

MAJOR TRENDS IN U.S. FOREIGN ASSISTANCE TO
CENTRAL AMERICA: 1978-1986

by
Jonathan E. Sanford
Analyst in International Political Economy
Foreign Affairs and National Defense Division



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ABSTRACT

The volume of U.S. foreign aid for Central America has increased over twelve-fold since 1978, reflecting the growing U.S. interest in that region. This paper examines changes in the overall amount of U.S. aid, in kinds of aid provided, in country shares, and changes in the content of individual aid programs.

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MAJOR TRENDS IN U.S. FOREIGN ASSISTANCE TO
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I. INTRODUCTION

The growing volume of U.S. economic and military aid to Central America in the past eight years and the shifts of emphasis in the U.S. aid programs reflect mounting U.S. concern about events in the region. The appropriate size, mix, and objectives for U.S. foreign aid in Central America have been the focus of much debate in Congress and elsewhere. Among other issues, observers disagree about the emphasis that should be put on military or security aid relative to development aid. They also disagree about the overall volume of U.S. aid and the pattern of aid allocation within the region.

This paper examines major trends in U.S. foreign assistance to Central America since 1978. It focuses on four items: (1) changes in the size of the total U.S. aid effort; (2) changes in the program mix; (3) changes in country shares; and (4) changes in the content of the individual programs.

The figures in this report are complete through fiscal 1986. Amounts for fiscal 1986 are estimates that reflect the country allocations financed through the most recent appropriations (P.L. 99-190, less reductions required by the Gramm-Rudman-Hollings deficit reduction legislation). This paper does not discuss supplemental 1986 appropriations or the Administration's foreign aid plans for fiscal 1987.

II. BACKGROUND

The year 1979 was a watershed year for Central America. In Nicaragua, the Sandinista-led insurgents seized power following a civil war. In El Salvador, a coup by reformist military officers presaged a new effort to deal with the country's political and social problems as well as intensified armed conflict with the guerrillas. The oil shock of 1979--which doubled world oil prices for the second time in a half decade--also shook the economies of the Central American countries. Costa Rica, El Salvador, and Honduras have since gone to the International Monetary Fund for balance of payments assistance. In the process they have all promised the IMF they would adopt tough austerity programs to help correct their payments situations. These governments have found they need major economic policy changes and major shifts in their economic structures. The internal social and political conflicts in these countries have made it difficult, however, for them to develop the domestic bases of support needed to carry out the changes.

Implementation of the Panama Canal Treaty provided a second focus for U.S. aid policy in Central America during the initial part of the 1978-1986 period. Thereafter, the canal issue was eclipsed by other concerns. In Panama, as in the other Central American countries, U.S. aid policy centered increasingly on the country's economic situation and its role in regional political affairs.

Debates About U.S. AidControversies: 1981-83

The growing U.S. aid effort in Central America was the occasion for numerous executive-legislative battles, as the key players sought to influence the size and direction of the U.S. program. The product of this struggle was an aid program whose goals, justification, and components often seemed to be shaped incrementally on an ad hoc basis. Policy discussion and aid levels that emerged from congressional-executive battles frequently pleased no one. Between 1979 and 1983, Congress approved (with some statutory reservations) significant annual increases in the U.S. Central America aid program, but even these increases often fell short of the Administration's requests. In several cases, the Administration had to secure additional appropriations or use draw-downs from other appropriated stocks to supplement its Central American operations. By mid-1983, most analysts agreed that there needed to be a new effort to clarify the issues and to define U.S. goals in Central America. In its absence, many doubted the program would be able to achieve the coherency or the basis for public support deemed necessary for its success over the long-term.

The Kissinger Commission

Because of the many controversies surrounding the U.S. aid program for Central America, President Reagan appointed a 12 member commission in July 1983 to examine the focus and direction for future U.S. aid to the region. Chaired by Henry A. Kissinger, the National Bipartisan Commission on Central America included 11 members drawn from the ranks of government, academia, business,

labor, and the legal profession. The Commission was charged with advising the President on the shape of a "long-term United States policy that will best respond to the challenges of social, economic, and democratic development in the region, and to internal and external threats to its security and stability." In January 1984, after hearings, meetings, and travel in the region, the Commission presented the President with a 132-page report summarizing its findings and recommendations for future U.S. aid. 1/

The Commission identified four major needs or goals for U.S. aid in the region: (1) stabilization programs to help counter the countries' current economic difficulties, (2) economic growth and development in order to improve the long-term situation, (3) concerted action aimed at building democracy, including improvements in human rights and the administration of justice, and (4) the enhancement of the region's basic military security situation.

The Commission recommended that Congress appropriate \$400 million immediately, as supplemental fiscal 1984 economic aid. It suggested that Congress approve a comprehensive program for \$8 billion in economic aid over the next five years--about \$6 billion of it foreign aid and the rest through other investment and trade programs--for the Central American countries. (For the foreign economic aid component, this amounted to an increase over current aid levels of approximately \$1.5 billion, over the five year period.) The Commission also urged that Congress approve continuing increases in U.S. military aid, although the request did not cite specific amounts.

The Kissinger Commission's recommended aid package had a number of objectives and components. Stabilization aid would help the Central American

1/ For an analysis of the report, see: A Summary and Analysis of the Report of the National Bipartisan "Kissinger" Commission on Central America, January 1984, prepared by Richard P. Cronin and K. Larry Storrs, Congressional Research Service. CRS Report 84-39, Feb. 29, 1984.

countries cope with their balance of payments shortfalls and their current economic crisis. The Commission noted, for example, that Central America had experienced a substantial recent drop in national output levels. Medium and long term economic aid would help with the development needs and deal with the root causes of the region's poverty and social problems. Particular emphasis would be put on health and educational activities. The Kissinger Commission recommended that the United States help create a new Central American Development Organization (CADO)--which the United States would also join--in order to promote regional cooperation and regional approaches to Central America's economic needs. It also urged that U.S. aid programs emphasize the importance of marketplace forces in economic decision-making. In addition to these economic issues, the Kissinger Commission also stressed the need for increased U.S. military aid for the region. For El Salvador, the Commission said, this meant the United States should provide the military resources necessary for the government to defeat the insurgent forces.

Recent developments

The Administration's supplemental 1984 aid request was based on the Kissinger Commission's recommendations. The request came before Congress at a relatively more auspicious moment. The Kissinger Commission report helped knit a broader consensus about U.S. aid and policies in Central America. In addition, and perhaps more important, election of the Duarte government in early 1984 helped soften congressional resistance to U.S. aid for El Salvador, the crux of the previous debate. Congress moved to expand the level of U.S. aid for Central America. In August 1984, Congress approved \$553.7 million in supplemental aid for fiscal 1984 for the region. (Of this, \$358.6 million was for economic aid and \$195.2 million for military aid.) Later that year,

Congress approved fiscal 1985 appropriation legislation from which \$1.012 billion was allocated for economic and military aid to the Central American countries.

Although Congress approved more aid money for Central America, lawmakers took more time to act on the program and policy elements of the Kissinger Commission plan. In 1984, the House-passed version of the FY 1985 Foreign Aid Authorization Act (H.R. 5119) contained many of the items proposed by the Commission. That initiative died, however, when the Senate did not bring its foreign aid authorization legislation to the floor. In 1985, Congress did enact into law several elements of the Commission plan in the fiscal 1986-87 Foreign Aid Authorization Act (P.L. 99-83). Included were multiyear authorizations for expanded U.S. economic aid to Central America--including authorizations for \$1.2 billion per year for fiscal years 1988 and 1989--and authority for the United States to negotiate the establishment of (and join) a Central American Development Organization. Although funds are now authorized through fiscal year 1989, Congress will still have to appropriate the money each year in the annual foreign assistance appropriations legislation. Budget constraints in fiscal year 1986 reduced economic assistance to Central America and continuing pressure to cut the Federal deficit raises serious questions whether aid for the region over the next four years will reach the amounts authorized in 1985.

Three Periods for U.S. Aid: 1978-86

To highlight the major trends in U.S. aid for Central America between 1978 and 1986, this paper divides the timespan into three periods. It should be recognized that there has been a great deal of year-to-year continuity in U.S. aid during these eight years. Nevertheless, there have also been some

significant points of change. The division into three time periods is intended to highlight some of these changes.

Based on the size and character of the U.S. aid program in Central America, this analysis groups U.S. aid between 1978 and 1986 into the following periods: 1978-1980, 1981-1984, and 1985-1986. Between 1978 and 1980, U.S. aid was limited in size and was mainly economic and developmental in nature. From fiscal years 1981 through 1984, U.S. assistance focused increasingly on the provision of military and ESF aid. In fiscal years 1985 and 1986, the quantity of U.S. aid increased significantly and there was some renewed emphasis on development needs. For the most part, the programs initiated during the first two periods have been completed. The programs initiated in 1985 and 1986 comprise the bulk of the current U.S. aid program in Central America today.

The Countries of Central America

In recent years, the seven Central American countries (Belize, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama) have experienced sharp political turmoil and/or economic problems. Nicaragua, El Salvador, and Guatemala have experienced internal war in which insurgent movements have challenged their central governments. The 1979 guerrilla victory in Nicaragua did not lead to peace there, however, as regime opponents, backed by the United States, have taken up arms against the Sandinista government. The collapse of the Central America Common Market that began with the 1969 war between Honduras and El Salvador, and accelerated with the region's civil unrest, disrupted regional trade and hurt the economies of all the countries. Economic sabotage by guerrilla groups and war damage to the economic infrastructure have also taken a toll on the economies of some countries, particularly

El Salvador and Nicaragua. The oil price shocks and world recession of the late 1970s and early 1980s contributed to rising foreign indebtedness by the Central American countries, especially Costa Rica and Panama.

Though all are small states with relatively poor populations and profound social and economic problems, there are also important differences among them. (See table 1, next page.) Costa Rica and Belize have made considerable economic and social progress. Only about a third of their workforce is in agriculture and their economies are becoming increasingly diversified. The other countries of the area suffer from serious social and health problems and their economies remain heavily agricultural. All the Central American countries have experienced serious trade deficits in recent years and several are deeply in debt. Honduras, Costa Rica, Panama, and Nicaragua are particularly heavily mortgaged, and large shares of their export earnings are earmarked to help service their existing debts. In the military area, the countries are quite divergent. Costa Rica has no formal military force, its army having been abolished in 1948. Nicaragua has a large military (up to 160,000 armed forces, if the reserves and militia are included). Besides their regular military, some of these countries have sizable security or paramilitary forces. El Salvador, for example, reportedly has about 10,000 people in the Treasury Police, National Guard, and National Police. Costa Rica has about 8,000 serving in the civil guard, rural guard, and other similar organizations. Nicaragua, El Salvador and Honduras reportedly spend the largest shares of their national budgets on the military, while Costa Rica, Belize, and Panama spend the least. 2/

2/ See: International Institute for Strategic Studies, Military Balance, 1984-5, p. 142, 146, 148-53; Ruth L. Sivord, World Military and Social Expenditure, 1985, p. 35; and U.S. Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, 1985, p. 59, 61, 64, 65, 75, 76.

TABLE 1. Central America: Key Indicators

	<u>Belize</u>	<u>Costa Rica</u>	<u>El Salvador</u>	<u>Guatemala</u>	<u>Honduras</u>	<u>Nicaragua</u>	<u>Panama</u>
<u>BASIC INDICATORS:</u>							
Population, 1983 (000)	153	2,378	5,232	7,932	4,097	2,999	1,964
GNP, 1983 (000)	170	2,420	3,690	8,890	2,740	2,690	4,070
GNP per capita	1,160	1,150	710	1,120	670	900	2,070
GNP growth, 1973-82	6.4%	2.5%	0.6%	4.5%	4.3%	-1.6%	4.8%
Pop growth, 1973-82	1.3%	2.4%	3.0%	3.1%	3.5%	3.9%	2.3%
<u>SOCIAL INDICATORS:</u>							
Adult literacy, 1980	91%	90%	62%	NA	60%	90%	NA
Life expectancy at birth	65	74	63	60	60	58	71
Infant mortality (under 1 year)	1.2%	1.8%	7.2%	6.6%	8.3%	8.6%	3.3%
Pop with access to safe water	80% (1970)	84% (1980)	51% (1980)	45% (1980)	44% (1980)	70% (1975)	82% (1980)
<u>ECONOMIC INDICATORS:</u>							
Annual inflation (1973-83)	8.7%	23.2%	11.7%	9.9%	8.6%	16.5%	7.1%
Share of labor force in agriculture (1981)	37%	29%	50%	55%	63%	39%	33%
Merchandise trade balance, 1983 (millions)	NA	\$78.0	\$-156.0	\$94.0	\$-163.0	\$-384.0	\$-732.0
Current account (BOP) balance, 1983 (millions)	NA	\$-317.0	\$-152.0	\$-226.0	\$-225.0	\$-451.0	NA
Foreign public debt as % of GNP, 1983	NA	126.3%	29.2%	15.8%	56.3%	133.3%	73.6%
Debt service as % of exports:							
in 1970	NA	10.0%	3.6%	7.4%	2.8%	11.0%	7.7%
in 1983	2.5%	50.6%	6.4%	11.7%	14.9%	18.3%	6.8%
<u>MILITARY INDICATORS:</u>							
Defense spending as % of GNP	0.9%	0.7%	4.1%	4.1%	2.3%	7.6%	0.7%
Size of military	610	none	41,650	31,700	16,600	2,850	12,000
Reserves and paramil.	300	8,000	11,000	11,600	5,000	112,000	NA

(Sources: World Bank's World Development Report, 1985, World Atlas, 1985, and World Tables, 1983. Safe water data for all countries from AID's 1985 Congressional Presentation document (years vary). Belize data from AID's CP document and World Bank sources (years vary). Military size data from Institute for International Strategic Studies' The Military Balance, 1984-85.

A Note on Methodology

This paper is based primarily on information published in the administration's annual presentation documents to Congress discussing U.S. foreign aid activities. This has been supplemented with data and comments derived through interviews with executive branch officials and other relevant observers.

Amounts are stated in constant 1986 dollars in order to eliminate the distorting effects of inflation and to permit easy comparison of the size of the U.S. aid programs during the period. The Office of Management and Budget deflators for fiscal years were used in making the adjustments to constant 1986 dollars. The figures in this report show the amounts of money which the United States obligated for each program and country during each fiscal year, that is, the amount the United States formally committed during the fiscal year. Those figures will not necessarily correspond to the amounts appropriated for each fiscal year, since money is not always obligated in the same fiscal year it is appropriated. For example, the Administration may find it desirable, for operational or policy reasons, to delay its commitment of funds for a specific project until a later period. Alternatively, supplemental appropriations enacted late in a fiscal year may sometimes be eligible for obligation during all or part of the succeeding fiscal year.

As a particular instance, one should note that the funds provided in the supplemental 1984 appropriation were not all obligated that fiscal year. Almost all \$195.3 million for supplemental military aid were obligated during the last days of fiscal 1984, as were \$60 million of the Economic Support Fund (ESF) aid and \$350,000 of supplemental appropriation for development aid. 3/

3/ The \$18.5 million in Military Assistance Programs (MAP) funds originally scheduled for the Regional Military Training Center (but never obligated) in fiscal 1984 were reprogrammed in fiscal 1985, however, and for El Salvador, Honduras and Costa Rica.

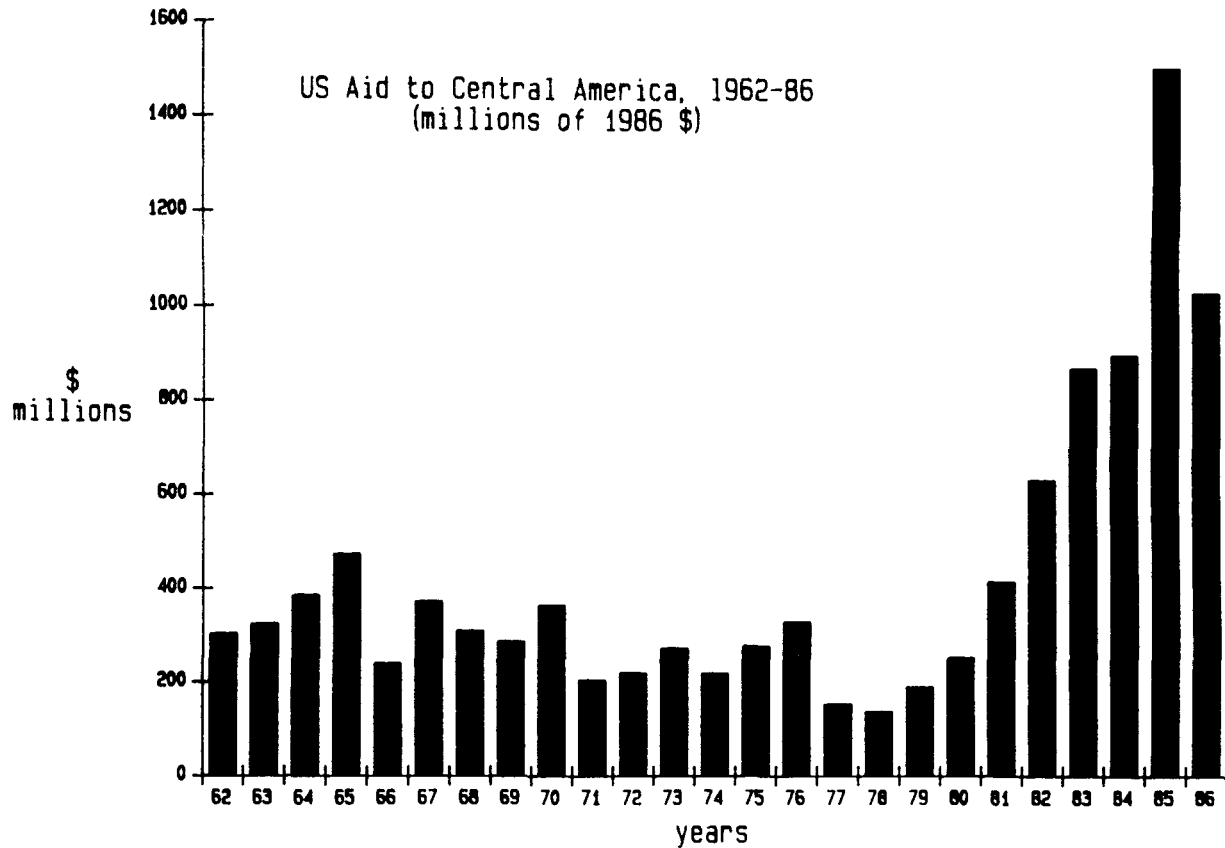
The remaining \$230.5 million for ESF assistance and \$67.7 million for AID development aid were obligated, though, in the first half of fiscal 1985.

