls are weak, both because of legal loopholes and because of the limited capacity of specialized agencies (official audit office, district attorney's office, ombudsman's office, etc.).

Despite the slowdown in efforts to decentralize and democratize local governments, some progress between 1999 and 2007 can be reported. For one, legal reforms to provide local governments with better municipal administration instruments and to require accountability from authorities paved the way for more democratic practices at the local level. In addition, there was a marked regional trend to adopt more direct democracy mechanisms to transfer local political decisions to citizens.

Most significant findings of the 2008 Report on the State of the Region

- Average population density, by municipality, in Central America is 314 inhabitants per square kilometer.

DIAGRAM 10

Connections with other chapters

CHAPTER 9  
LOCAL GOVERNMENT

IMPLICATIONS OF THE FINDINGS

CHAPTER 7 | DEMOCRACY

Weak local governments limit the State's institutional presence in the country.  
New mechanisms for local participation strengthen democratic practices.

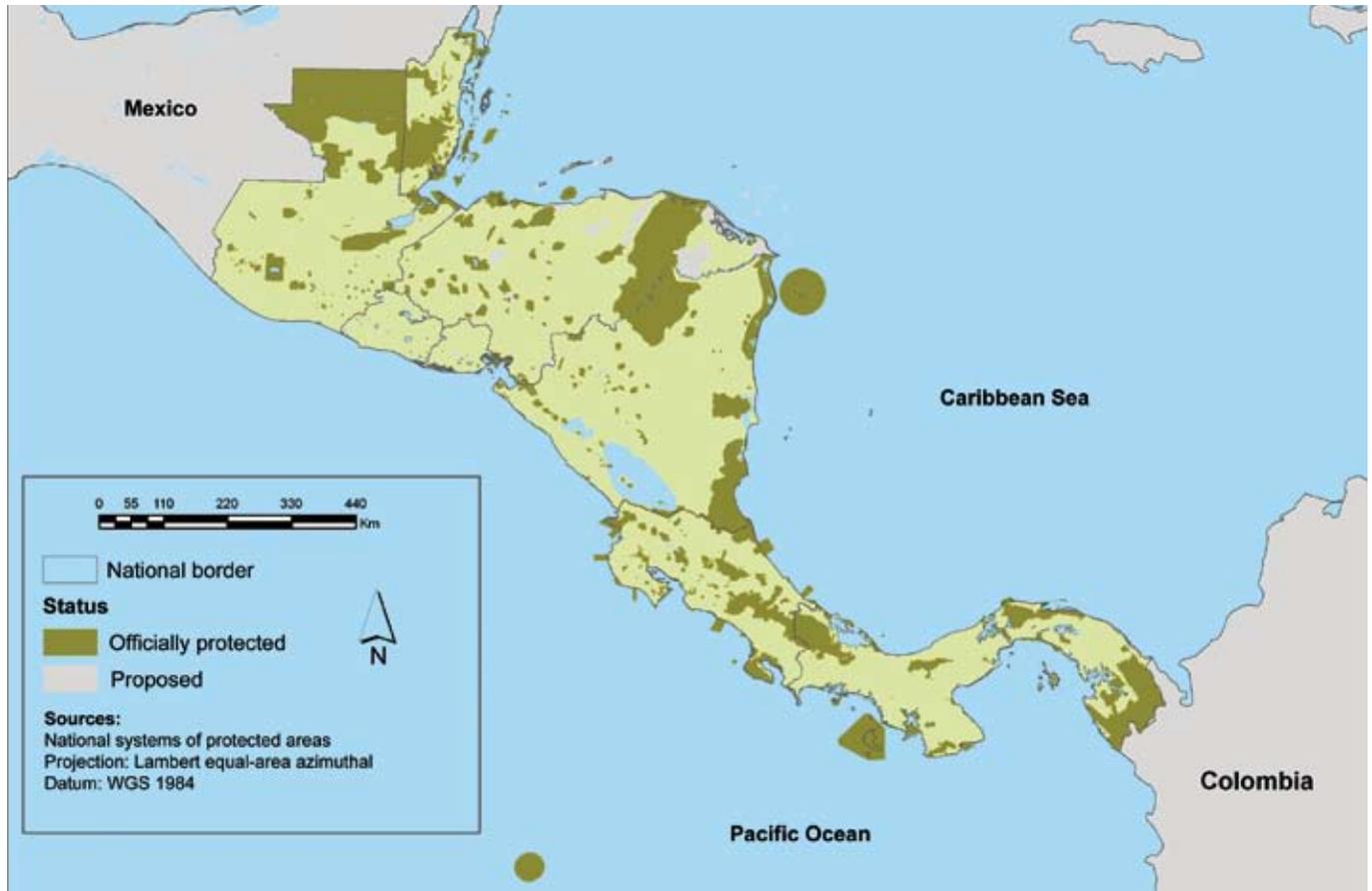
CHAPTER 8 | CORRUPTION

A weak tax base yields unstable financing and weak accountability mechanisms.

