CAFTA-DR Facts

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CAFTA Policy Brief – August 2007

Trade Capacity Building Success Stories Dominican Republic - Central America - United States Free Trade Agreement (CAFTA-DR)

Since negotiations were launched in 2003, the U.S. Government (USG) has provided more than $650 million in trade-related assistance to the CAFTA – DR countries to promote economic growth, reduce poverty, and aid our partner countries in achieving increased benefits from liberalized trade. Included in this figure is funding from the U.S. Agency for International Development (USAID), the U.S. Trade and Development Agency (USTDA), the U.S. Department of Agriculture (USDA), the Overseas Private Investment Corporation (OPIC), and the Millennium Challenge Corporation (MCC). Highlighted below are a few examples of the many recent success stories in the region.

The CAFTA-DR opens the door for even very small businesses to benefit from new export opportunities. Trade capacity building assistance helps producers develop the skills to reach new markets.

In partnership with Aid to Artisans, USAID, through its Artisan Development Program, has assisted more than 3,000 artisans across El Salvador, generating more than 3,700 jobs in rural areas and $2.3 million in sales through product design and market linkage. These artisans created approximately 250,000 hand-made items for home décor and accessories, which have been placed in more than 2,273 stores throughout Central America, the Caribbean, Italy, Germany, France, Australia, and the United States. The women potters of Guatajiagua alone have produced more than 60,000 of these items.

The MCC's compact with Honduras was one of the very first. One of its central objectives is to reduce poverty and spur economic growth by increasing the productivity of small- and medium-scale Honduran farmers and their employees. MCC's compact with Nicaragua supports production by small farmers and businesses by improving property records for an estimated 43,000 land parcels in the department of León, thereby making property rights more secure; and by assisting farmers to produce higher value agricultural commodities that will significantly increase earnings for poor farm families.

USAID's Rural Economic Diversification Program (RED) promotes the expansion of plantain production in Honduras so that producers can take advantage of new opportunities in both the domestic and overseas markets. Farmers are learning high-density planting systems and other updated and advanced agricultural practices, including bed preparation, drip irrigation, bagging, fruit-age tagging, and disease controls. As a result, in 2006, USAID-assisted farmers sold 5.8 million pounds of plantains. The additional 300 hectares of plantains planted in 2006 using updated technology systems are expected to increase sales to 24 million pounds in the 2007 season.

With USAID support, Nicaraguan cattle ranchers are improving the quality of their products and are better able to gain access to local and international markets. As a result, nearly 14,000 hectares of pastureland and 8,000 head of cattle have been certified as organic.

A USAID program in El Salvador teaches farmers new agricultural practices, such as using improved seedlings, drip irrigation, protective netting, and proper plant nutrition and pest management techniques. This program has allowed farmers to switch from low-value crops such as maize, beans, and low-grade coffee or sugar cane to a diversified mix of vegetables in high demand in local markets. The results have been dramatic. Some farmers who completed the program saw sales grow tenfold, from about $2,100 to $22,300 per year. Together, the farmers have generated more than $18.5 million in new vegetable and fruit sales and created nearly 6,700 new permanent and seasonal jobs.

USTDA funded technical assistance and training for the Guatemalan Association of Exporters of Non-Traditional Products (AGEXPRONT) which resulted in the development of a digital certificates program for the AGEXPRONT electronic export window by providing exporters with electronic access to certificates of origin and sanitary-phytosanitary standards.

In March 2006, USAID's Export Promotion Program helped a group of economically disadvantaged artisans in El Salvador to create a cooperative that manufactures a new line of guitars branded "Paax Muul," which in the Mayan language means "Music of the Volcanoes." The cooperative consists of eight workshops and 12 artisans who dedicate their time and effort to produce high-quality, hand-made guitars. With USAID technical assistance, the guitar artisans are improving their production processes and quality control standards so that they can sell to the specialized market in the United States.

Trade capacity building assistance not only helps farmers and artisans produce new and better products -- it also assists producers to get their products to market. These efforts often involve improving packing facilities, strengthening sanitary and phytosanitary controls, and supporting development in other sectors of the economy related to business development and trade.

In April 2007, USAID inaugurated a Post Harvest Management Center to benefit vegetable producers in the Madriz and Nueva Segovia regions of Nicaragua. Together with new production techniques such as the use of green houses and drip-irrigation systems, the USAID program has established commercial agreements with national and regional buyers including Hortifruti/Wal-Mart, Agrolempa in El Salvador, and Desarrollo Agrícola S.A. (DAISA) in Nicaragua. The new center will help producers meet the quality standards of these buyers.