This complicates the analytical process. Because of the way the supplemental 1984 funds were obligated, the increase in the volume of U.S. military assistance to Central America seems to date from fiscal 1984, whereas the buildup in U.S. economic aid seems to begin in fiscal 1985. In fact, the money for both increases originated with the supplemental 1984 appropriation legislation, which was requested following issuance of the Kissinger Commission report and enacted after the election of the Duarte government in El Salvador. The assignment of these funds to one fiscal year or the other is more an accounting phenomenon than an indication of policy.

III. CHANGES IN THE TOTAL SIZE OF THE U.S. AID PROGRAM

As Figure 1 (next page) indicates, there has been a substantial increase in the overall volume of U.S. military and economic aid to Central America since 1979. From a high point in 1965, in the midst of the Alliance for Progress period in U.S. aid to Latin America, the real value of U.S. aid to Central America drifted gradually downward. In 1978, the United States provided the region with the smallest amount of aid (in real terms) since 1961.

Beginning in 1979, the volume of U.S. aid to the region increased markedly. By fiscal 1982, it exceeded the high point for U.S. aid in real terms during the Alliance for Progress period. It has grown since then to more than 12 times the volume provided in fiscal 1979. In 1986, there is a decrease in the annual level of U.S. aid for Central America. In part, this is because worldwide foreign aid money appropriated by Congress was smaller in fiscal 1986, so the amount available for Central America was also less. In part,

Figure 1

it is also because the 1985 figure includes substantial sums appropriated in fiscal 1984 but obligated in 1985.

IV. CHANGES IN THE COMPOSITION OF U.S. AID

Since 1978, there has been a major shift in the composition--the mix of programs and the types of aid--which the United States has provided to Central America. This can be shown in two ways: by the purposes which the aid is supposed to accomplish, or by the more traditional program-by-program format (which does not take into account the overlapping purposes of some programs).

As Figure 2 (next page) indicates, there has been a substantial increase in the amount of aid focused on meeting the Central American countries' balance of payments needs. 4/ From zero in 1978, balance of payments aid has grown to become the largest form of U.S. aid to the Central American region. The level of military aid has also grown quite markedly since 1981, while the volume of development-type aid stayed about the same (in real terms) until the last two fiscal years.

4/ As used here, the categories are defined as follows: The balance of payments category includes all Economic Support Fund (ESF) stabilization aid and P.L. 480 Title I food loans. Both are fast-disbursing aid designed to help the recipient finance current imports. Military aid includes the Military Assistance Program (MAP), Foreign Military Sales (FMS) credits, and the International Military Training and Education (IMET) program. Developmental aid includes, besides the regular AID development accounts, the portion of the ESF program which finances project assistance. It also includes Peace Corps, P.L. 480 Title II food grants, and disaster aid. These all focus either on long-term economic, social, and institutional change or on meeting direct individual needs. See the glossary (pp. 63-5) for detailed description of each of these programs.

A NOTE ON AREA GRAPHS

This study employs a number of area graphs, as in figure 2, to illustrate its findings. The reader should note that the lines in area graphs never cross. The top line shows the total spent at any one time for all U.S. aid, while the gap between the lines shows the amounts spent on each separate program or area of activity. Thus, for example, the total amount of U.S. aid in 1985 was about \$1.5 billion, with about \$725 million of this going for balance of payments aid (the \$1.5 billion total, less the \$775 million shown below for military and development programs), \$250 million for military aid (the \$775 million shown at the top edge of the military area, less the \$525 million shown for development aid), and \$525 million for developmental aid (the \$525 million shown by the top of the development line, less the zero of the baseline). The appendices contain tables showing the actual amounts obligated each year (in current and in constant dollars) for each U.S. aid program in each Central American country.

Figure 2

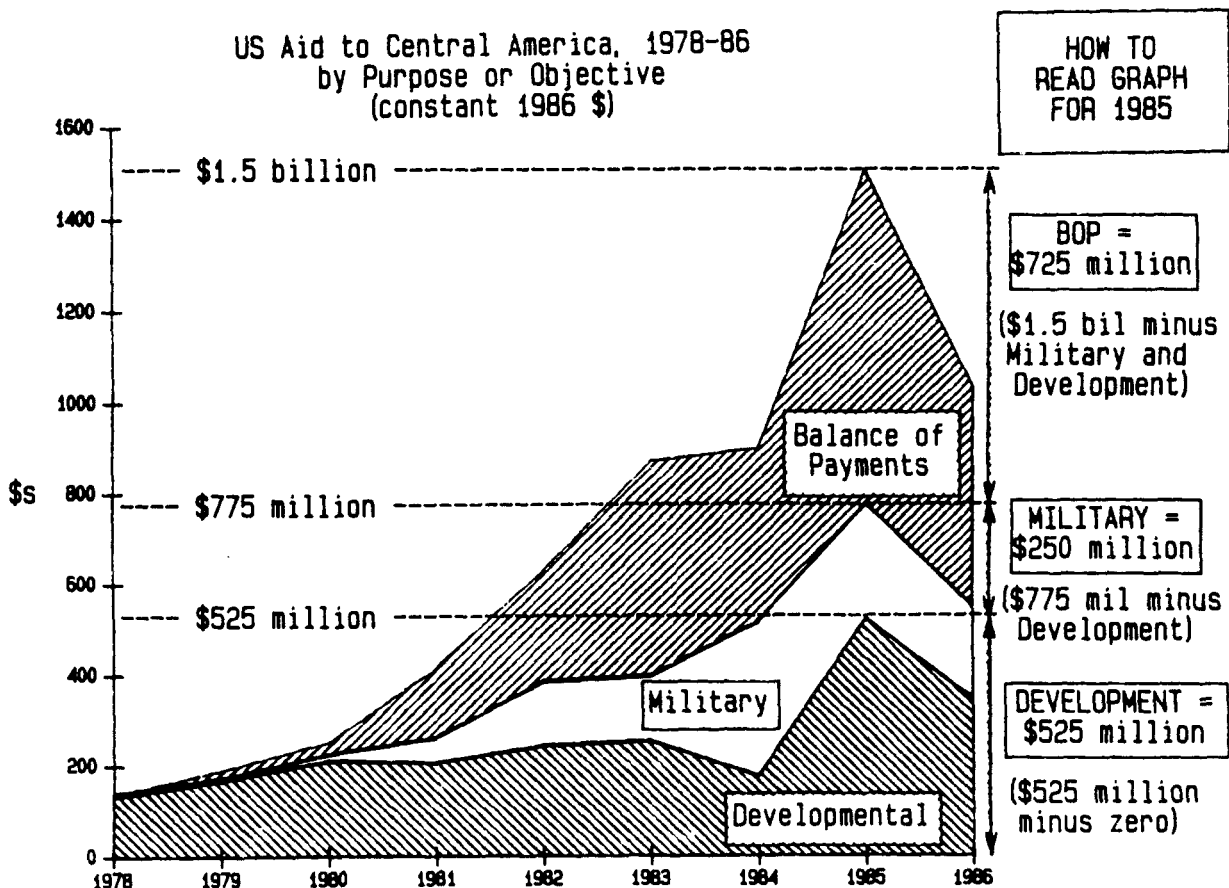


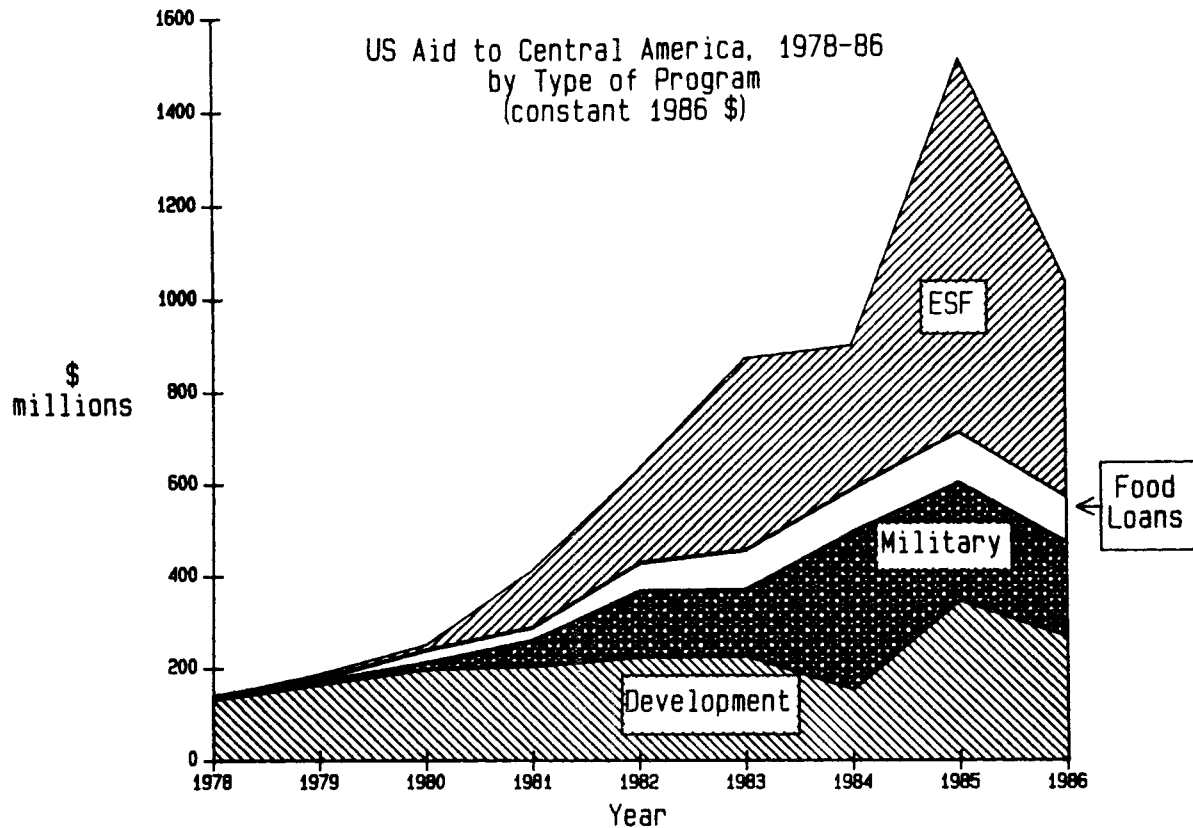
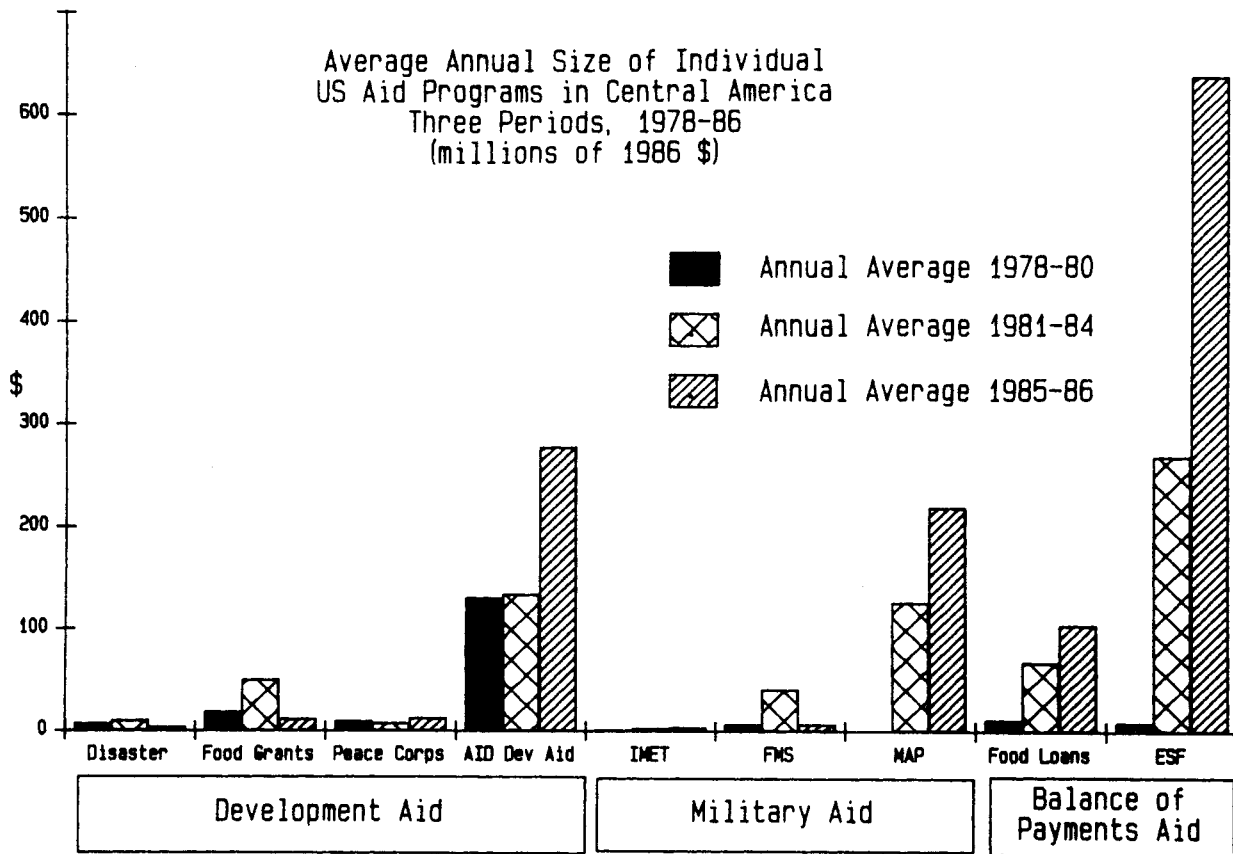
Figure 3

Figure 3 presents the same information, but groups the aid according to the specific kinds of programs undertaken in the area. The program-by-program format is the most familiar way of seeing the data and it is the way Congress provides the funds through its annual authorization and appropriation legislation. As the figure indicates, Economic Support Fund aid has been the most rapidly growing U.S. aid program in Central America in recent years. It has provided the regional countries with substantial infusions of fast disbursing money to help stabilize their economies and deal with their balance of payments crises. As Figure 3 shows, the United States provided no economic support aid to Central America in 1978, whereas in fiscal 1983, it was the largest U.S. aid program in the region. The volume of food loans (P.L. 480

Title I assistance)--another form of fast disbursing balance of payments aid--grew rapidly after 1979 but leveled off (in real terms) between 1982 and 1984. The military aid programs demonstrated consistent growth throughout the 1978-85 period, until the decline in fiscal 1986, while the development program remained almost unchanged in size (in real terms) between 1979 and 1983. The amounts allocated for development aid increased some in the last two fiscal years.

Not all individual programs in each general area of activity demonstrated the same amount of growth. Figure 4 (next page) illustrates this point by providing comparative figures of the average annual commitments during this period. In the development area, AID development aid was the largest and the most rapidly growing type of development aid in the region. The other three programs--disaster aid, P.L. 480 Title II food grant aid, and Peace Corps operations--were smaller and sometimes declining elements of U.S. development aid effort. Similarly, in the military area, MAP grant aid grew from zero in the early years to become the predominant form for U.S. Central American military aid, far eclipsing the small IMET military education program and the shrinking FMS credit program. The two balance of payments aid programs--P.L. 480 Title I food loans and ESF aid--also showed continued substantial growth during the 1978-86 period.

Besides this shift in programs through which the United States provides aid to Central America, there also has been a softening of the terms of this aid over the years. As Figure 5 (p. 18) indicates, U.S. aid to Central America is now provided mainly on a grant rather than a loan basis. In fiscal 1980, only 18 percent of it was grant aid, whereas in 1985 and 1986, over 83 percent was on a grant basis. The dollar value of this grant aid has increased enormously.