Note: The issues discussed in this chapter are very specific and have few connections with other chapters of this report. Another factor was the limitations of the information sources.

MAP 2

Central America. Protected areas: official and proposed. 2007



Source: Prepared by authors with information from national protected area systems.

- Ninety percent of the 1,194 municipalities for which figures are available rank average in terms of human development.
- In some countries, achievements (positive or not) have been relatively consistent throughout the nation, while other countries show deep internal differences in human development.
- In the period 2002-2005, average government transfers as a percentage of municipalities' total revenues rose from 26% to 30%.
- In the period 1993-2004, the per capita income of Central America's local governments rose at an average 5.4% annually.
- During the period 2002-2005, average per capita tax revenues of municipalities in Costa Rica, Nicaragua, and Panama were US\$14.50, while in Honduras and El Salvador they were US\$5.30.

### Appraisals from the 1999 regional report

- In the 1990s, decentralization emerged as the main hope for bringing about a radical transformation in Central America's municipalities.
- In Central America, decentralization and local democracy do not necessarily go hand in hand nor do they advance at the same pace. Efforts to create local democracies through the election of local authorities have progressed more rapidly than decentralization.
- There is little information available on local government in all the countries of the region; moreover, existing information is not uniform.

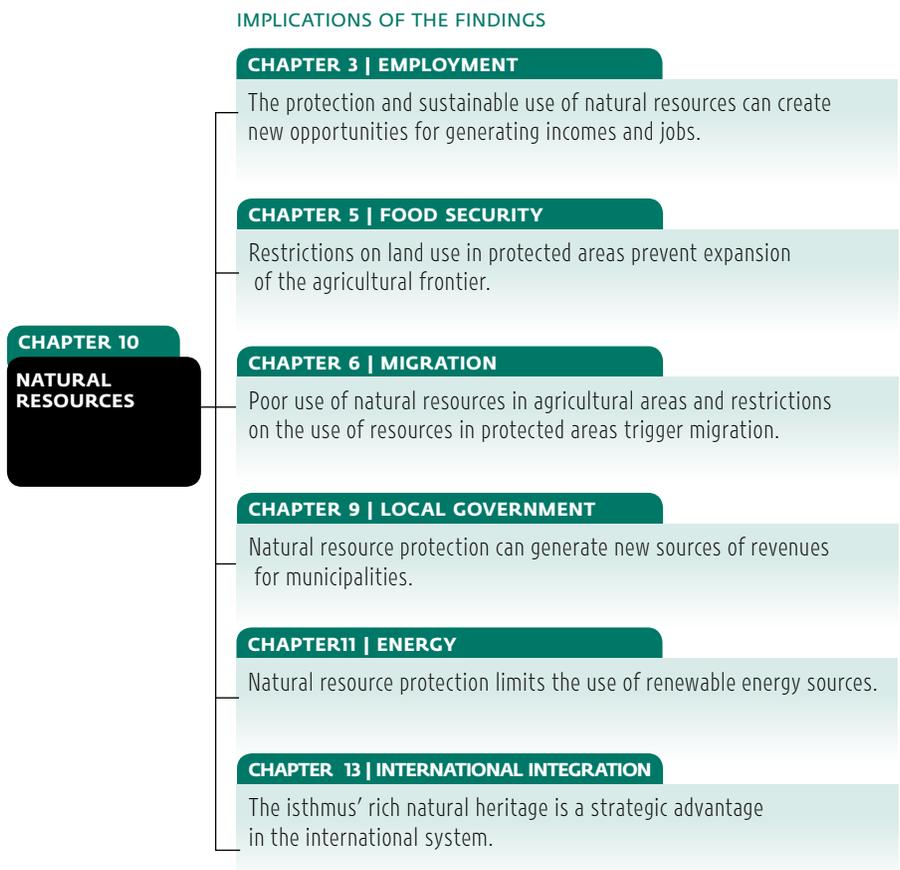
### The regional challenge of protecting the natural heritage (Chapter 10)

