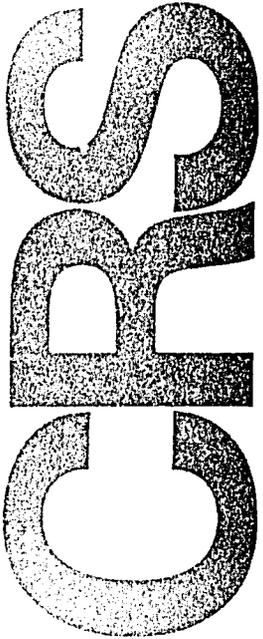


U.S. FOREIGN ASSISTANCE TO CENTRAL AMERICA

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## ABSTRACT

The volume of U.S. foreign assistance to Central America has increased almost nine-fold in real terms since 1978. This paper identifies some of the major changes in the focus, amounts, and types of U.S. aid over the period. It also presents a number of charts showing the recipient countries for each of the 8 U.S. aid programs and the patterns of aid provided to each of the five recipient countries.

## CONTENTS

ABSTRACT.....	111
BACKGROUND.....	1
MAJOR FINDINGS.....	3
SIZE OF THE PROGRAM.....	5
RECIPIENTS OF U.S. AID.....	5
TYPES OF U.S. AID.....	7
USES OF U.S. AID.....	7
Economic Support Fund.....	8
Development Programs.....	9
Food aid.....	15
Military aid.....	18
Country differences.....	21

### TABLES:

1. Central America: Key Indicators.....	4
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### FIGURES:

1. U.S. Foreign Aid to Central America, 1978-84: changes in size and recipient country shares.....	5
2. U.S. Foreign Aid to Central America, 1978-84: changes in size and composition.....	7
3. Changes in Size and Allocations for Economic Support Fund Aid to Central America, 1978-83.....	8
4. Changes in Size and Allocation of U.S. Development Programs in Central American, 1978-83.....	11
5. Changes in the Size and Composition of U.S. P.L. 480 Food Aid to Central America, 1978-83.....	16
6. Changes in Size and Composition of U.S. Military Aid Programs in Central America, 1978-83.....	19
7. U.S. Foreign Aid to Central American Countries, 1978-84: changes in size and program composition.....	22

### APPENDICES:

I. Total U.S. Aid to Central America, Fiscal Years 1978-84.....	25
II. Purposes and Terms of the Main U.S. Foreign Aid Program, A Glossary.....	28

## U.S. FOREIGN ASSISTANCE TO CENTRAL AMERICA

### BACKGROUND

On February 3, 1984, the administration announced plans to request \$659 million in supplemental appropriations for fiscal 1984 and \$1,376 million in appropriations for fiscal 1985 to fund U.S. economic and military aid in Central America. The request was based, in large part, on the findings of the National Bipartisan Commission on Central America, chaired by Henry Kissinger, which was released the previous month. The Kissinger Commission recommended, among other things, the allocation of \$8 billion in U.S. economic aid for Central America (over 5 years) and a large -- though unspecified -- increase in military aid as well.

This paper provides background data on the evolution of U.S. aid to the region during the past five years as a prologue to any future assessment of what the U.S. aid package for the region should be. Through charts and text, it compares the U.S. aid programs in Central America for fiscal years 1978 and 1983 in order to highlight a number of major changes that have occurred in U.S. aid policy during this period. It also contains charts showing how the administration has allocated the fiscal 1984 aid funds which Congress approved in late 1983. This information may be useful for any review of the administration's pending appropriation requests.

Central America has been an area of substantial concern to the United States in recent years. The six 1/ countries of the region (Belize, Guatemala,

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1/ For purposes of this paper, Panama is not counted as one of the Central American countries. It is not a member of the Central American common market and some other regional organizations. The U.S. regional aid program (ROCAP)

Honduras, El Salvador, Nicaragua, and Costa Rica) have been suffering severe economic strains. El Salvador and -- to a lesser degree -- Guatemala have experienced internal war, as insurgent movements have challenged their central governments. Nicaragua has undergone civil war and revolution, as a Marxist-led junta has overthrown a dictatorship that had been in power for many years. In Honduras, economic stress has been aggravated by intensification of antagonism in its relations with Nicaragua. These events have all had a significant impact on the domestic and international situations of the nations of Central America. The growing volume of U.S. economic and military aid to the region in the last five years, and shifts of emphasis in the U.S. aid programs, reflect mounting U.S. concern over developments in Central America.