Figure 4

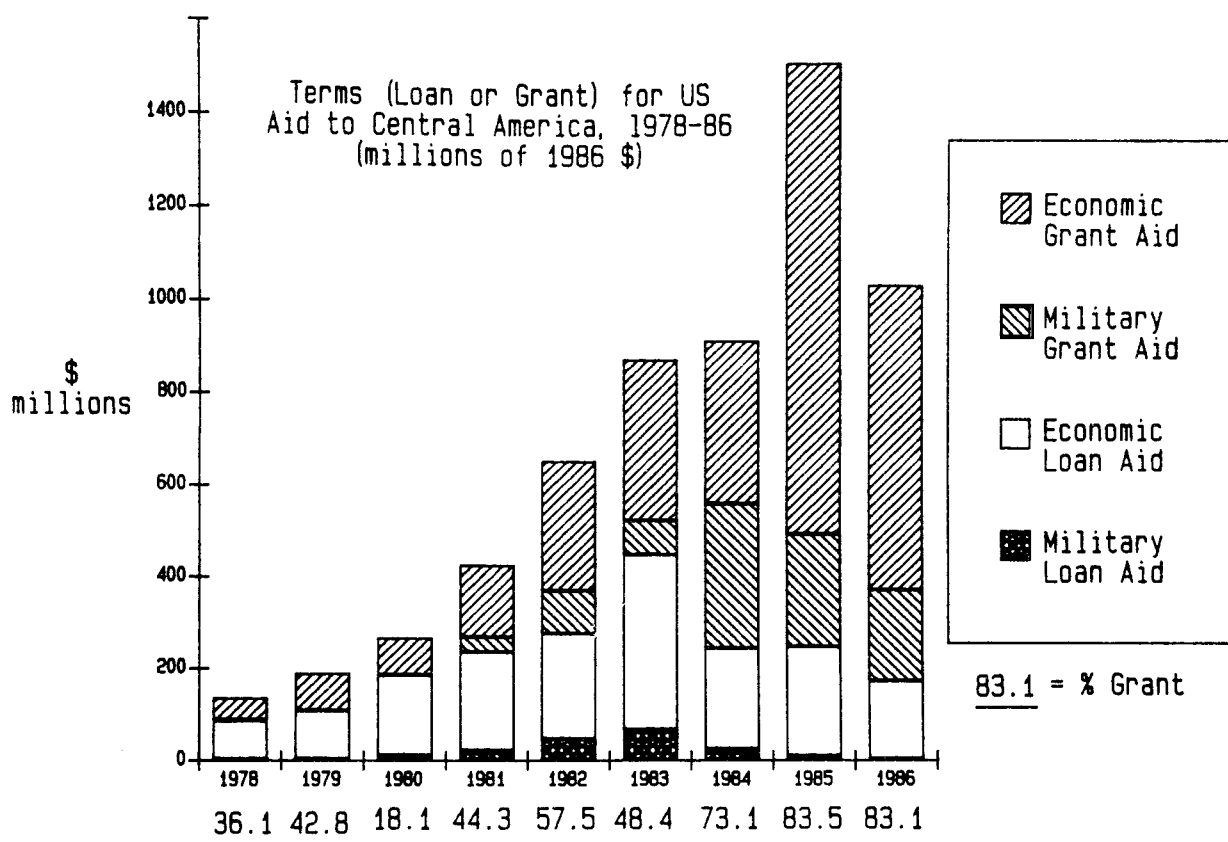
The quantity of U.S. loan aid for the region also swelled some (in real terms), peaking in 1983. Thereafter, as the share of grant aid increased, the amount of U.S. loan aid decreased until, in fiscal 1986, it was roughly equivalent to the amount provided in the first years of the period (see Figure 5, next page).

V. CHANGES IN COUNTRY SHARES FOR U.S. AID

Overall Changes in the Region

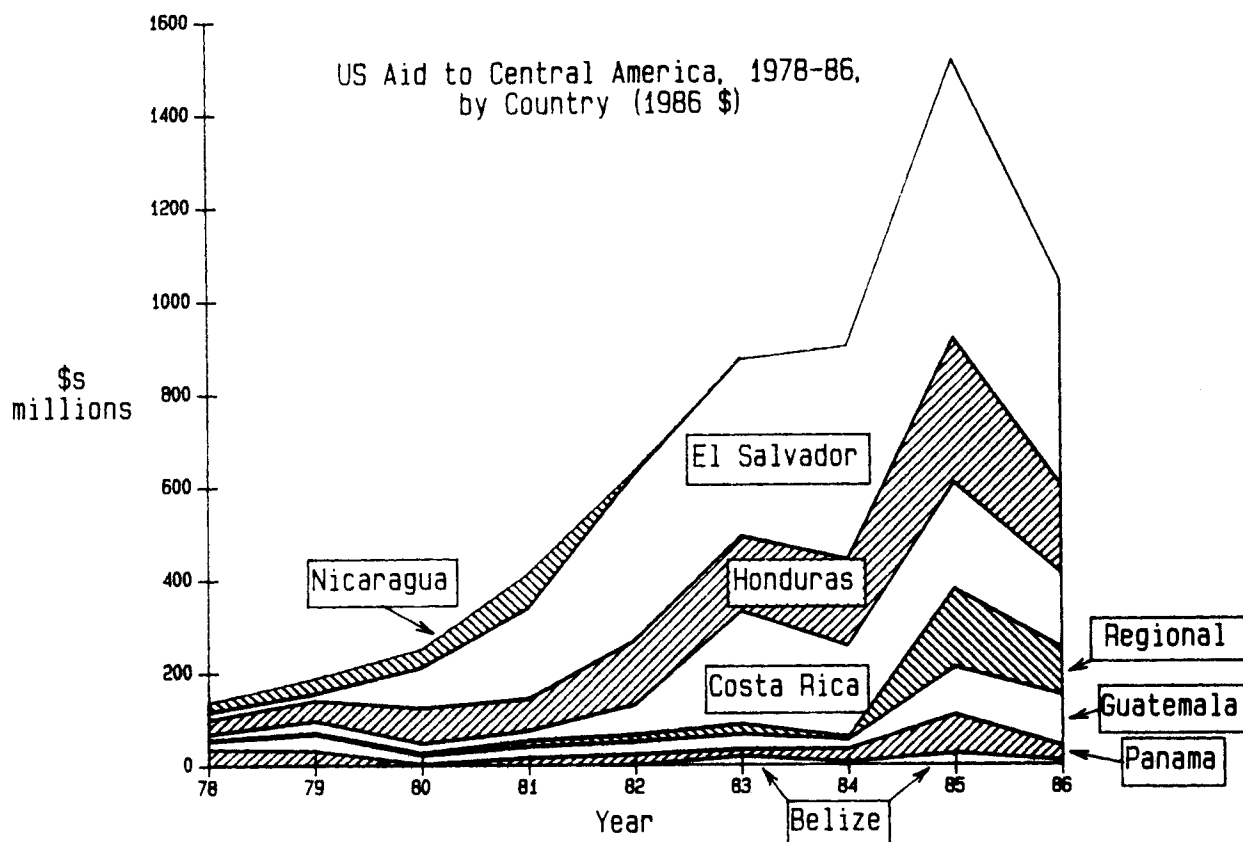
Figure 6 (p. 19) shows the trend in allocation of U.S. foreign aid by country in Central America during the past eight years. Figure 7 (p. 20)

Figure 5



shows how much each country received of the total U.S. aid provided during each of the three periods used in this study.

The U.S. aid program in Central America was rather small in 1978. After 1979, however, there was a major increase in the volume of assistance for El Salvador, Honduras, and (after 1981) Costa Rica. Increased aid for Nicaragua was brief, the high point coming in 1981. The U.S. aid levels for Nicaragua fell substantially in 1982, and ended thereafter. For the other regional countries, the quantity of U.S. aid stayed about the same (perhaps even declining slightly in real terms) until fiscal 1984. Thereafter, as the supplemental funds recommended by the Kissinger Commission were obligated

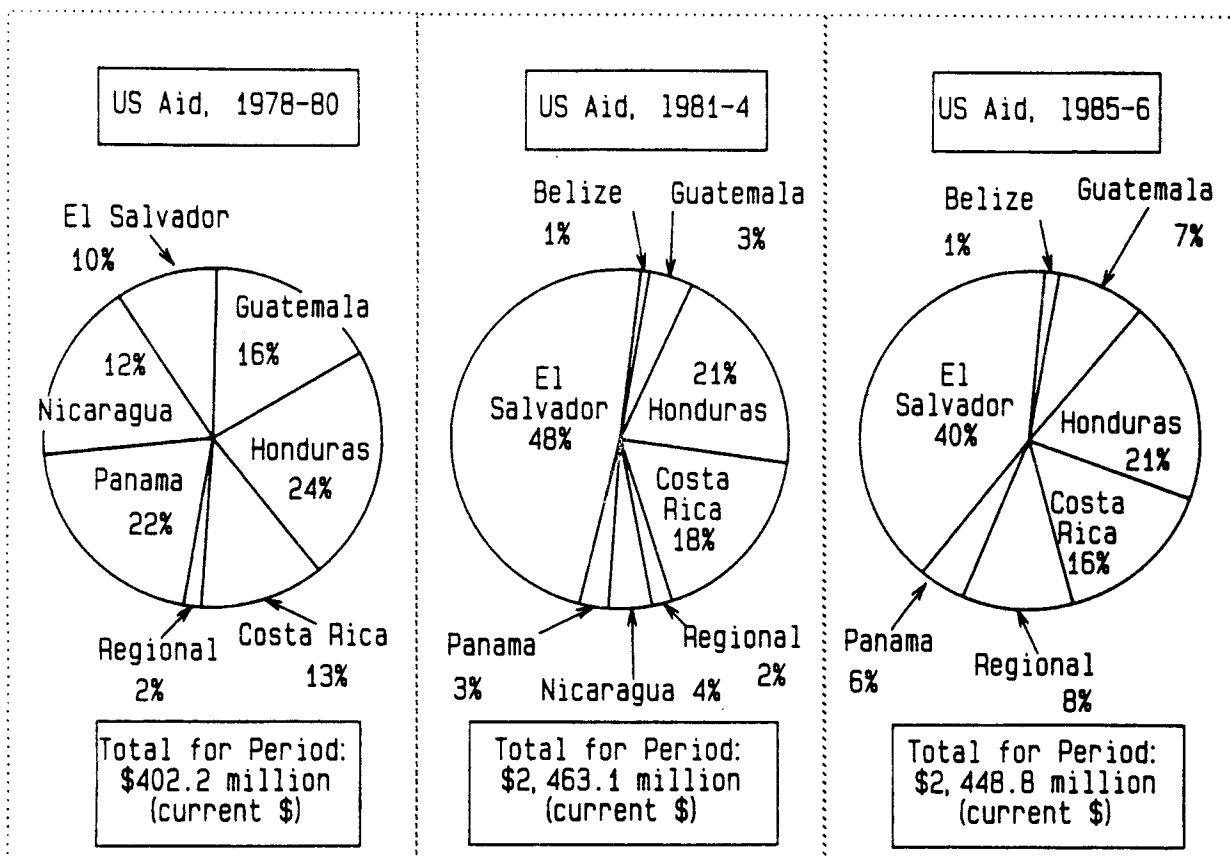
Figure 6

in fiscal 1985, major increases occurred. As Figures 6 and 7 (next page) indicate, for example, the last two years saw major increases in U.S. aid for Guatemala and the Central American regional program, in addition to the more widely publicized increases for the three largest recipients. This reflects, among other things, the Kissinger Commission's stress on the need for a more regional approach towards the resolution of Central America's economic and political problems, as well as U.S. support for Guatemala's move towards civilian rule.

Figure 7 shows that, in some cases, there have been significant shifts in the proportional share of U.S. aid which has gone to some Central American countries. El Salvador received 10 percent of U.S. aid during the 1978-80

Figure 7

Country Shares for US Aid
to Central America
Three Periods, 1978-86



period, for example, while in fiscal years 1981-84, it received nearly half the total U.S. aid allocated for Central America. In fiscal 1985 and 1986, the amount of U.S. aid for El Salvador increased, yet its share of total aid in the region shrank to 40 percent. Costa Rica experienced a similar increase and decrease in its share of total U.S. regional aid. Honduras, on the other hand, received about one-fifth of all U.S. regional aid throughout the entire 1978-86 period.

Specific Country Programs

In addition to the changing country shares of U.S. aid, there were also significant shifts during the 1978-86 period in the composition of U.S. aid for each recipient nation. The following eight graphs show the changes in the size and the composition for U.S. aid programs in each country and for the regional program in Central America. The aid programs for the major recipients--El Salvador, Honduras, and Costa Rica--may be easily compared through visual inspection, as their graphs are all on the same scale. Likewise, the minor recipients--Guatemala, Panama, the regional program, Belize, and Nicaragua--may be easily compared with each other because those figures are roughly on the same scale but much smaller.

The reader should note that, while the graphs for the major and minor aid recipients appear to be similar, they are not directly comparable, since they are on different scales. (The Y axis for major recipients goes to \$600 million, while the axis for minor recipients only goes to \$1.75 million.) The same size line means different things in the separate instances. Were the two sets of charts to be put on the same scale, the columns for the minor aid recipients would have been so short and so near the baselines as to be virtually unreadable.

Major Recipients

El Salvador

The U.S. aid program in El Salvador has taken place in the context of severe economic, military, and political problems. The country suffers from chronic social and political cleavages attributable to poverty, historic

enmities, and political abuses. Traditionalist, reformist, and revolutionary groups are all forcefully pressing their competing agendas and their conflicting goals for the country. The civil war is a multi-sided conflict with subtle patterns of opposition and alliance.

Because of war and other problems, El Salvador's economy has been under great strain. After experiencing 5 percent annual growth throughout the 1970s, the national economy contracted sharply. Between 1979 and 1983, the real GDP shrank by 25 percent, with corresponding drops in exports and employment, increased capital flight, and a 75 percent fall in private investment. A chronic balance of payments deficit brought increased foreign indebtedness and growing limits on the country's capacity to finance needed imports. In 1984, the pattern of decline was reversed, as the country experienced a modest 1.5 percent growth in real GDP. On a per capita basis, however, it was still in decline. Nearly 40 to 50 percent of the relevant population remains unemployed or underemployed. The Salvadoran government and the U.S. aid program have sought to stabilize the economic situation, stimulate growth, and increase employment and investment.

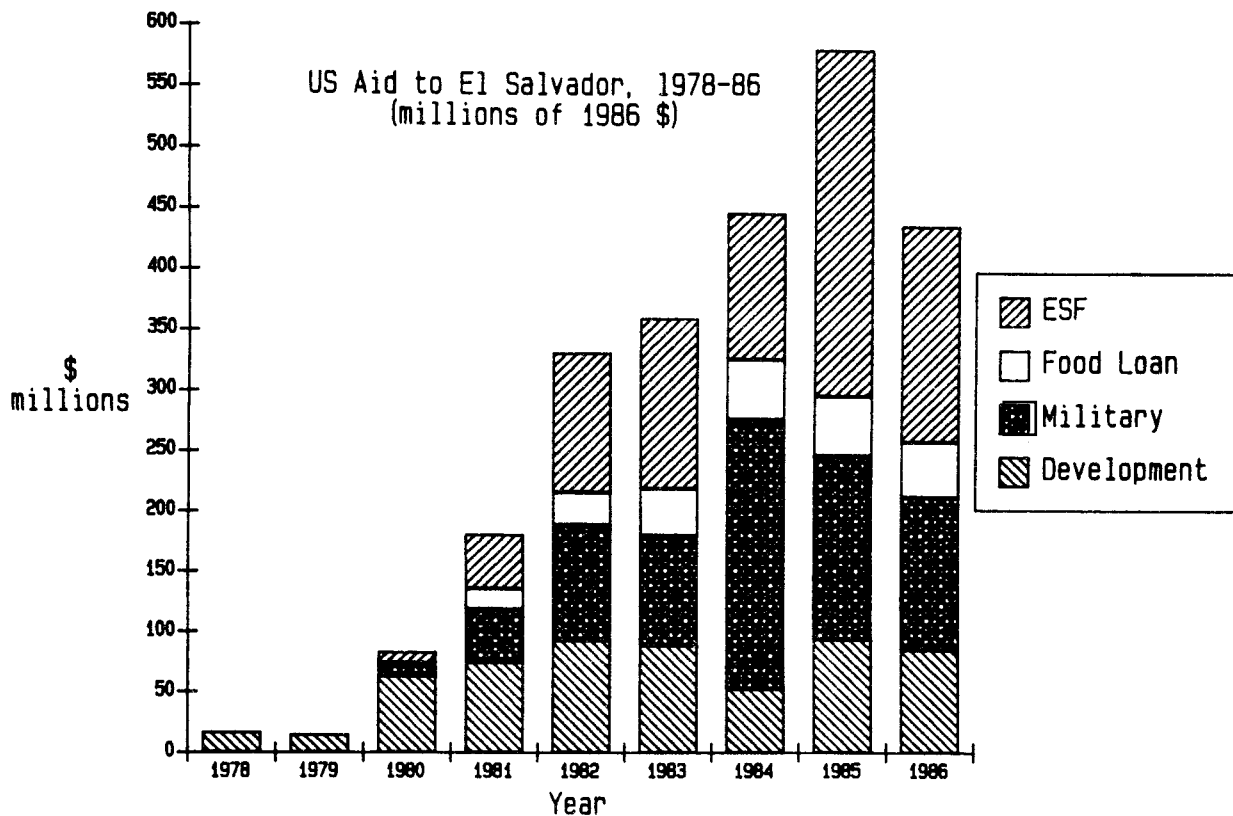
On the military front, there have been substantial hostilities throughout the recent period. In January 1981, the FMLN (Farabundo Marti National Liberation Front) rebels launched their "final offensive," which brought a significant increase in combat and control of some territory. Attacks on public facilities followed, including widespread destruction of bridges and electrical facilities. In February 1982, a successful insurgent raid on a key airbase destroyed a large number of government helicopters and advanced aircraft. There was serious concern, on the part of U.S. Administration and others, that the war might be stalemated or even lost unless the Salvadoran government received additional U.S. aid. Since 1984, the level of conflict

has diminished and there have been fewer actions involving large scale guerrilla units. Lately, the rebels have apparently returned to the tactics and approaches of the earlier period.