#### Summary

Central America is a region of enormous natural wealth. In recent years it has developed territorial arrangements

DIAGRAM 11

### Connections with other chapters



Note: Implications of protecting natural resources for human health (Chapter 4), democracy (Chapter 7), the fight against corruption (Chapter 8) and public security (Chapter 12) were not documented.

for protecting and conserving its biodiversity and different ecosystems, as well as the valuable environmental goods and services they generate for the population and for all living beings (Map 2). These arrangements, however, are implemented and managed in a setting characterized by a largely poor population, meager resources, limited technical and financial capacity to administer protected areas, and unsustainable and environmentally unfriendly land-use and natural resource-use practices. Consequently, protected areas are under strong pressure from the population, the demand for resources, and poorly regulated production activities. Despite the significant

progress made to date, government does not prevent threats coming from inside and outside these areas, and it is too weak to harmonize conservation efforts with other dimensions of sustainable human development.

Last decade considerable progress was noted in the management of the region's protected areas. A legal, institutional and policy framework was established that facilitates the implementation of different management processes in a varied and complex socio-environmental setting, with the participation of the private sector, indigenous peoples, rural communities and international cooperation agencies.

Nonetheless, enormous deficiencies still exist in the countries, which is reflected in the status of their respective national protection systems. Firstly, ecosystems of major importance are not adequately represented in the protected areas. Secondly, most of the land in Central America's system of protected areas is under sustainable use, and only a very small amount is being managed strictly for conservation purposes. In addition, the institutional framework continues to be weak and lacks effective political support, which translates into meager budgets and insufficient staff to combat threats, mitigate environmental impacts and control illegal activities in protected areas. In response to these constraints, efforts have been made throughout the isthmus since the 1990s to involve civil society in managing these areas.

Biodiversity management is conditioned by the social structure of land ownership, population growth, internal migration, poverty and production practices (mainly agricultural) that have led to the loss, degradation and fragmentation of habitats, overexploitation of natural resources, pollution, and environmental degradation.

Despite the discourse on sustainable development, it is clear that Central America has focused its attention on other socioeconomic priorities, relegating environmental concerns to second place. This, combined with the growing demand for natural resources, forecasts more serious problems in the future, the emergence of new pressures on protected areas, and new difficulties to manage them.

### Most significant findings of the 2008 Report on the State of the Region

- The Central American System of Protected Areas (SICAP) comprises 669 protected areas and covers approximately 124,250 km<sup>2</sup> (23% of the region's territory). Between 2000 and 2007 this area was expanded by 5%, after significant growth in the 1980s and 1990s.
- A total of 34.2% of SICAP's ecosystems are under strict protective management.
- A total of 83% of the protected areas cover less than 15,000 hectares; only 4% measure more than 100,000 hectares.
- Rainforests are the habitat that is most strongly represented in SICAP (67.4%), followed by agricultural systems (13.4%). Barely 1.6% of the region's mangroves are included in the system.
- International cooperation funds account for 50% of the total income received for protected areas in Nicaragua and Guatemala.
- In the last fifteen years more than half a million hectares of private lands in the region were placed under protection.
- Central America has only received around US\$14.5 million through transactions and projects promoting payments for environmental services, specifically in the carbon sequestration and protection markets.
- Although the discourse on risk management and environmental management changed quickly after Hurricane Mitch, relevant practices and institutions are changing more slowly.
- The generation of up-to-date and uniform information on environmental topics in the countries remains an ongoing challenge.
- At the beginning of the 21st century the region continues to show the impact of two problems of economic and social origin: ecological impact (of activities in protected areas) and human impact (of recurring natural disasters on human lives, public goods, and infrastructure).

### The regional challenge of having energy for production (Chapter II)

#### Summary

Central America must address a serious challenge to guarantee the energy supply it needs to spur economic growth and expand opportunities for sustainable human development.

The main factors responsible for this situation are the region's high dependency on imported oil, which represents 45% of the total energy consumed, and inefficient energy-use habits. Oil dependency creates conditions that sharpen inequalities and gaps with other parts of the world, among the countries of the region, and within them (five countries consume 52% of the world's primary energy; in comparison, Central America's consumption is negligible).