Since September 2006, production, post-harvest handling and marketing assistance from USAID's Agricultural Diversification Program (ADP) has helped small cabbage farmers in El Salvador to increase average annual sales per farmer from $4,050 to $6,750 -- a 67 percent increase. Prior to this marketing arrangement, the farmers typically marketed their produce via middlemen to wholesalers. In addition, cabbage was sold directly from the field without cleaning or packing standards and prices fluctuated wildly. The ADP program has allowed these small farmers to deliver higher quality products and to sell directly to wholesalers thereby greatly increasing their profitability and improving their standards of living.

In the Dominican Republic, USAID brought together mango farmers, suppliers, exporters, transport companies, and government agencies to assist mango farmers. This assistance helped to ensure sanitary and phytosanitary requirements were met and that all exports were pest-free. USAID also introduced new pruning and packaging methods and worked closely with the U.S. agencies for final approval to import the mangos. The results are that private investors are investing in treatment facilities for mangos and pruning techniques introduced by USAID, which are doubling yields, improving fruit quality and lowering costs. In 2005, the Dominican mango industry earned $2.3 million from exports.

The U.S. Department of Agriculture (USDA) is assisting CAFTA-DR countries to address sanitary and phytosanitary (SPS) priorities, including improving laboratory infrastructure, establishing animal health and food safety standards, harmonizing risk assessment tools, improving traceability of products, and increasing coordination with international standard setting bodies.

Since 2005, USDA has sponsored nearly 100 trade capacity building activities in CAFTA-DR countries. USDA has supported laboratory assessments, technical advisor visits, and in-country workshops to improve lab accreditation, animal and plant health, food safety, and processing facilities.

Through its Cochran Fellowship Program, USDA trains mid- and senior-level public and private professionals in the United States in topics related to agricultural trade, marketing, management, policy, food safety, and technology transfer. The Program is active in all six CAFTA-DR countries; since FY 2005, 113 Fellows from the region have received Cochran training.

Trade Capacity Building programs assist the private sector in the CAFTA-DR countries with financing that promotes trade with the United States.

Very small businesses, including those related to export, are often based in the home. The Overseas Private Investment Corporation (OPIC) has approved a $15 million loan to Banco Lafise S.A. of Honduras and a $10 million loan to Bancentro S.A. of Nicaragua for the financing of mortgage loans for low and middle income households in these countries. In both countries, these banks will originate mortgage loans to low and middle income borrowers, then will use the proceeds of the OPIC credit facilities ($15 million for Honduras and $10 million for Nicaragua) to refinance some of these mortgage loans using long-term funding.

OPIC is also supporting the Darby Probanco II Fund, which invests in the financial services sector in the Central American countries, providing financing to expand small-to-medium financing loans to local entrepreneurs. The Fund has a target capitalization of $90 million, including $45 million in OPIC financing.

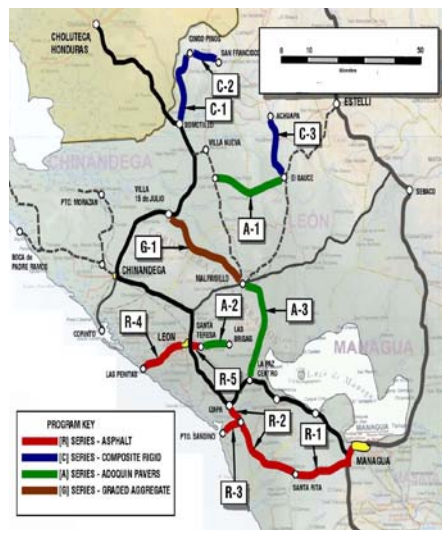
OPIC is providing $3 million in financing to leverage an $8.5 million investment in three farms for the production, packing, and shipment of cantaloupe and honeydew melons for export from Guatemala. The project is expected to provide hundreds of temporary and nearly 100 permanent jobs in the country.

Trade Capacity Building Programs also are helping the CAFTA-DR countries to upgrade power and transport infrastructure necessary to expand trade with the United States.

An OPIC-supported private equity investment fund, managed by Conduit Capital Partners, will invest in mid-sized independent electrical generation projects in Latin America focusing on renewable energy. The fund is capitalized at $393 million, including $60 million in financing from OPIC, and expected to dedicate between 30 percent of 50 percent of its total capital to CAFTA-DR countries.

The U.S. Trade and Development Agency (USTDA) launched a CAFTA-DR Trade Integration Initiative to support projects in the energy, transportation and information and communications technology sectors that foster economic growth and regional connectivity. The initial grants in 2006 supported modernization of Nicaragua’s Managua International Airport, increased competitiveness of Nicaragua’s Port of Corinto, and development of a dry bulk unloading terminal at the Port of Cortés in Honduras.