On the political front, El Salvador has experienced a long period of serious instability. Following a coup by young officers in October 1979, the country was ruled by a series of civilian-military juntas which promulgated land reform and other reforms. The junta experienced considerable turmoil, however, and key elements defected to the guerrillas, claiming that the new government was unable to control the military or constrain political violence, including the killing of U.S. citizens. In March 1982, a Constituent Assembly was elected to write a new constitution, and an interim government was formed under Alvaro Magana. During the 1982-1983 period, conservative groups experienced enhanced influence and it appeared that many of the reforms would be negated. During this period, there were continuing claims that the security forces were unrestrained and the level of human rights abuse remained high. In March and May 1984, however, a national election led to the inauguration of Jose Napoleon Duarte, a reform-minded Christian Democrat. Especially since the 1985 legislative elections, the right-wing forces have been somewhat eclipsed in their power and influence, the country has a clearer focus for policy, and the level of human rights violations has abated somewhat. Questions remain, however, on whether Duarte has effective control of the military and whether--given the realities of the Salvadoran political system--he has the power to implement his reformist programs.

Figure 8 (next page) displays the record of U.S. aid to El Salvador since 1978. It shows that U.S. aid increased quite rapidly after 1979. The initial U.S. response to the military coup in 1979 was a major increase in the volume of developmental aid in fiscal 1980, obtained through a rapid

Figure 8



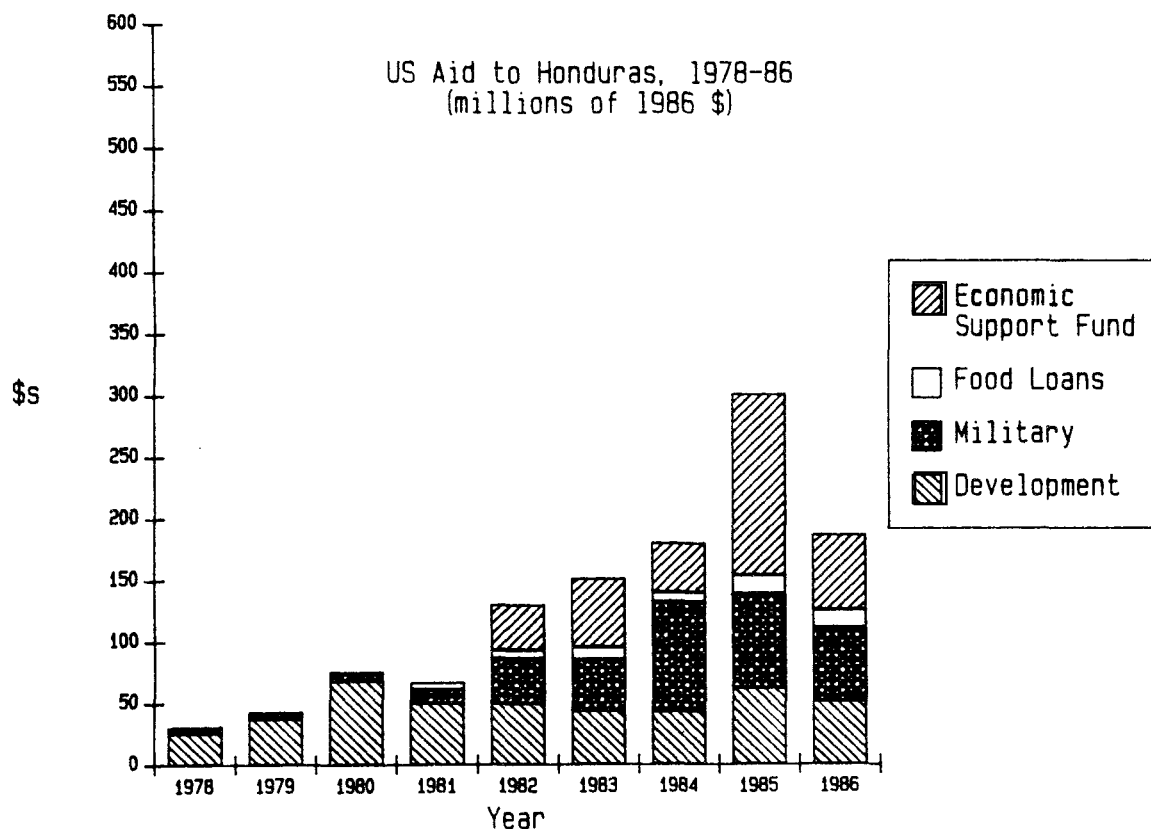
reprogramming of existing 1980 funds. With its fiscal 1981 aid program for El Salvador, however, the Carter Administration set the pattern for subsequent allocations of U.S. aid--rapidly growing amounts of military and economic support assistance and relatively unchanged flows (in real terms) of developmental aid. This pattern continued through the early years of the Reagan Administration. Fiscal years 1981 through 1984 saw an eight-fold increase in the volume of total U.S. aid, with balance of payments aid (ESF and P.L. 480 food loans) accounting eventually for about half while military and development aid each accounted for another quarter of total U.S. aid. During fiscal 1984, the last year of this middle period, the level of development

aid decreased markedly, while the volume of military aid more than doubled. This is due, in part, to the fact that all the supplemental military aid appropriated for El Salvador after the appearance of the Kissinger Commission report was committed in fiscal 1984. ^{5/} The volume of U.S. economic aid was higher in fiscal 1985 and 1986 than in previous years, though lower in 1986 than in 1985. In part, it reflects the fact that--unlike the military aid appropriated at the same time--the supplemental 1984 economic aid was all obligated in fiscal 1985. The amount of U.S. developmental aid also grew in fiscal 1985 while--a fact not reflected in the figures here--more ESF aid than before (\$76.5 million in fiscal years 1985-6) was scheduled for use in development programs.

Honduras

Honduras is the poorest country in the region, and its poverty, to some extent, has been a focus for U.S. assistance. However, other factors--the need for Honduran cooperation in the El Salvador situation, the need of Honduran operational bases for the U.S.-backed anti-Sandinista guerrillas, and Honduran rivalries with El Salvador--have been more crucial explanations for the rising aid levels. Honduras has been the locus for much U.S. policy towards neighboring countries. Honduras has been asked to take on increased military tasks on its Western border--controlling refugees, cross-border incursions, and the flow of supplies to the El Salvador guerrillas from

^{5/} The supplemental 1984 appropriation legislation provided almost \$132 million for military assistance, a major increase over the \$64.8 million voted in the regular fiscal 1984 funding bill. The \$90 million for supplemental ESF and \$23 million for supplemental AID development aid, voted at the same time, were recorded in the 1985 statistics. In fiscal 1985, El Salvador also received an additional \$10 million in MAP aid, rescheduled from the fiscal 1984 funds originally allocated for the RMTTC.

Figure 9

Nicaragua--and to tolerate the presence of anti-Sandinista "contras" in its country. This has served as a basis for increased U.S. aid. As the level of tension between Honduras and Nicaragua has increased, the perceived need for expanded U.S. military and economic security aid (and for continued U.S. military exercises in the area) has also increased. In addition, Honduras and El Salvador have long been major rivals, the misnamed "soccer war" between them in 1969 being only one example. As the levels of U.S. military aid to El Salvador have risen, the Honduran leadership has become increasingly concerned about the increased skill and capacity of their neighbor's forces. This has led to requests for more U.S. aid to strengthen the corresponding Honduran forces.

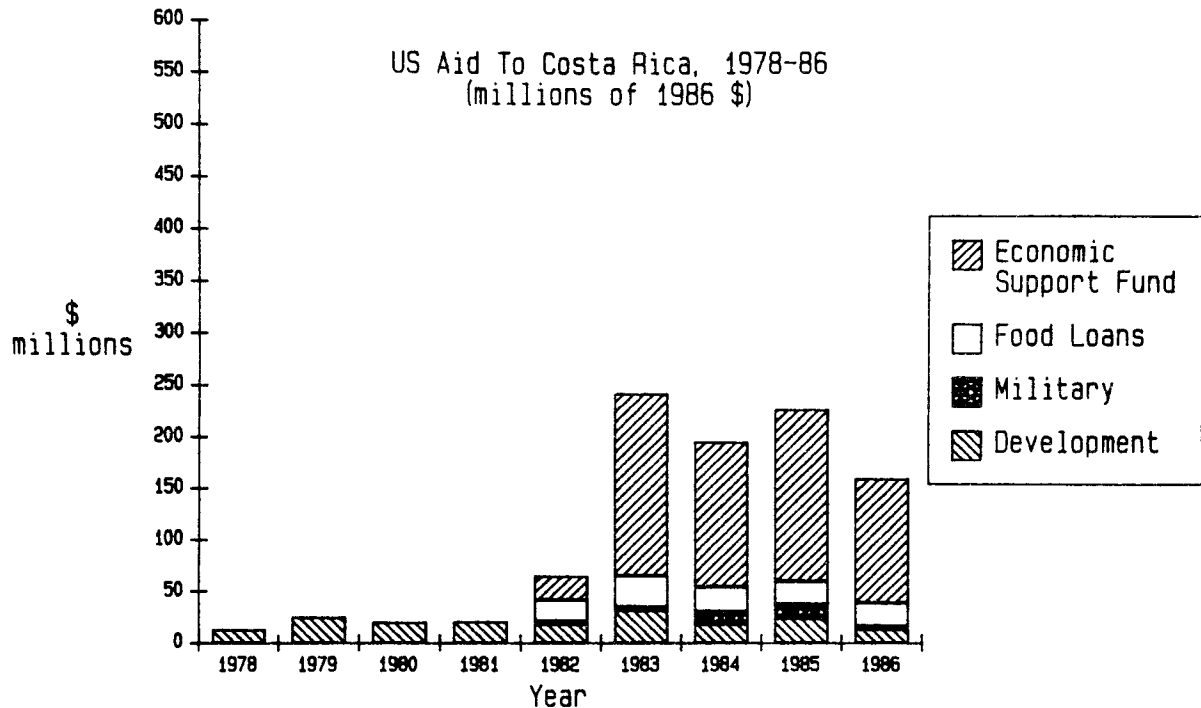
Figure 9 (previous page) shows the pattern for U.S. aid to Honduras. Of all the countries in the region, the general pattern of U.S. aid to Honduras has probably been the most similar to that of El Salvador. The major increases in balance of payments and military aid began for Honduras later, however, and the total volume of aid has been much less than for its neighbor. Since fiscal 1984, Honduras has been receiving all its military aid from the U.S. in the form of MAP grants. ^{6/} Before, a substantial portion had been financed through FMS market rate loans. [Note: Aid figures for Honduras do not include the emergency \$20 million in military aid provided in late March 1986, in response to incursions into Honduran territory by Nicaraguan forces.]

Costa Rica

Because Costa Rica does not face a guerrilla insurgency and relies on international guarantees for protection from external aggression, the pattern of U.S. assistance there has been substantially different from the patterns for El Salvador and Honduras. Costa Rica's external debt and its serious balance of payments problems have been the principal focus for U.S. aid.

Figure 10 (next page) shows the record for U.S. aid to Costa Rica. Development aid has been comparatively small. The U.S. Government has tried to use the terms and conditions on its balance of payments aid to encourage Costa Rica to persevere with the tough economic reforms it promised in connection with the stabilization agreements in its 1982 and 1985 IMF loans. While

^{6/} In addition to the \$40 million allocated earlier as a result of the regular 1984 funding legislation, Honduras received an extra \$36.5 million in 1984 from the supplemental 1984 appropriations bill. (An additional \$6.5 million became available in fiscal 1985 when RMTTC fiscal 1984 funds were reprogrammed.) The 1984 supplemental also provided an extra \$74 million in ESF aid and \$7 million in AID development aid, which were programmed in the fiscal 1985 accounts.

Figure 10

pushing for reform, the U.S. aid program has also given Costa Rica more breathing space and more opportunities to soften the political and economic effects of its austerity program.

The U.S. aid effort in Costa Rica has been basically unchanged in its major parameters since 1983. In the military area, though, the United States did make an effort to strengthen the Costa Rican defense forces in 1984 and 1985 through modest infusions of MAP aid. ^{7/} The Pastora group of anti-Sandinista contras reportedly has bases in Costa Rica and the Nicaraguans

^{7/} In addition to the amounts originally programmed, \$2 million in MAP aid became available in fiscal 1985 from fiscal 1984 funds originally allocated to the RMTG.

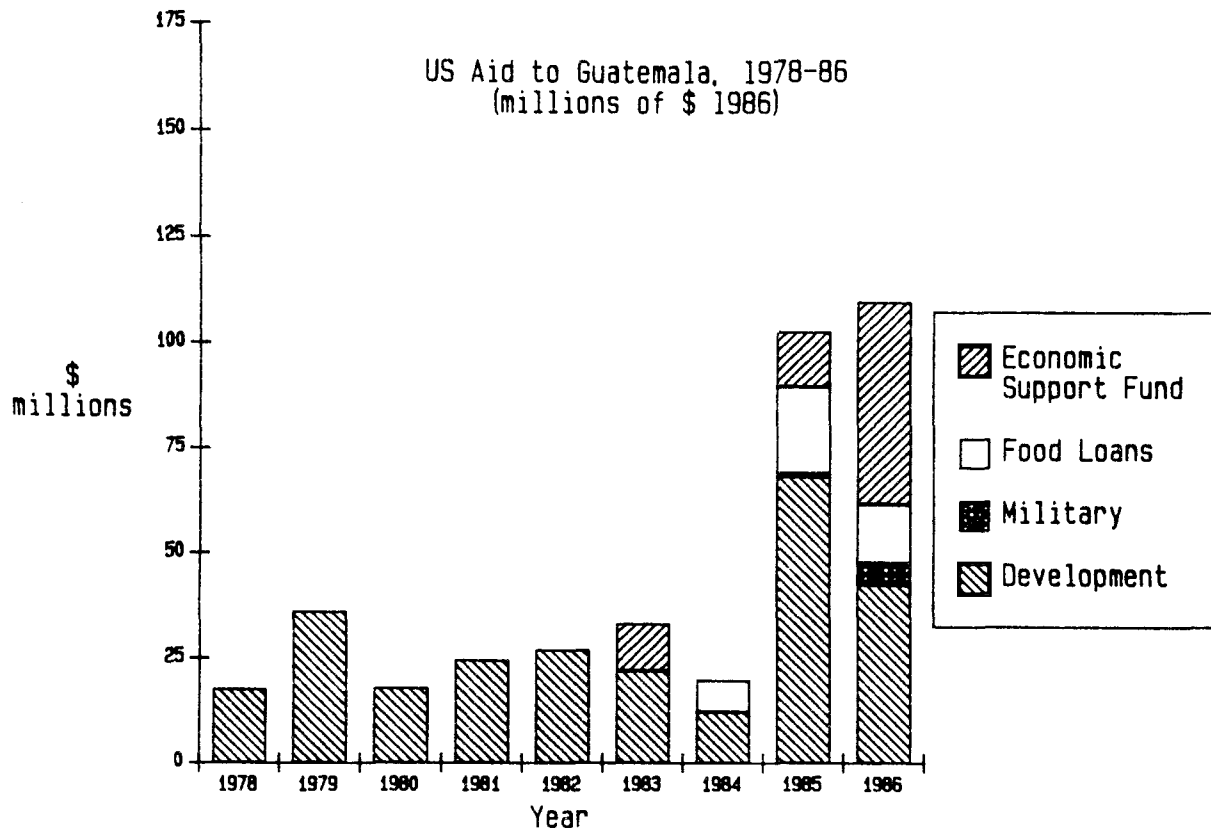
have occasionally made raids into Costa Rica apparently in attempts to hamper the contras' operations. The Government of Costa Rica has been quite concerned about being drawn into conflict with Nicaragua because of the counterinsurgency. Its defense forces have sought to discourage cross border incursions by both sides and the Costa Rican government has sometimes tried to make it difficult for contra fighters to operate freely from its territory. The Costa Rican government's ability to fully control the border regions is limited, however. The Costa Rican based contras have apparently received some U.S. support, from time to time, although not to the same extent as has their counterparts based in Honduras.