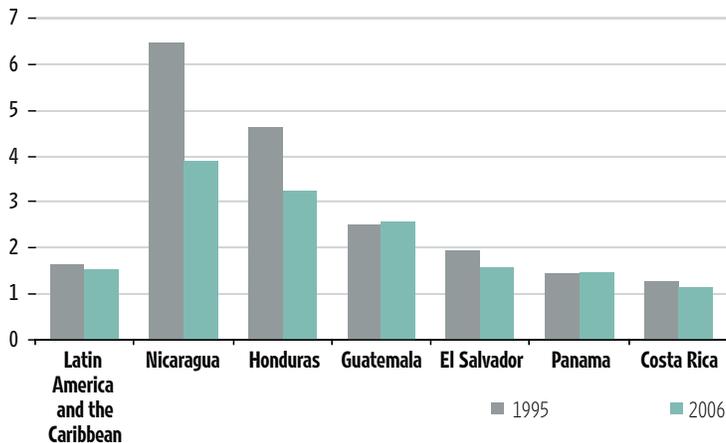
The transportation and electricity-generation sectors are the main consumers of hydrocarbons, while homes and rural dwellings are the main consumers of firewood –the region's second-largest energy source (38%). Inequalities can be observed throughout the isthmus: more than 7.8 million Central Americans do not receive electricity in their homes. In addition, there is little access to clean energy sources and to efficient and inexpensive technologies that impact less on health and on the cost of living.

### Appraisals from the 1999 and 2003 regional reports

- In 1996, the region's forest cover totaled 181,233,790 hectares (35% of the territory). Around 13 million hectares of land suitable for forestry is being underutilized through other activities.
- Wildlife is threatened by the loss of natural habitat and by overexploitation, often backed by the legal and illegal trafficking of species.
- In 1996 the Central American System of Protected Areas (SICAP) had a total of 704 protected areas, 391 of which were officially designated and 313 were proposed. These areas are vulnerable because of insufficient funds for managing them.

FIGURE 6

### Central America: Energy intensity. 1995 AND 2006 (EQUIVALENT BARRELS OF OIL/US\$1,000)



Source: Prepared by authors with data from Olade.

The intensive use of hydrocarbons and firewood also causes imbalances as they produce large volumes of waste and have a major impact on the environment, as seen in increased greenhouse gas emissions, the degradation of water resources, deforestation and other problems that directly affect the quality and future availability of natural resources.

Heavy dependence on hydrocarbons is aggravated by a complex international scenario of climbing prices and dwindling oil reserves. The soaring oil invoice (up 132% in the period 2000-2006) weakens competitiveness, boosts inflation and widens the trade deficit in energy-dependent economies. At the same time, inflationary pressures diminish people's real incomes and their access to energy, especially in low-income sectors.

#### Most significant findings of the 2008 Report on the State of the Region

- In the isthmus, the capacity to develop renewable energy sources is three times greater than the demand for electricity. The estimated potential of the region's hydroelectric resources is 22,068 MW; for geothermic resources it is 2,928 MW; and for wind resources

it is 2,200 MW. Only 17% of the region's hydroelectricity capacity and 15% of its geothermic capacity is being tapped.

- In 2006 the region's operating capacity for electricity generation was 9,321 MW, a 125% increase over 1990.
- The role of renewable sources in electricity generation fell from 70% in 1990 to 55% in 2006; meanwhile, thermal generation based on fuel oil and diesel rose from 30% to 45% in that same period.
- The use of petroleum derivatives for generating electricity increased by 557% between 1990 and 2006.
- The electrification index in the isthmus ranges from 60% in Nicaragua to 98.3% in Costa Rica, both figures for 2006.
- The transportation sector consumes 66% of total petroleum derivatives.

#### Appraisals from the 2003 regional report

- The average increase in the consumption of commercial energy and

electricity in the isthmus, between 1996 and 1998, was 3.2% and 4.5% annually, respectively. Many countries were unable to keep up with this high growth in demand, which led to rationing, irregular voltage and power outages.

- Cities are centers of economic, social, cultural, and industrial development that consume growing volumes of natural resources (water, firewood, food) and energy (electricity, petroleum derivatives).

#### Regional Integration

This report regards regional integration as a valuable tool for joint activities in areas of strategic importance to the Central American nations. This requires not only reaching agreement on strategic issues, but also a more robust regulatory and institutional framework capable of addressing the challenges.