The appropriate goals and means for U.S. foreign aid in Central America have been the focus of much debate in Congress and elsewhere. Among other things, observers disagree about the relative emphasis that should be put on military or security aid relative to on development aid. They also disagree about the overall volume of U.S. aid and the pattern of aid allocation within the region. This paper discusses the U.S. economic and military aid programs in Central America during the past six years. It identifies some of the major changes in the volume and direction of this aid, and it discusses some of the changes in priorities that have occurred.

The year 1978 was chosen as a base period for many of the comparisons in this paper because 1979 was a major turning point in Central American affairs. The second oil price shock doubled international petroleum prices that year -- for the second time in half a decade -- and gravely injured the weak economies of the Central American countries. All have since had major balance of payments

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does not serve Panama, and the rationale for U.S. aid there is somewhat different (major military bases and the canal) than elsewhere in the region.

problems. Costa Rica, El Salvador, and Honduras have had to go to the International Monetary Fund (IMF) for help, and they have agreed to adopt tough domestic austerity programs in connection with their IMF stabilization loans. In Nicaragua, 1979 was the year of the Sandinista victory. In El Salvador, it was also the year of the coup by military officers, which led to both a new effort to deal with the country's basic problems and an intensified conflict with the guerillas in the field.

There is a good deal of diversity among the countries of Central America. Though all are small countries with relatively poor populations and profound economic and developmental problems, table 1 makes clear that there are also some important differences among them. Costa Rica and Belize have made considerable economic and social progress, as shown by their figures for social indicators. Only about a third of their workforce is in agriculture and their economies are becoming more diversified. The other countries of the area suffer from serious social and health problems, as the numbers indicate, and their economies remain heavily agricultural. All the countries of the region have had very large trade deficits in recent years and several are very deeply in debt. Honduras, Costa Rica 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 military (it was abolished in 1948). Nicaragua has a rather large military (particularly if one includes the reserves and militia). Besides their regular military, some of these countries also have large security forces or other armed units. El Salvador, for example, reportedly has over 10,000 people in the Treasury Police, National Guard, and National Police. Nicaragua and Honduras spend the largest share of their national budgets on the military, while (leaving aside Costa Rica) Belize and El Salvador spend the least.

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>
<b>BASIC INDICATORS:</b>						
population (000)	150	2,300	4,700	7,500	3,800	2,800
GNP, 1981 (000)	\$160	\$2,630	\$3,550	\$8,660	\$2,380	\$2,590
GNP per capita	\$1,080	\$1,430	\$650	\$1,140	\$600	\$860
GNP growth:						
1970-81	4.8%	2.6%	1.3%	2.8%	0.5%	-2.9%
Pop growth,						
1970-81	1.3%	2.8%	2.9%	3.1%	3.4%	3.9%
<b>SOCIAL INDICATORS:</b>						
adult literacy (1980)	91%	90%	62%	NA	60%	90%
life expectancy						
at birth	NA	73	63	59	59	57
mortality rate,						
ages 0-4	NA	3.5%	8.2%	7.1%	9.5%	9.8%
pop with access						
to safe water	80%	72%	53%	39%	41%	70%
<b>ECONOMIC INDICATORS:</b>						
annual inflation,						
1970-81	8.7%	8.2%	10.8%	10.4%	9.1%	14.2%
share of labor force						
in agriculture	NA	29%	50%	55%	63%	43%
merchandise trade						
bal., 1981 (000)	\$-28,000	\$-230,000	\$-194,000	\$-493,000	\$-189,000	\$-202,000
current acc't (bop)						
bal., 1981 (000)	\$-18,500	\$-450,000	\$-86,000	\$-580,000	\$-303,000	NA
Foreign public debt						
as % of GNP, 1980	NA	7.8%	1.3%	0.6%	4.4%	7.5%
Debt service as %						
of exports:						
in 1970	NA	10.0%	3.6%	7.4%	2.8%	11.0%
in 1980	2.5%	15.3%	3.5%	3.3%	12.7%	NA
<b>MILITARY INDICATORS</b>						
Defense spending as						
% of GNP	NA	0.7%	1.6%	1.3%	2.4%	3.4%
% gov't spending	NA	2.6%	8.6%	9.9%	11.4%	11.0%
Size of military	NA	none	24,650	21,560	15,200	48,800