Minor Recipients

Guatemala

Figure 11 (next page) shows the recent pattern of U.S. aid to Guatemala. Before 1982, development aid constituted the sole form of U.S. aid to this country. In 1983, the \$12.5 million in ESF aid was used for development-type activities (expanding market opportunities for small farmers). Infusions of regular balance of payments aid began in 1984, with some allocations of P.L. 480 food loans. The ESF aid in fiscal years 1985 and 1986 has been used for balance of payments purposes. Until 1985, the total U.S. aid program for Guatemala was relatively small. It increased substantially in the past two years, however, as the country moved towards installation of a popularly elected civilian government.

The Guatemalan case is a complex one. The largest country in the region, Guatemala has had serious human rights problems, serious economic problems, prolonged military rule, and an active guerrilla insurgency during all of the

Figure 11

1978-86 period. The actual pattern of U.S. aid during most of the past eight years is rather different than the amounts or kinds of aid the Administration would have preferred in the absence of congressional restrictions.

Annually, the congressional presentation documents have listed Guatemala as an intended recipient of significant flows of ESF balance of payments support. Congress has often prohibited or limited the amounts of ESF aid which Guatemala could receive or required that it be used for developmental activities.

Although the executive branch failed to win congressional approval for ESF balance of payments support between 1983 and 1985, it was able to partially substitute similar assistance through expanded levels of P.L. 480 food loans.

The Administration told Congress, in its fiscal 1985 aid presentation document, for example, that its proposed allocation of \$35 million in ESF and \$11.4 million in P.L. 480 food loans for Guatemala were part of a comprehensive plan to help the country deal with its international payments situation. 8/ After it became evident that Congress would not approve the full ESF allocation, the size of the food loan was increased. In the end, Congress ruled that no more than \$12.5 million in ESF aid could be available--and this had to be "aimed directly at improving the lives of the poor,"--and the Administration lent Guatemala \$19.7 million in allocation in P.L. 480 food loans in fiscal 1985. 9/

Between 1978 and 1985, the United States provided Guatemala with little in the way of military aid, other than participation in professional training courses sponsored by IMET. During the Carter years, military aid ended for human rights reasons. 10/ Later, Congress rejected the Reagan Administration's annual proposals for renewed military aid, although an IMET program

8/ U.S. Agency for International Development, congressional presentation, fiscal year 1985, annex III, vol. II, p. 92. While the text continued to use the \$11.4 million figure, AID had scheduled a possible increase to \$16 million by the time the document was submitted. Later, the Guatemalan figure for food loans was increased to \$21 million, but the allocation was not fully used before the close of the fiscal year.

9/ Congress usually examines ESF country allocation proposals rather carefully. This is not always the case, however, for P.L. 480 food loans. Unlike the ESF and the other components of the foreign aid account, the funding for the P.L. 480 food loans program is handled by the House and Senate Agriculture Committees and the corresponding agricultural appropriations subcommittees. The House Foreign Affairs Committee also has concurrent jurisdiction for the P.L. 480 legislation. In most cases, the P.L. 480 program is seen as a form of food aid or as a vehicle for increasing U.S. agricultural exports. Congressional review usually focuses on policy and commodity issues, rather than on annual country allocation issues.

10/ In 1978 and 1979, Guatemala only received very small amounts (measured in thousands of dollars) under MAP for supply operations to close out previous MAP activities. No military aid was then provided for the remaining Carter

was approved for fiscal 1985. In 1985, after it became evident the country was moving towards installation of a civilian government, Congress approved (with conditions) a modest allocation of FMS aid for Guatemala in the fiscal 1986 appropriation. In early 1986, the Administration decided to provide this new military aid on a grant basis (MAP), and announced its intention to use its statutory authority to waive the provisions of law which would otherwise block allocations of MAP aid for this country. 11/

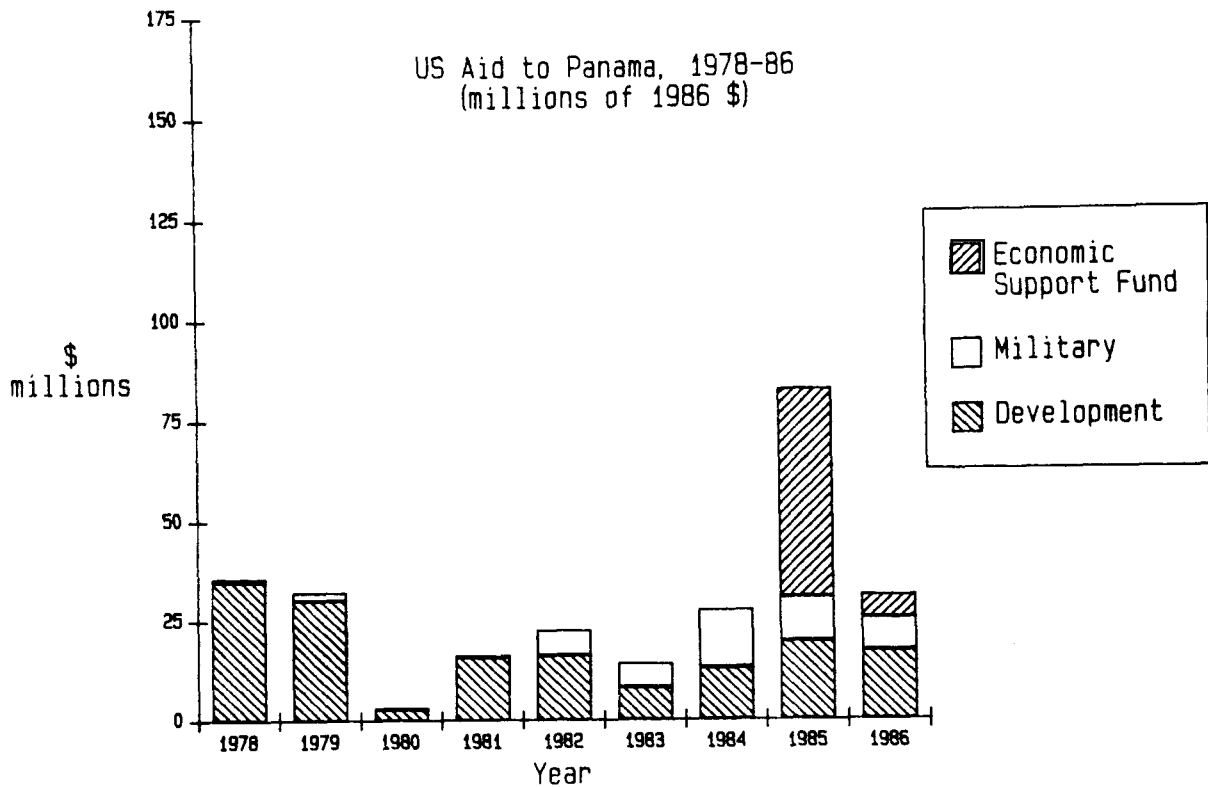
Beginning with fiscal 1985, there has been a marked increase in both the volume of total U.S. aid for Guatemala and the amount targeted for development purposes. Because Congress has generally restricted the amounts of military and ESF aid which could go to Guatemala, this is the one instance in Central America where development aid remained the primary U.S. aid program after the major increases for the region began. With the advent of a new civilian regime in Guatemala in 1986, many observers expect executive-legislative tensions that have marked past aid debates to decline, particularly if the new Guatemalan government makes progress on the human rights situation.

Panama

Figure 12 (next page) shows the recent trends in U.S. aid to Panama. After the Panama Canal treaties were ratified in 1978 and went into effect in 1979, the level of U.S. aid dropped or remained relatively static. In the Panama Canal treaties, the United States agreed to consider--but it did not promise to provide--a substantial increase in aid to Panama during

11/ The FY 1986 Appropriations Act prohibited any allocation of MAP aid to Guatemala. The Administration has indicated that, in light of the changed situation in that country, it will evoke the authority of sec. 614 of the Foreign Assistance Act to override this limitation.

Figure 12



the 1980s. The continuing opposition by treaty opponents initially made such increases unlikely.

Beginning in fiscal 1982, however, the United States began providing Panama with modest, but increasing, infusions of military aid--initially FMS loans, but later mainly MAP grants. In fiscal 1985, Panama received for the first time a significant amount of ESF balance of payments aid.

The recent increase in U.S. aid seems to reflect a new U.S. concern about Panama's economic crisis, its growing role in regional affairs, and the U.S. effort to promote political stability in Panama. In 1983, Panama negotiated a \$150 million loan from the IMF to finance a three-year

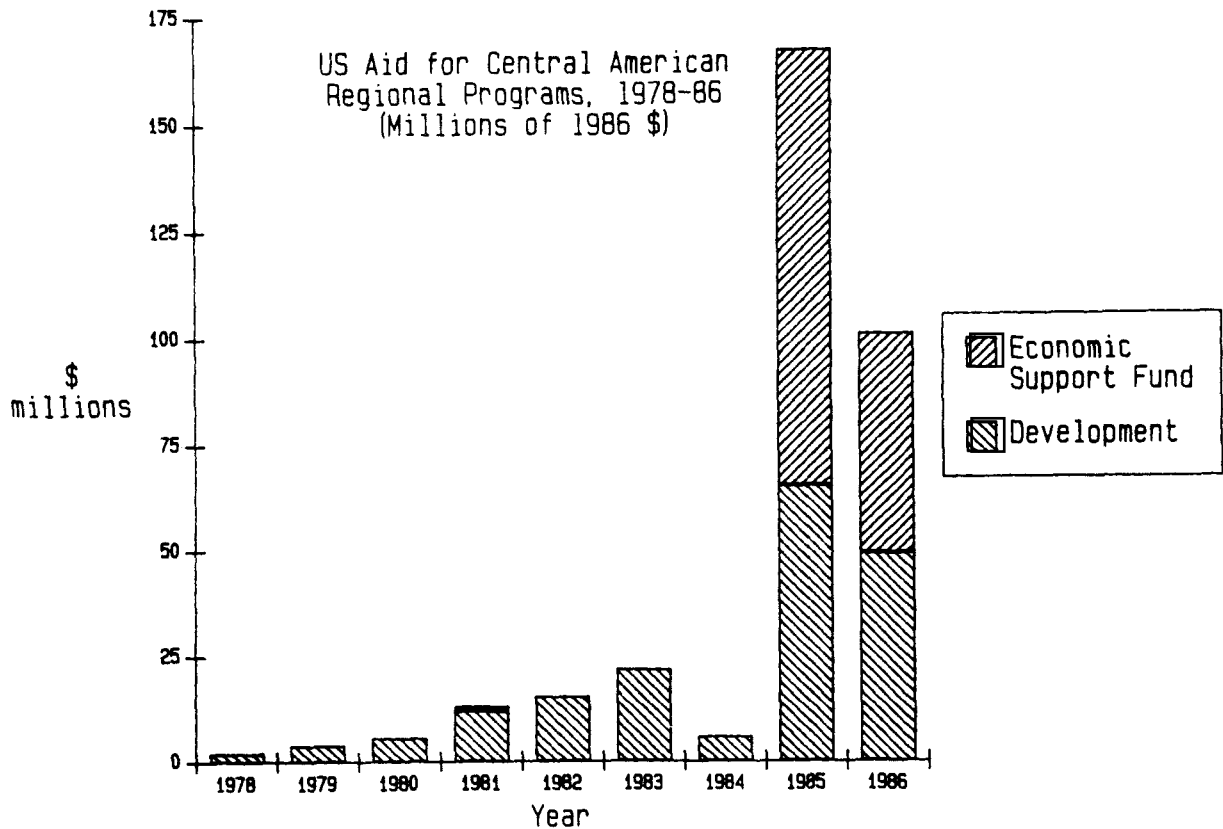
stabilization plan, and hosted the Contadora talks, aimed at securing a comprehensive regional solution in Central America. Also in 1983, the Panamanian military took steps towards relinquishing formal power and an elected civilian government took office the following year, although the election was apparently marred by fraud and military manipulation.

More recent events, however, have led U.S. aid administrators to reduce assistance in fiscal 1986. Budgetary pressures argued for some cuts in foreign aid levels in Central America. Panama's record--and its relatively better situation compared to other regional countries--made Panama a candidate for possible reductions. Unwillingness of the Panamanian government to carry out certain economic policy reforms and the military's role in the September 1985 resignation of Panama's newly elected President ran contrary to two primary U.S. objectives: to promote economic stability, and to support the democratic process. Amounts of military aid for fiscal 1986 are below those provided the previous year while ESF assistance was cut from a proposed level of \$40 million to \$5.7 million.

Regional Programs

Until recently, the Central American regional program (ROCAP) was very small and financed mainly with AID development aid. Since fiscal 1985, however, as Figure 13 (next page) indicates, there has been a major jump in funding for the regional program. This reflects, among other things, the Kissinger Commission's suggestion that the U.S. aid programs put more emphasis on regional approaches and solutions to Central America development problems. ESF funds have been used to finance a substantial portion of the increase. They are being used, in the main, for project assistance or other long-term development activities.

Figure 13



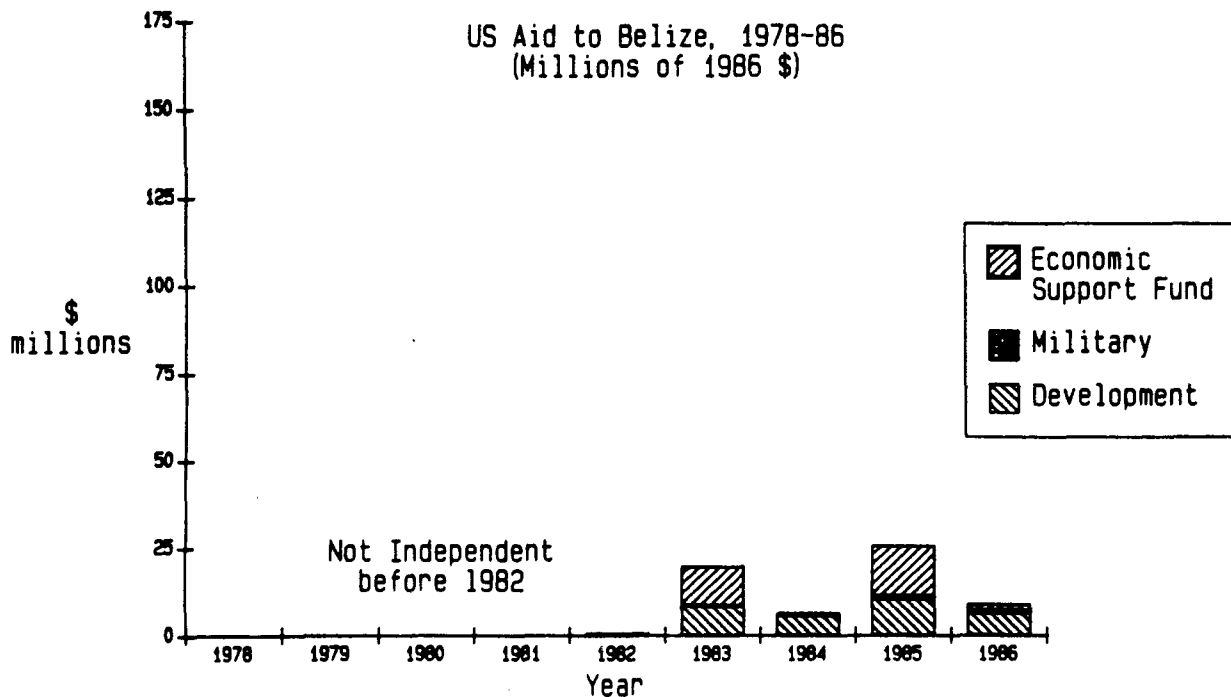
The graph does not reflect the fact that, between 1983 and 1985, the United States also funded the Regional Military Training Center (RMTC) in Honduras, where the United States trained Honduran, Salvadoran, and Costa Rican troops. The Hondurans were reportedly uncomfortable about training Salvadorans on their territory and land ownership issues clouded the status of the Center. Congress attached requirements to its supplemental 1984 and regular 1985 appropriation, requiring that--among other things--the administration certify that Honduras would continue allowing the Salvadorans access to the Training Center. The RMTC was closed instead in mid-1985, when it became clear that a certification of this sort was not possible. Some \$18.5

million was originally allocated for the RMTC from fiscal 1984 supplemental MAP funds. Only about \$500 thousand of this was spent on the Center. The rest was later reprogrammed as aid to the individual countries and used in that capacity to finance military training.

Belize

The U.S. aid program in Belize is quite small, although in per capita terms it is one of the largest in the region. (In fiscal 1985, Belize received \$161 per capita for its 150,000 people, while El Salvador received about \$140 per capita for its population of 4.7 million.) As Figure 14 shows, most of this aid has been developmental, although there have been two major infusions of ESF balance of payments aid.