Not all aspects of sustainable human development are a subject for regional integration, however. For example, strengthening the institutions of the rule of law is clearly of interest to the region as a whole, since it will help consolidate stronger democracies. For the time being, however, it is a task of the citizenry to be undertaken within the framework of their national States. This report has identified several strategic areas where joint action is urgent:

- Design strategies for addressing the new conditions created by the rising international prices of oil and staple foods (Chapters 11 and 5).
- Establish regional production chains and develop joint transportation and communications infrastructure for a regional platform to produce goods and services for extra-regional partners (Chapter 13).
- Manage protected areas at the regional level (Chapter 10) and make rational use of shared resources, such as water (Chapter 2).

## DIAGRAM 12

## Connections with other chapters

## IMPLICATIONS OF THE FINDINGS

## CHAPTER 3 | EMPLOYMENT

High energy costs dampen economic growth and discourage job creation in the formal sector.  
Rising oil prices generate inflation and undermine real wages.

## CHAPTER 4 | HEALTH

Intensive use of fossil fuels and firewood cause pollution and have a negative impact on human health.

## CHAPTER 5 | FOOD SECURITY

The biofuel boom has triggered a sharp rise in food prices.

## CHAPTER 10 | NATURAL RESOURCES

The widespread use of firewood as an energy source puts pressure on forests.  
The expansion of agricultural lands for biofuel production threatens protected areas.

## CHAPTER 13 | INTERNATIONAL INTEGRATION

Dependency on fossil fuels and low energy efficiency affects the balance of payments and weakens the countries' advantageous position in international markets.

Note: Implications of energy for migration (Chapter 6), democratic stability (Chapter 7), the fight against corruption (Chapter 8), local government (Chapter 9), and public security (Chapter 12) were not documented.

- Establish minimum social standards for health and education. This could be done with cohesion funds, access to which will depend—at least in part—on the effort of participating States. It is also recommended that regional policies be developed for upgrading the skills of the workforce (Chapters 3 and 13).
- Address the geopolitics of drug trafficking (Chapter 12).

Different strategies can be used for joint regional actions. In some cases, it will require more active and effective inter-governmental cooperation; this would appear to be the case for

defining minimum social standards in health and education, and for dealing with the geopolitics of drug trafficking. In other cases, joint action will require more complex coordination through regional institutions. This may be more appropriate for promoting the production and distribution of clean energy, and the development of regional food production programs. Still others will require special arrangements requiring some degree of supra-national management for regulatory purposes and for the institutional framework. This would be appropriate for dealing with regional public goods (protected natural areas and transportation infrastructure, for example).

Choosing regional integration as a strategy will require a renewal of the Central American Integration System (SICA). SICA has a comprehensive and diverse institutional framework that covers a large number of topics. Pursuant to the Tegucigalpa Protocol (1991), its highest political organ is the Meeting of Presidents of the member States. Its executive arm is the General Secretariat (based in El Salvador) which, however, does not coordinate the actions of the system's two most important bodies: the Secretariat for Central American Economic Integration (SIECA) and the Central American Bank for Economic Integration (CABEI). SIECA and CABEI have been very active in recent years, tackling a vast range of issues, in large part thanks to increased funding from international cooperation (especially European).

The regional institutional framework has a variety of important shortcomings. Some are bureaucratic in nature and stem from the difficulty of developing sufficient technical capabilities. Its problems, however, are neither purely technical nor are they limited to the regional bureaucracy. The bodies responsible for political leadership of the integration process show certain dysfunctions that range from imbalances in the relations among them to weak decision-making capabilities. This weakens the mandates of the Meeting of Presidents because it has led to unplanned growth of the integration agenda and created problems of legal certainty due to the absence of procedural order, which affects the predictability of the mandates entrusted to the integration institutions.

Although SICA's institutional reform has been discussed off and on for ten years now, the changes proposed in 1997 by the Inter-American Development Bank (IDB) and the Economic Commission for Latin America and the Caribbean (ECLAC) have not been implemented to date. Instead, some more limited changes were made to correct managerial-administrative weaknesses. The main reforms introduced during the 2003-2007 period are described below:

- Adoption of rules of procedure for SICA's regulatory acts that provide more legal certainty by organizing the different types of decisions that the policy-making bodies (Meetings of Presidents and Councils of Ministers) can make.
- Adoption of rules of procedure for SICA's Executive Committee, which was formally installed in February 2008, fifteen years after the Tegucigalpa Protocol entered into force.
- Creation of the SICA Supervisory Body, to oversee financial management of the system.
- Conducting of studies for designing an automatic financing system for integration institutions.
- Decision to draft statutes for administrative careers in the organs of SICA and design the corresponding study, which is in progress.