The Millennium Challenge compact with Nicaragua will help expand trade by upgrading the Pacific Corridor highway and other secondary roads to better link producers in northwestern Nicaragua to commercial centers in Managua, Honduras, and El Salvador.



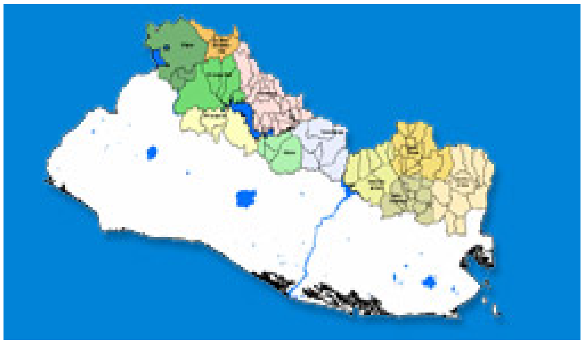
In Guatemala City, USAID conducted studies to see if methane gas from the city’s landfill could be captured and converted into electricity. It found that the emissions from that dump were about 56 percent methane — and working with the U.S. Environmental Protection Agency, the owner of the landfill, multinational companies, and municipal leaders, USAID conducted a test to see just how much electricity the dump could generate. The result was that the burning gas will propel a turbine capable of producing electricity, transforming garbage into a valuable commodity for the community. This source of electricity is more economical to produce than other energy sources, it reduces pollution, and it creates a safer, healthier environment for local residents.

With the support of many U.S. Trade Capacity Building programs, the opportunities afforded by the CAFTA-DR are raising living standards throughout the region.

The El Gorrión cooperative in Nicaragua has received Fair Trade Certification for its 1150 hectares of coffee, with help from a USAID-funded trade capacity building program. Sales have tripled as a result, and the coop plans to invest $10,000 of its additional earnings in social projects for the community.

In Guatemala, a farmers' association in Tecpán was given training and business advice through USAID which helped members obtain credit, install irrigation equipment and packing facilities, and begin supplying zucchini, peas and radishes to regional and international buyers. With their now higher incomes, the community members have improved their houses and are able to provide better education for their children.

Members of the Agro-forest Producers Association of Zambrana, in the Dominican Republic, are using solar kilns to dry harvested wood. The kilns are provided by the Dominican Republic Environmental Protection Investment Program (FIPA-Spanish acronym), a USAID-sponsored program. This solar drying process, used by 400 Association members, is improving the quality of the wood that the Association places in the Dominican market. This, in turn, generates higher incomes for the Association members and their families. This solar-dried wood project is one of 26 FIPA investments that are increasing economic opportunities for the country's poor.



In 2006, MCC signed a five-year compact with the government of El Salvador that seeks to stimulate economic growth and reduce poverty in the country's northern region, where more than 53 percent of the population lives below the poverty line. The grant will improve the lives of approximately 850,000 Salvadorans through strategic investments in education, public services, enterprise development, and transportation infrastructure.

With U.S. Trade Capacity Building assistance, the CAFTA-DR countries are seeing many benefits from their trade agreement with the United States.

"[F]ree trade is important for a lot of people. It's important for our country, it's a gateway. It creates jobs in America just like it creates jobs here."

--President Bush, March 12, 2007, pictured with Mariano Canú, President of Labradores Mayas in Chirijuyú, Tecpán, Chimaltenango, Guatemala.

José Luis Canú grew up in the community of Chirijuyú in Guatemala, and remembers how his family, like every other family around, eked out a subsistence living from their fertile volcanic plots. Most families lived in extreme poverty with dirt floors, no running water, and no school nearby. Chirijuyú's economic prospects began to change in 1993 when the community established an association of agricultural producers called "Labradores Mayas." The association consisted of 40 people working in the fields and five in a new packing plant. The vegetables they raised were sold to middlemen who set the prices.

Then in 2003, with help from USAID's AGEXPORT Supply Chain Alliance Program, Labradores strengthened its production and became certified for Good Agricultural and Manufacturing Practices. The association became better able to comply with international buyer requirements. It paid off. In 2006, Wal-Mart signed up Labradores to supply vegetables and fruits to its Central American outlets to the tune of approximately $14,500 per week of export quality lettuce, carrots, celery and broccoli. More than 87 families now work for Labradores – with 165 family members working in the fields and 28, mostly women, employed in the packing plant.

Jose Luis Canú owns an acre of land where he grows celery. His monthly income is approximately $2,600 plus a percentage of the sales he achieves as Marketing Coordinator of Labradores Mayas.

The impressive story of Labradores Mayas is now known beyond Chirijuyú thanks to President and Mrs. Bush's visit to its packing plant in March 2007.