Figure 14



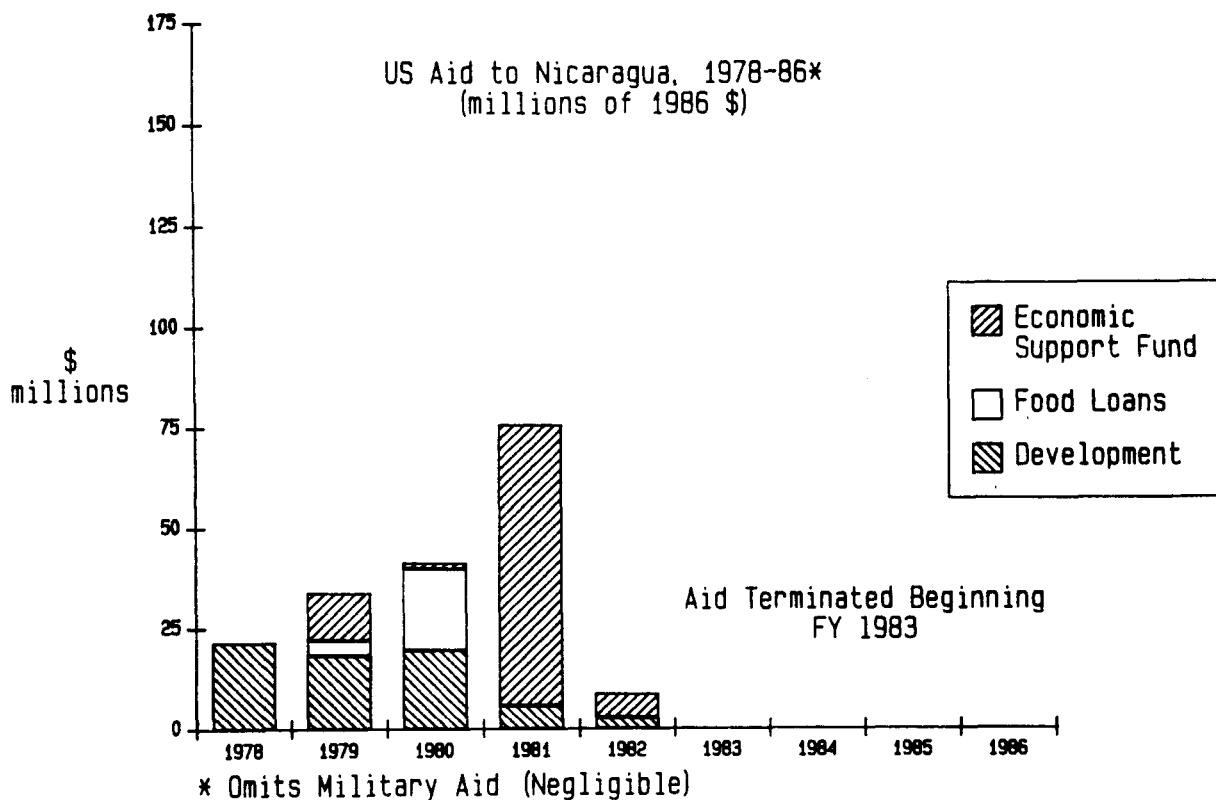
The United States has also provided small amounts of military aid to help strengthen the Belizean defense forces with new equipment to replace obsolete military vehicles and standardize small arms. In addition to the general goal of maintaining friendly relations with the country, the United States has two specific foreign policy concerns in Belize. First, Belize is located close to the area in Guatemala which has experienced recent insurgencies. Moreover, Guatemala claims all or most of Belize's territory and many observers are concerned that Guatemala might take military action to press its claim or possibly to suppress any claimed cross-border traffic. This would complicate the regional political situation. U.S. economic and military aid helps to forestall this potentiality. Second, Belize seems to be used as a way station for aircraft flying the North-South drug smuggling routes from South America to the United States. The U.S. Government has been seeking the cooperation of the Belizean authorities to discourage this activity.

Nicaragua

As Figure 15 (next page) indicates, the level of U.S. aid to Nicaragua was quite small prior to the 1979 civil war. Thereafter, the Carter administration channeled major infusions of assistance to Nicaragua--first development aid and then, increasingly, fast disbursing balance of payments aid--as it sought to develop good relations with and influence the character of the post-revolutionary government.

On October 17, 1980, the Carter Administration signed agreements with Nicaragua obligating \$48 million in loan and \$5 million in grant aid. The legislation appropriating this money stipulated, however, that it would be available only so long as the Administration certified that the Nicaraguans were not aiding international terrorism or helping the Salvadoran guerrillas.

Figure 15



President Carter made this certification once. In November 1980, however, according to State Department reports, he reversed his position and quietly froze disbursement of the last \$15 million in obligated, but not yet disbursed, ESF aid. The remaining \$4.3 million in AID development assistance and \$10 million in P.L. 480 food loans were administratively frozen soon thereafter. On April 1, 1981, the Reagan Administration announced officially that it was formally freezing the funds on grounds that Nicaragua had engaged in the prohibited activities. Since then, the United States has provided a small amount of economic aid (in fiscal 1982) targeted toward the private sector.

The major U.S. effort in the recent period has been assistance to the insurgent forces (the "contras") which are opposing the Sandinista government in the field. Most of this aid has been provided through covert channels. After Congress suspended covert assistance in 1984, some \$27 million was approved for non-lethal aid to the contras in fiscal 1985. Contra aid has not been included in the totals for U.S. aid to Nicaragua.

VI. CHANGES WITHIN THE INDIVIDUAL AID PROGRAMS

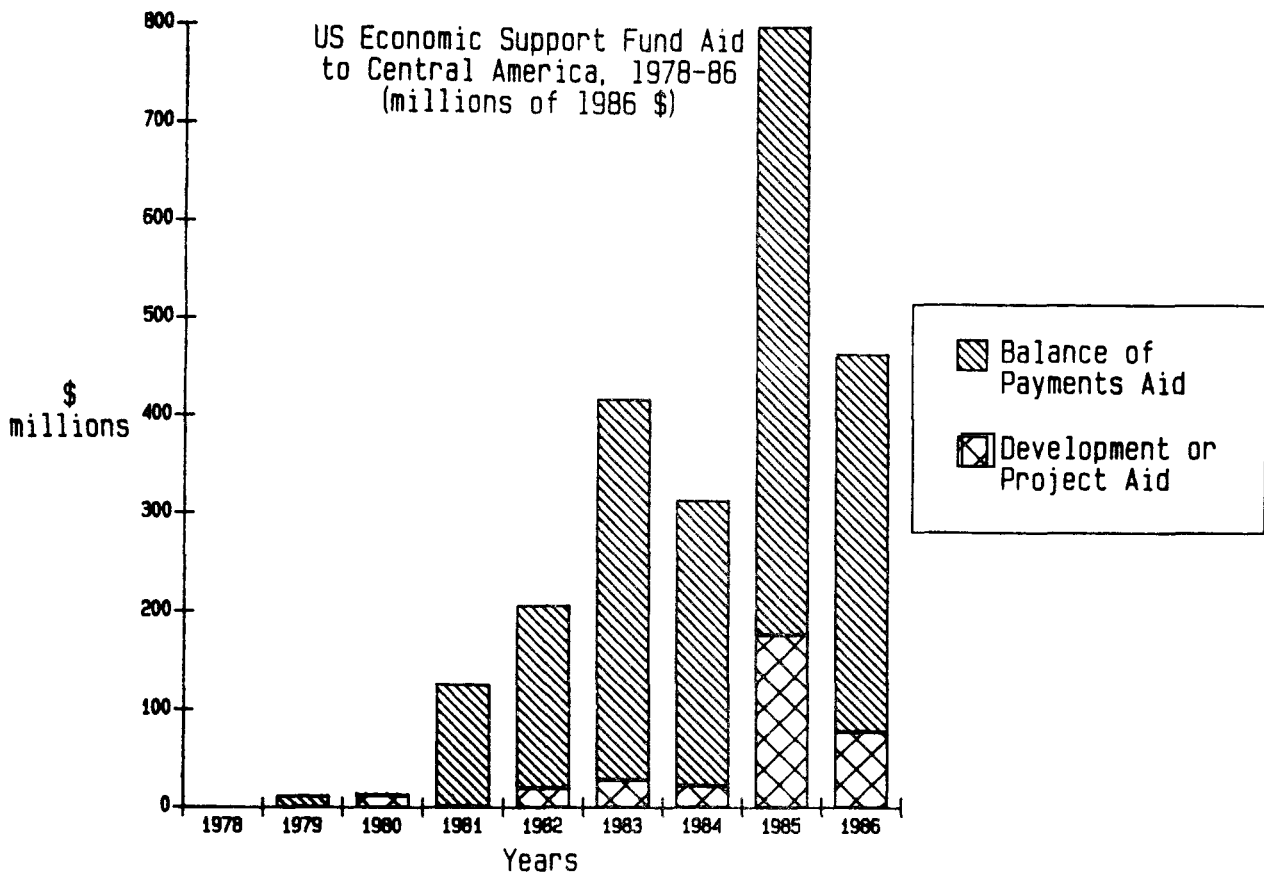
In many cases, there have also been major changes in the past eight years in the kinds of activities sponsored by the different U.S. aid programs. This is not the place for a full elaboration of these changes. Some of these are qualitative, rather than quantitative, and they do not lend themselves to succinct analysis. A few examples may suffice, however, to show the general nature of these shifts in the focus for U.S. Central American aid.

Economic Support Fund

Most of the ESF aid provided to Central America has been used for balance of payments support in order to help these countries weather their economic crises. There have been three major changes in the focus of ESF aid, however, since 1978.

First, as Figure 16 (next page) indicates, a significant portion of this aid has been used in recent years to finance projects or other types of activities which focus on the region's long-term development problems. In fiscal 1985 and 1986, in fact, the United States spent almost \$256 million (in 1986 dollars) for development activities through the ESF account, nearly half as much as the \$554 million (in constant 1986 dollars) that AID committed

Figure 16

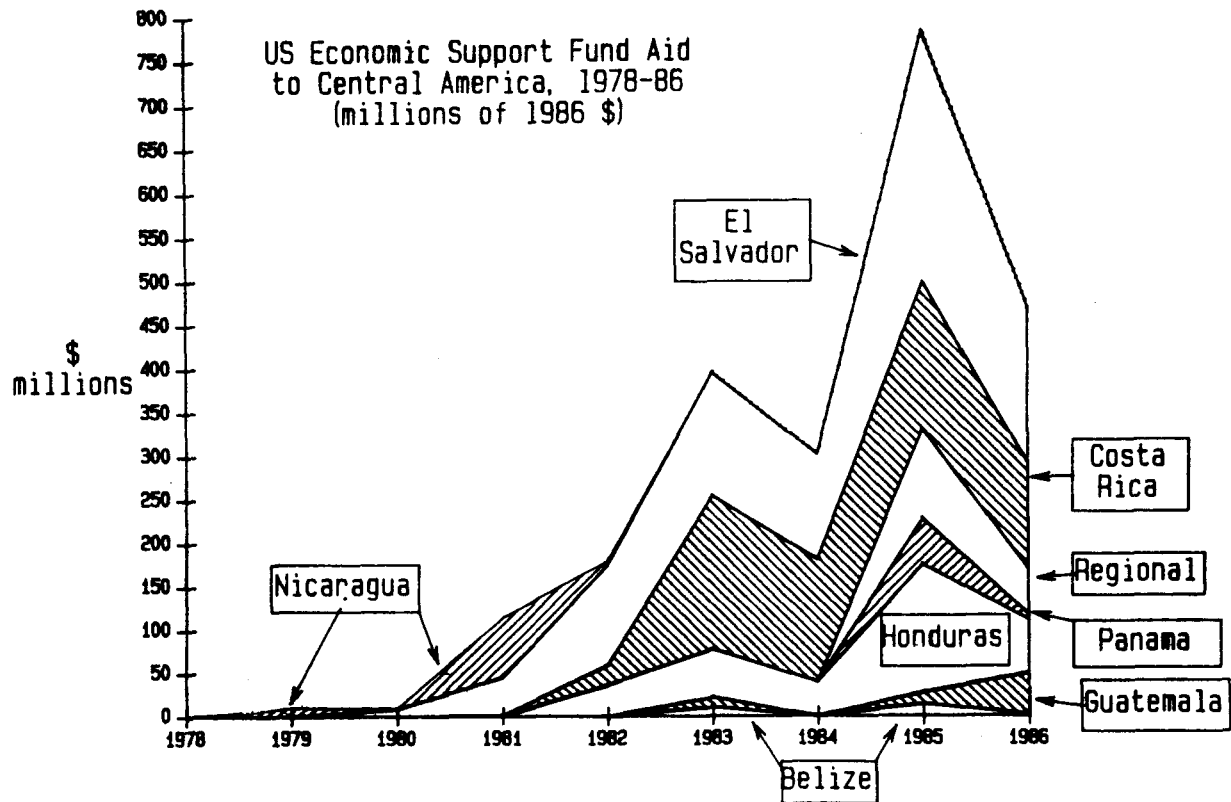


through its regular development program. In many cases, there were few significant differences between the development projects financed through the ESF and the AID development accounts.

Second, as Figure 17 (next page) shows, since 1982 most ESF aid has gone to El Salvador, Costa Rica, and Honduras. However, significant sums have been allocated for the regional program recently, for Panama in 1985, and for Guatemala in 1986.

Third, the United States began to attach more conditions to its allocations of ESF balance of payments aid. Before 1981, the main policy conditions dealt with stipulations that the local currency proceeds must be used to

Figure 17



help the poor or meet basic human needs. ^{12/} In recent years, the United States has sought to require aid recipients to make changes in their

^{12/} For both the ESF and the P.L. 480 food loan programs, the recipient government often receives a line of credit in dollars from the United States (continued) which may be used to purchase specific goods from U.S. sources. The government then makes these dollar credits available to local importers of the goods in exchange for an equivalent payment denominated in local currency (pesos, colones, etc.). Most ESF aid in Central America has been grant aid. For those two cases of loan aid, the recipient country must repay the United States in dollars but this repayment is phased over a long period at low interest rates. Meanwhile, for both grant and loan aid recipients, the foreign government has the use of the local currency generated by the aid to augment its finances. In effect, the U.S. aid is spent twice--once as dollars and a second time as local currency. The recipient country usually signs an agreement with the United States specifying that these aid-related receipts will be used to finance agreed upon activities through its national budget.

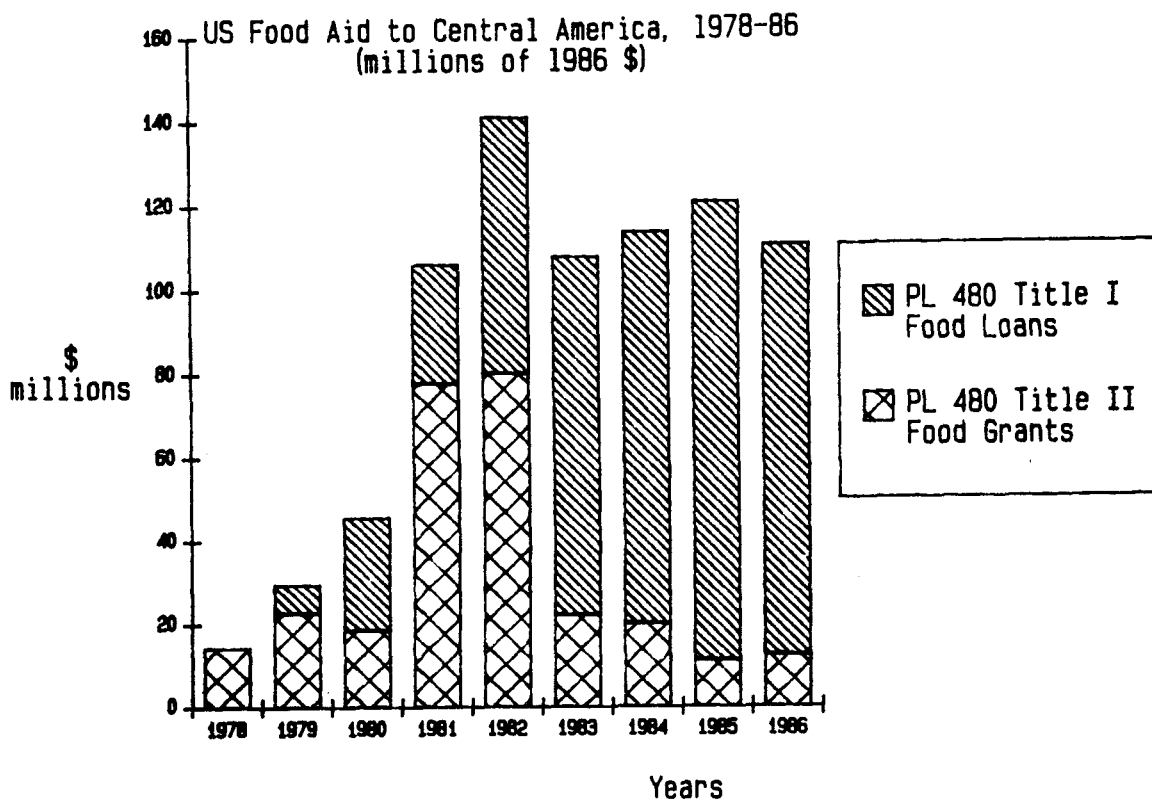
macroeconomic policies. These conditions are aimed at reducing subsidies, at aligning domestic and international prices, and thus at helping make the recipient's economy more efficient and productive. The capacity of the United States to secure the recipient's cooperation with these terms depends on the political situation. In some countries, such as Costa Rica, the United States has been relatively successful in using its aid to promote reform. In other countries, where the security and political situation is more precarious and more central to U.S. policy, its economic leverage has been less successful. In Honduras, the United States held up its ESF while seeking unsuccessfully to get official action on some proposed economic reforms. The reforms were not undertaken and AID eventually released the money and continued funding a major Honduran program. In Panama, a similar situation of limited progress in economic reform prevailed. In this case, however, AID disbursed the promised fiscal 1985 money, but it drastically reduced Panama's access to ESF support the following year. ^{13/}