- Creation of the Planning Directorate within the SICA General Secretariat.
- Establishment of a monitoring system for the Presidential summit meetings.
- Design of a joint work plan and activation of the SICA Secretariats Commission, under the authority of the General Secretariat.

Changes approved by the Meeting of Presidents have not included reforms to policy-making procedures, changes in the relations between the organs, or measures to improve legal certainty.

There has been a growing awareness in recent years of the need for major institutional reform at SICA. In practice, however, it has been impossible to overcome problems of collective action that have hindered progress to date, particularly the lack of political agreement on the content and scope of integration and disagreement on the characteristics of the regional structure. The difficulty of reaching agreement

on these matters stems both from conflicting interests among the Central American nations and two prevailing currents of thought. (See Box 4).

Until these two requirements are met –reaching political agreement and moving forward with institutional reform– this report has identified, with the collaboration of experts, at least seven key points for strengthening the regional institutional framework that can be adopted in the short term without complex legal reforms. The purpose of the first five recommendations is to improve the regulatory and procedural aspects of the bodies that lead regional integration. The last two recommendations seek to build agreement on joint definitions of regional policy.

- Adopt open, competitive and prudent procedures for appointing authorities to SICA's main executive bodies.
- Design an instrument to regulate decision-making at the Meeting of Presidents and another to govern the Pro Tempore Presidency.

#### BOX 4

### Two approaches to regional integration

There are divergent views in Central America regarding the regional integration process. On the one hand, there are those who advocate "inter-governmental minimalism," which means limiting integration to cooperative relations among countries around certain common interests. Then there are those who support "community maximalism," which refers to creating a regional bloc with robust supranational institutions. These positions have produced two currents of thought: a pragmatic approach<sup>1</sup> and a regulatory approach. These, in turn, provide parameters for evaluating the regional institutional fra-

mework and its performance, which are not necessarily the same.

The pragmatic approach uses SICA's institutional and legal framework, as provided for in the Tegucigalpa Protocol, as the parameter for evaluation/comparison. It first asks: has the institutional framework been set up as designed? Is it operating in accordance with that design? Then it asks: is this the type of institutional system needed for the Central American integration process?

The regulatory approach<sup>1</sup> uses the European Union's community-oriented framework, as it currently stands, as the principal parameter

for evaluation. This approach assumes that Central America's present institutional system is not the one needed. It holds that, in order to move forward, the model needs to be less intergovernmental and more supranational, to give greater autonomy and initiative to regional institutions, as in the European Union. In this approach, then, institutional change is evaluated according to the following parameter: is Central American integration close to or distant from the European model? (cfr. Caldenty, 2004; Herdocia, 2008 and IDB-ECLAC, 1997).

Source: White, 2008.

<sup>1</sup> The first approach is termed pragmatic because of its emphasis on opportunities stemming from the current status of the Central American integration process, considered not only as a starting point but as the horizon. The status is viewed as a given that takes into account the political and economic balances, as well as the political will of the States, without determining a priori which model should be followed. This approach recognizes the specificity of the Central American experience and seeks conceptual independence with respect to integration experiences in other parts of the world. The other approach is termed regulatory because it is based on an analysis of "what should be," using the theory and experience of European integration as a point of departure and destination, since it is regarded as the most advanced and successful integration model in the contemporary world.

- Create a stage of direct legal counsel prior to the Meeting of Presidents in order to safeguard the legal and institutional consistency of decisions submitted to consideration by that body.
- Decree a period of restraint (delay) for the adoption of new issues and mandates, so that SICA's political bodies and institutions can concentrate all their efforts on fulfilling, within one year's time, all pending presidential agreements, both those corresponding to regional institutions and those corresponding to national governments.
- Focus SICA's efforts on the operations of the Executive Committee and on programs that are in progress.
- Establish, by common consent among the countries and based on minimum strategic objectives, regional guidelines for international cooperation.
- Organize regional conferences to discuss specific actions for issues that have the potential to generate multi-threat scenarios: energy supply and energy efficiency, the shortage of basic grains, public insecurity, organized crime.

In the coming years, will Central America be able to redefine the issues, institutions and efforts of regional integration so it can take on new and old challenges? Naturally, this report cannot venture to answer that question although it clearly assumes that such a redefinition is not only possible but necessary. Nonetheless, the report clearly takes the position that the time has come for regional integration. If regional integration is not adopted now as a valuable tool for promoting human development in the isthmus, it is unlikely that there will be another opportunity to do so in the future.

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