Food Aid

As Figure 18 (next page) indicates, the amount of U.S. food aid for Central America has gone up substantially in the past eight years. In 1978, there was only a small amount of food transfers to the region. By fiscal 1986, over \$110 million was being allocated for this purpose. The composition of that aid has changed markedly, however, during the period. Between fiscal years 1978 and 1982, P.L. 480 Title II food grants accounted for the largest portion of this aid. Subsequently, the amount of grants declined and

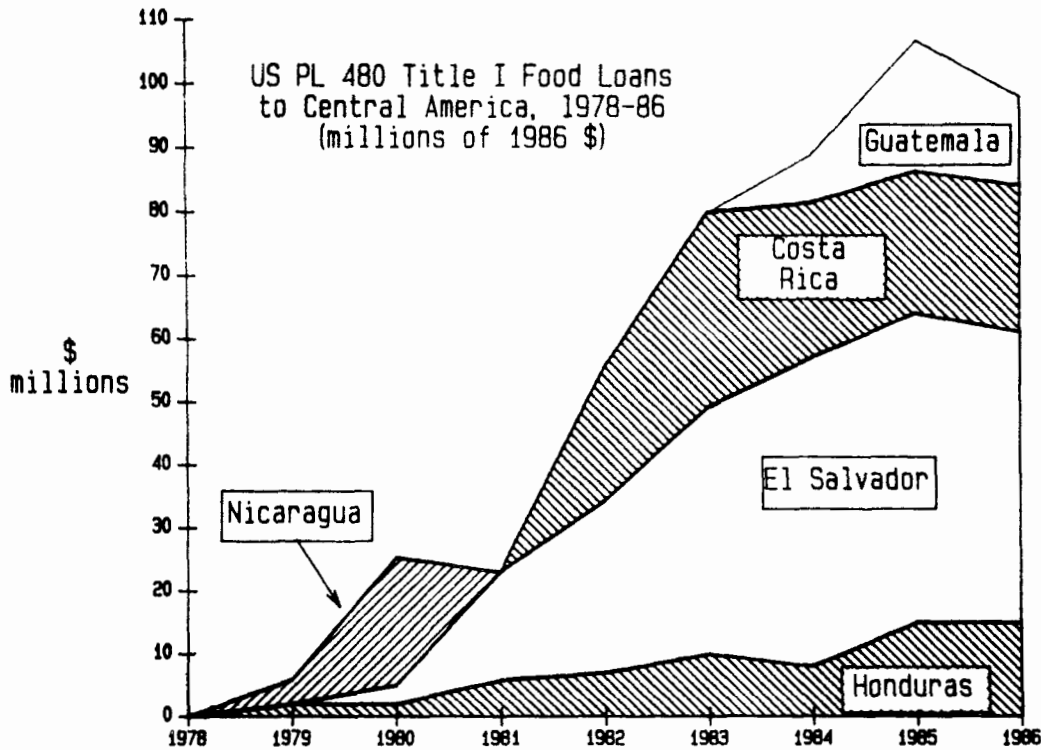
^{13/} See, for example, U.S. General Accounting Office. Providing Effective Economic Assistance to El Salvador and Honduras: A Formidable Task. Report GAO/NSIAD-85-82, July 3, 1985.

Figure 18



P.L. 480 Title I food loans now constitute the bulk of this activity. Though a significant share of its resources now go to help refugees and war-displaced persons, the overall food grants program in Central America is now about the same size (in real terms) as in 1978.

This changeover from grants to loans in the P.L. 480 program represents more than a simple switch in the terms upon which the aid was provided. The food grant and food loan programs are very different. The food grant program targets aid primarily through private voluntary organizations to help needy people with nutrition and supplementary feeding programs. The food loan loans to finance commercial purchases of food. This food is distributed

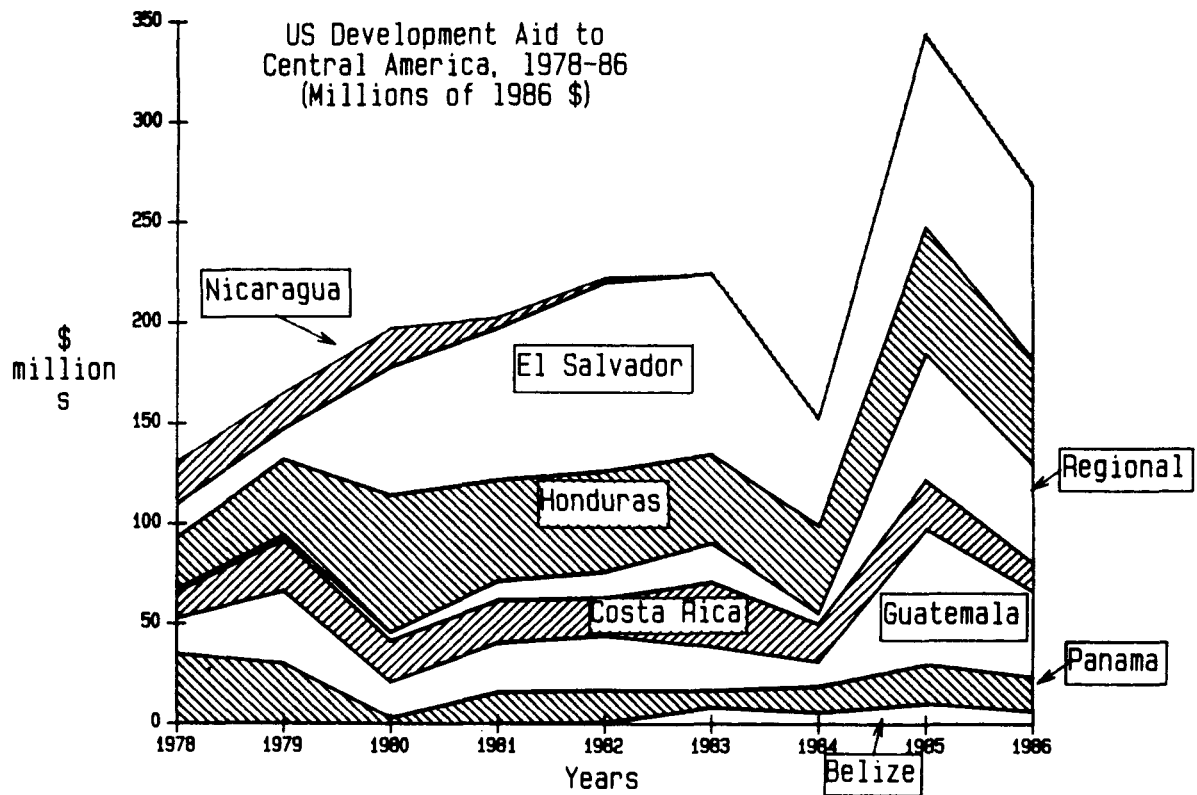
Figure 19

through regular commercial channels at market rates. The move from grant to loan aid in this area means that, to a substantial degree, U.S. food aid in Central America is being distributed through the marketplace to those who have the money to purchase it rather than through grant aid to needy individuals. The P.L. 480 food loan program now finances virtually all of Honduras and El Salvador's wheat imports, as well as three-quarters of Costa Rica's and half of Guatemala's.

Like the ESF, the food loan program operates basically as a supplemental balance of payments support program. As Figure 19 indicates, the recipients of this aid are countries of high significance to current U.S. policy in the

region. The self-help conditions for P.L. 480 food loans have been tightened appreciably. Earlier, the agreements for this aid dealt mainly with the need for more storage facilities and the use of local currencies for development activities and basic human needs. Since 1981, the conditions for food loans have been synchronized with those for ESF aid. They generally urge the borrower to rely more on market mechanisms, strengthen its agricultural institutions, eliminate subsidies, and assure farmers adequate incentives for production.

Figure 20



Development Aid

As Figure 20 (previous page) shows, there has been a good deal of continuity since 1978 in the country allocation pattern for U.S. development aid in Central America. Costa Rica, Panama, Belize, and Honduras received about the same amounts throughout the period, though their actual share of total U.S. development aid fluctuates due to changes in the overall annual size of the program. El Salvador experienced a notable increase in its volume of U.S. development aid during much of the period. Aid to Nicaragua terminated in fiscal 1982, and Guatemala and the regional program saw major increases in their aid levels begin in fiscal 1985.

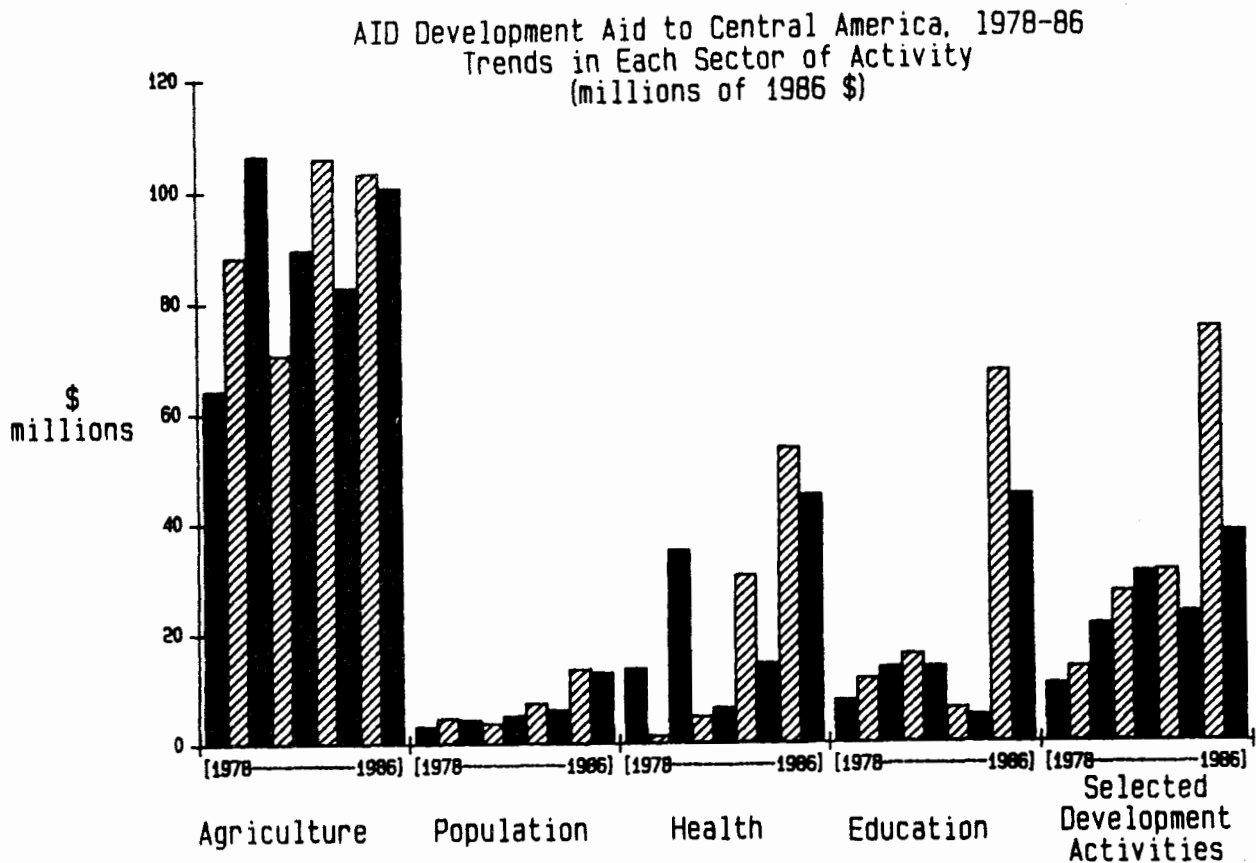
As Figure 21 (next page) indicates, however, there have been shifts, since 1978, in the allocation patterns for AID development aid in its five sectors of activity. ^{14/} The amounts committed in the agriculture ^{15/} sector have fluctuated widely from year to year, for example, but the trend has shown gradual increases. More dramatic were the large increases evident in three other sectors--health, education ^{16/}, and Selected Development Activities (SDA). The amounts obligated in the education sector were quite small--even declining--during much of the period, for instance, before jumping dramatically in fiscal 1985 and 1986. To some extent, the increases reflect the emphasis which the Kissinger Commission placed on the need for more basic education and health aid. The rise in the SDA category reflects the growing emphasis which AID has put, in recent years, on programs promoting export credit and private sector growth.

^{14/} In effect, there are six separate graphs presented here. Each group of columns shows AID's obligations in a particular sector during specific years.

^{15/} Agriculture, Nutrition, and Rural Development

^{16/} Education and Human Resources Development

Figure 21



The changes within individual sectors perhaps have been as important as the shifts in emphasis among sectors. Before 1981, most of the activity in the agriculture sector focused on basic human needs, rural development, and targeted assistance to the needy. Since 1981, an increasing portion has been allocated for programs supporting commercial agriculture, export finance, and other related activities. Before 1981, the SDA sector engaged mainly in programs such as the development of alternative energy supply systems or the financing of municipal improvements. Since 1981, the SDA sector has focused more on projects designed to help make private firms more productive, to supply credit and needed resources, and to support export growth.

Another shift in the operational focus for U.S. aid has been the expanded emphasis on humanitarian relief and disaster assistance. AID has allocated increased amounts in recent years for programs to help maintain employment and basic services in the face of the region's war disruptions. AID budgeted \$60 million through its regular aid accounts in fiscal years 1985 and 1986, for example, to help feed, relocate, and employ displaced persons. Other programs have also allocated more money to help displaced persons. AID's Office of U.S. Foreign Disaster Assistance (OFDA), for example, has spent \$50 million in Central America since 1978, all but \$2 million of it going to counter the effects of political or war-related disasters (some of these funds were drawn from OFDA budgets, some from P.L. 480 and other accounts). Some 68 percent of this was spent in El Salvador. Congress has authorized AID to conduct ongoing relief efforts to help displaced persons in that country. ^{17/} The P.L. 480 Title II food grant program has also put increased emphasis on aid to refugees and displaced persons. In 1978, relief activities accounted for less than 1/10th of 1 percent of the food grant program's budget, whereas, relief accounted for one-third of its operations by 1984.

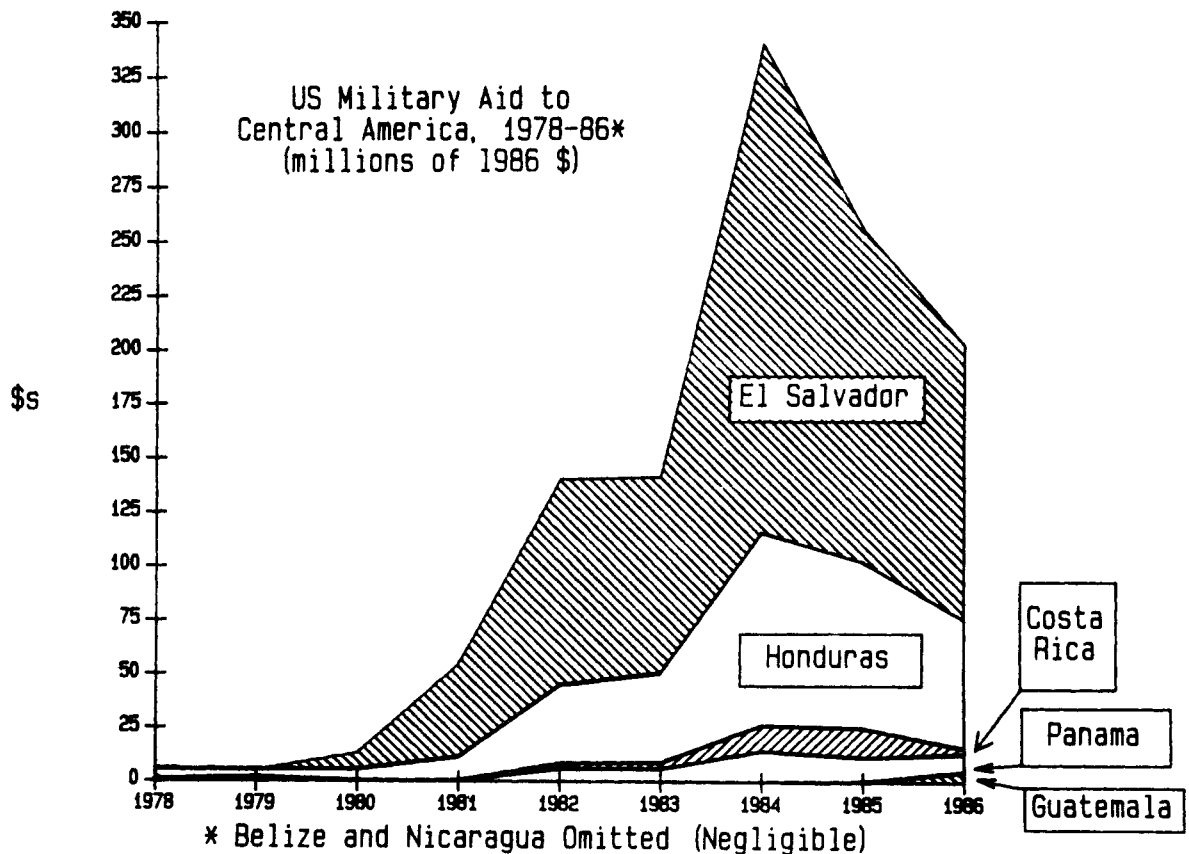
Military Aid

Direct military aid activities

The U.S. military aid program in Central America has three components. The Military Assistance Program (MAP) provides equipment and training on a grant basis. The Foreign Military Sales (FMS) credit program finances similar transfers on a commercial-rate, and, in some cases, concessional, loan basis.

^{17/} See section 495(I) of the Foreign Assistance Act of 1961, as amended.

Figure 22



The International Military Education and Training (IMET) provides training for individuals, to upgrade their military skills. Figure 22 shows the pattern of U.S. military aid to the Central American countries in recent years. As it indicates, the buildup started first with El Salvador in 1979. Subsequently, after 1981, Honduras also became a major recipient of U.S. military aid. Panama and Costa Rica have been much smaller, though consistent, recipients of military aid during the period. The Administration has also frequently recommended that there be some military aid to Guatemala, but until fiscal 1986, it was denied by Congress. (Some IMET was appropriated in fiscal 1985, but this involved professional training rather than transfers of goods or equipment.)

Figure 23



As Figure 23 indicates, MAP grant aid has become the major channel for U.S. military assistance in Central America in recent years. From 1978 to 1983, a substantial share of the growing amounts of U.S. military aid in the region was financed with FMS loans. The Central American countries proved to be too poor to afford much of this market-rate aid, however, and--as the situation seemed to require larger infusions of more military aid--the Administration moved instead to finance the buildup mainly on a grant basis through MAP aid.

The main thrust of the military aid program was somewhat different in each of the three periods. During the early period, 1978-80, U.S. military

aid focused on providing basic equipment (motor vehicles, communications equipment, etc.) for a general strengthening and professionalization of the Central American militaries. During the middle period, 1981-84, these activities continued but a new layer of activity was added which focused on "consumables"--ammunition, small arms, unit training, field equipment--and the provision of items needed to support active military combat. At the same time, IMET began putting more emphasis on training for tactical and counter-insurgency skills and less on professionalization and general military skills. During the most recent period, 1985-86, the amounts of aid for basic equipment and consumables have continued growing. In addition, however, the United States has also begun providing more advanced weapon systems--helicopters and aerial gunships, for example--to help El Salvador further expand its military capacity.

Related military activities

In addition to its regular military aid programs, the United States has also maintained an active presence in Central America in recent years through its military exercise programs. These exercises have considerably expanded the U.S. impact on regional security affairs.

Since 1981, the United States has held a series of joint exercises in Central America in coordination with the local military forces. Several thousand U.S. troops have been stationed temporarily in Honduras since 1983, while a substantial number have also been located there on a more-or-less continuing basis.

In addition to their possible role in promoting U.S. defense readiness, the exercises have often been oriented in ways that reflect U.S. regional policy concerns. For example, the United States furthered its efforts toward

regional cooperation by encouraging the El Salvador and Honduras militaries to work together to improve their mutual capabilities. The exercises have also focused on building up the Central American's capacity for dealing with the current conflicts by stressing anti-insurgency techniques. In some cases, the exercises also seemed aimed at sending signals to Nicaragua in connection with the broader foreign policy situation.

The exercises have led to a number of expenditures through Defense Department accounts which are very similar to expenditures financed through the regular military assistance accounts. These include major improvements in airfields, access roads, base facilities, and communications centers--all of which significantly enhance Honduras' military capacity. (The United States has also spent \$21 million, appropriated through the military construction budget, for additional major improvements at two Honduran airfields.) Substantial numbers of Honduran and some Salvadoran military units were also trained in skills similar to those emphasized in the MAP financed training programs. Panamanian and Guatemalan troops were also reportedly invited to participate in at least one exercise, but they declined.

Military aid may not have been the primary objective of the joint exercise program. Nevertheless, in many instances, Honduras and the other participating Central American countries received clear and tangible benefits which might arguably be tabulated as supplemental forms of military aid. There have also been allegations that the anti-Sandinista contras have made use of some facilities in Honduras built with exercise funds. It is difficult to put a dollar figure, however, on the aid-equivalent portion of the exercise program. Officials at the General Accounting Office report that they have carried out a sustained correspondence with the Defense Department regarding the exercises in order to determine whether expenditures were being charged against the

correct accounts. The GAO reportedly has been concerned that some expenditures financed through the exercise budget should be debited against other accounts. No figures are available, however, at this time. The figures for military aid used in this report have not been adjusted to reflect U.S. Defense Department activities in the region. It should be noted, however, that--like the regular military aid program--exercises have had a major impact on the security situation in Honduras and the adjacent region.

VII. ADDITIONAL AID INITIATIVES IN CALENDAR YEAR 1986

This paper covers U.S. foreign assistance programs through fiscal 1986, based on the appropriations passed by Congress in December 1985. It does not include any supplemental appropriations which may be enacted to finance additional foreign aid activities in Central America, nor does it discuss the Administration's fiscal 1987 budget request. It also does not address the Administration's \$100 million request for aid to the anti-Sandinista contras. Though not technically foreign aid, this has a direct bearing on U.S. foreign policy and U.S. programs in the region. It also does not discuss the Administration's recent request for a \$4.84 million increase in the fiscal 1986 anti-terrorism assistance program. Most of those funds will be apparently used in Central America for police training and other relevant activities. The fiscal 1986 increase would be the first phase of a proposed five-year program.

In addition to these, a number of aid issues remain unresolved at the present time. The foreign aid authorization adopted by Congress in 1985 authorized the United States to join the proposed new Central American Development Organization. The negotiations to establish the CADO have not been completed and it is unclear at present what the regional agency will look like. Many of the U.S. economic aid initiatives in the region have been predicated

on the regional countries undertaking major programs of economic reform and policy change. The extent to which the recipients will make these changes is a major factor affecting the success of the U.S. aid effort, but the dimensions of the Central American countries' responses to the U.S. suggestions are not known at the time of this writing. The status of the military conflict in El Salvador and the prevailing tensions between Nicaragua and its neighboring states may also be an important development in 1986. These all may be considerations which affect congressional deliberation when Congress comes to consider proposed supplementals for fiscal 1986 and the regular fiscal 1987 appropriation legislation. In addition, the Gramm-Rudman-Hollings deficit reduction legislation may lead to significant cuts in U.S. foreign aid appropriations and, therefore, cuts in the quantities of aid available for Central America.

APPENDIX I.

U.S. Aid to Central America, 1978-86 in Current Dollars

	1978	1979	1980	1981	1982	1983	1984	1985	1986	TOTALS
BELIZE										
Disaster	---	---	---	---	.025	---	---	---	---	.025
Devel. Asst.	---	---	---	---	---	6,690	3,875	7,650	6,550	24,765
E.S.F.	---	---	---	---	---	10,000	---	14,000	1,914	25,914
PL 480 Itl 1	---	---	---	---	---	---	---	---	---	---
PL 480 Itl 2	---	---	---	---	---	---	---	---	---	---
Peace Corps	---	---	---	---	---	---	---	---	---	---
I.M.E.I.	---	---	---	---	.624	.871	1,492	2,480	---	5,467
M.A.F.	---	---	---	---	.026	.075	.049	.100	.072	.322
F.M.S.	---	---	---	---	---	---	.500	.500	.479	1,479
Total	---	---	---	---	.675	17,636	5,916	24,730	9,015	57,972
COSTA RICA										
Disaster	---	---	---	.014	---	.080	.025	---	---	.119
Devel. Asst.	6,148	15,686	13,561	11,475	11,540	27,155	15,400	20,526	10,900	132,391
E.S.F.	---	---	---	---	20,000	157,000	130,000	160,000	120,582	587,582
PL 480 Itl 1	---	---	---	---	18,000	27,500	22,500	21,400	23,000	112,400
PL 480 Itl 2	.699	.020	.074	3,835	3,430	.184	---	---	---	---
Peace Corps	1,317	1,464	1,461	1,746	1,007	1,256	1,826	2,892	3,064	8,242
I.M.E.I.	---	---	---	.035	.058	.125	.133	.231	.191	16,033
M.A.F.	---	---	---	---	---	---	---	---	---	.773
F.M.S.	---	---	---	---	2,000	2,500	11,000	13,000	2,393	30,893
Total	8,164	17,170	15,096	17,105	56,035	215,800	180,884	218,049	160,130	888,433
EL SALVADOR										
Disaster	---	---	.399	5,149	13,484	13,073	2,249	---	---	34,364
Devel. Asst.	7,527	6,045	43,155	32,792	36,199	58,785	41,300	87,755	81,098	394,656
E.S.F.	---	---	9,100	44,900	115,000	140,000	120,234	285,000	177,045	891,279
PL 480 Itl 1	---	---	3,000	17,200	27,200	39,000	49,000	49,000	46,000	230,400
PL 480 Itl 2	1,584	2,573	3,269	22,635	30,200	7,738	5,563	3,071	4,750	81,383
Peace Corps	1,389	1,561	---	---	---	---	---	---	---	2,950
I.M.E.I.	---	---	.247	.492	2,002	1,300	1,300	1,500	1,435	8,276
M.A.F.	.025	.005	.008	25,003	63,500	33,500	186,750	134,750	125,367	568,908
F.M.S.	---	---	5,700	10,000	16,500	46,500	18,500	10,000	---	107,200
Total	10,525	10,184	64,878	158,171	304,085	339,896	424,896	571,076	435,695	2,319,406

APPENDIX II.

U.S. Aid to Central America, 1978-86 in Constant 1986 Dollars

	1978	1979	1980	1981	1982	1983	1984	1985	1986	TOTAL
RELIZE										
Disaster	---	---	---	---	.029	---	---	---	---	.029
Devel. Asst.	---	---	---	---	---	7.442	4.146	7.904	6.550	26.042
E.S.F.	---	---	---	---	---	11.124	---	14.464	1.914	27.502
PL 480 Itl 1	---	---	---	---	---	---	---	---	---	---
PL 480 Itl 2	---	---	---	---	---	---	---	---	---	---
Peace Corps	---	---	---	---	.724	.969	1.596	2.562	---	5.851
I.M.E.I.	---	---	---	---	.030	.083	.052	.103	.072	.341
M.A.P.	---	---	---	---	---	---	.535	.517	.479	1.531
F.M.S.	---	---	---	---	---	---	---	---	---	---
Total	---	---	---	---	.783	19.619	6.330	25.550	9.015	61.296
COSTA RICA										
Disaster	---	---	---	.017	---	.089	.027	---	---	.133
Devel. Asst.	9.941	23.352	18.559	14.275	13.383	30.208	16.478	21.206	10.900	158.303
E.S.F.	---	---	---	---	23.194	174.650	139.104	165.302	120.582	622.833
PL 480 Itl 1	---	---	---	---	20.875	30.592	24.076	22.109	23.000	120.651
PL 480 Itl 2	1.130	.030	.101	4.771	3.978	.205	---	---	---	10.215
Peace Corps	2.130	2.179	1.999	2.172	1.168	1.397	1.954	2.988	3.064	19.051
I.M.E.I.	---	---	---	.044	.067	.139	.142	.239	.191	.822
M.A.P.	---	---	---	---	2.319	2.781	11.770	13.431	2.393	32.695
F.M.S.	---	---	---	---	---	---	---	---	---	---
Total	13.201	25.561	20.659	21.279	64.984	240.061	193.552	275.275	160.130	964.702
EL SALVADOR										
Disaster	---	---	.546	6.406	15.637	14.543	2.407	---	---	39.538
Devel. Asst.	12.171	8.999	59.059	40.795	41.980	65.394	44.192	90.663	81.098	444.352
E.S.F.	---	---	12.454	55.858	133.366	155.739	128.654	294.445	177.045	957.560
PL 480 Itl 1	---	---	4.106	21.398	31.544	43.384	52.432	50.624	46.000	249.487
PL 480 Itl 2	2.561	3.830	4.474	28.159	35.023	8.608	5.953	3.173	4.750	96.531
Peace Corps	2.246	2.324	---	---	---	---	---	---	---	4.570
I.M.E.I.	---	---	.338	.612	2.322	1.446	1.391	1.550	1.435	9.094
M.A.P.	.040	.007	.011	31.105	73.641	37.266	199.828	139.216	125.367	606.482
F.M.S.	---	---	7.801	12.440	19.135	51.728	19.796	10.331	---	121.231
Total	17.019	15.161	88.788	196.772	352.647	378.108	454.652	590.002	435.695	2,528.844

APPENDIX III: PURPOSES AND TERMS OF
THE MAIN U.S. FOREIGN AID PROGRAMS, A GLOSSARY

Development Aid (DA)

The Agency for International Development (AID) finances development activities in five functional areas: agriculture, rural development and nutrition; population planning; health, education and human resources development; and selected development activities. The "pipeline" on DA projects--the time between commitment and the expenditure of funds--can be rather long. The funds may be disbursed (expended) several years after they are obligated (committed), depending on the kind of project and the time AID needs for implementing it. The aid can be either a grant or a loan. For Central America, it is mostly loans. The terms of DA loans are concessional --2 percent during the grace period (usually 10 years) and 3 percent during the amortization period (usually 10-30 years). The amortization period will vary, depending on the type of loan and the condition of the borrower country.

Economic Support Fund (ESF)

Administered by AID under the policy direction of the State Department, the ESF is designed to provide quick-disbursing assistance to countries of high foreign policy significance to the United States. ESF assistance helps bolster the recipient country's balance of payments, though it can be designed to have some developmental effects as well. This is mainly a loan program in Central America, though there are some ESF grants. The terms of ESF loans are concessional--2 percent during the grace period (usually 10 years) and 3 percent during the amortization period (usually 15-30 years). In practice, the U.S. Government establishes a line of credit with the Federal Reserve Bank of New York for the recipient country to use in financing eligible imports from the United States. The purchasers of the imported goods pay their government with local currency for the goods as they are sold. The recipient country government generally pledges to use some or all of this local currency for specific programs within the country.

Peace Corps

The program finances the salaries and operating costs of Peace Corps volunteers stationed in the host countries. Volunteers usually work with local

government agencies to deliver services to individuals in areas of need (such as health, nutrition, education, or rural community activities) identified jointly by the U.S. and host country governments.

Food Loans (Subsidized Food Sales)

Under the P.L. 480 Title I program, the United States Government finances exports of food and other agricultural products to foreign countries. The loans carry concessional terms--2 percent during the grace period (usually 10 years) and 3 percent or so during the amortization period (usually 30 years.) The food is sold in the recipient country through the regular commercial channels. To the extent the country would have had to finance these food imports, using its own funds, the Title I loan serves as straight balance of payments support. The sale of the imported food generates a local currency income for the recipient country government. The recipients usually sign an agreement promising to use those local currency proceeds to cover its share of the costs in specific development programs. Under authority of Title III of P.L. 480, the U.S. Government can forgive the repayment of the original dollar loan if the borrower signs a long-term commitment (4-5 years) pledging to use its local currency proceeds for new agricultural development projects.

Food Grants (Humanitarian Food Aid)

The P.L. 480 Title II program supplies food on a grant basis for humanitarian feeding programs administered by private voluntary organizations. The main PVOs in Central America have been Catholic Relief Services, CARE, and Caritas. The bulk of the effort goes for maternal and child health, school feeding, and food-for-work programs, although in some countries the PVOs also have significant feeding programs to help displaced persons or victims of war or disaster.

International Military Education and Training Program

The International Military Education and Training Program (IMET) provides grants to finance training in professional, management, and technical skills for military personnel from developing countries. Over the years, it has been designed mainly to enhance the participants' professionalism and to build positive links between the U.S. military and these future military leaders. More recently, especially in Central America, the IMET program has also provided training in tactical and combat skills.

Military Assistance Program (MAP)

The MAP grant program pays for purchases of basic military equipment-- weapons and ammunition, vehicles, communications equipment, aircraft, field equipment, and the like--to strengthen the military forces in developing countries. To a more limited extent, it can also pay for combat and operational training for units of the recipient country's armed forces.

Foreign Military Sales Credit Program (FMS)

This loan program finances, at near-market and concessional rates, the same types of military purchases which are available through the MAP program. The FMS program is administered by the Defense Security Assistance Agency, a unit of the Department of Defense, with the State Department having joint responsibility on policy questions. Between 20 and 30 percent of FMS aid is provided at market rates, with the U.S. Government lending money to the foreign country (at rates roughly equivalent to the rates the Treasury pays to borrow the funds) for purchase of U.S. military equipment. Ten to fifteen percent of FMS aid is provided at concessional rates (five percent), well below the Treasury's cost for the funds. Aid to Egypt and Israel accounts for approximately half to two-thirds of the total FMS aid. This assistance is provided on essentially grant terms, as the repayment of the FMS loans is forgiven at the time the loan is made. By providing assistance in this manner, the United States and the recipient country avoid some of the administrative requirements which would be entailed if the grant assistance were channeled instead through the MAP program. Most Central American countries received their FMS aid at concessional rates.