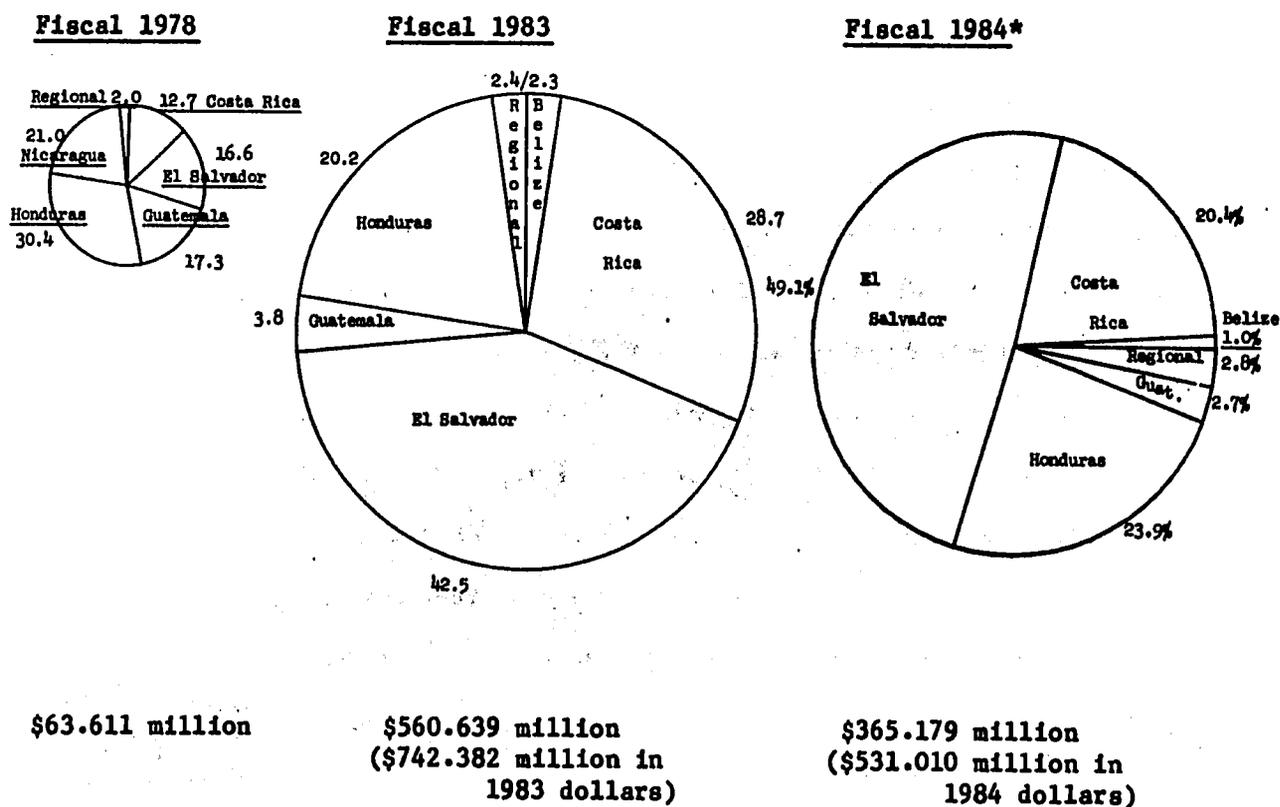
(Sources: World Bank's World Development Report, 1983 and World Atlas, 1983. Safe water data for all countries from AID's 1984 Congressional Presentation document (years vary.) Belize data from AID's CP document and World Bank sources (years vary.) Military size data from Institute for International Strategic Studies's The Military Balance, 1983-4.)

MAJOR FINDINGS

SIZE OF THE PROGRAM

U.S. assistance to Central America has increased dramatically in recent years. The volume of U.S. aid grew roughly twelve-fold between fiscal years 1978 and 1983--from \$63.6 million to \$742.4 million. Adjusting for inflation, this was almost a nine-fold increase in real terms. (See the charts on the left and center of Figure 1. The estimates for fiscal 1984, on the right, do not include the supplemental request and are presented only to provide an indication

**Figure 1. U.S. Foreign Aid to Central America, 1978-84:**  
 changes in size and recipient country shares  
 (in constant 1978 dollars)



\*Estimated by AID. Includes only the funds appropriated to date by Congress. Does not include any supplemental appropriations requests by the Administration that have not been approved yet by Congress.

of what Congress has already approved for the year. For year-by-year program-by-program aid data, see Appendix I.) In 1984, following the adoption by Congress of the fiscal 1984 aid appropriation legislation, the administration allocated \$531 million for the various U.S. programs aiding the Central American countries.

#### RECIPIENTS OF U.S. AID

The pie charts for fiscal years 1978 and 1983 in Figure 1 also show that the country allocation pattern for U.S. aid in Central America has changed substantially in recent years. The share for El Salvador nearly tripled, while the share for Costa Rica more than doubled. The proportions for Honduras and Guatemala both declined while the big program for Nicaragua was eliminated. The use of the funds appropriated in 1983 for fiscal 1984 show a continuing emphasis on El Salvador, Honduras, and Costa Rica.

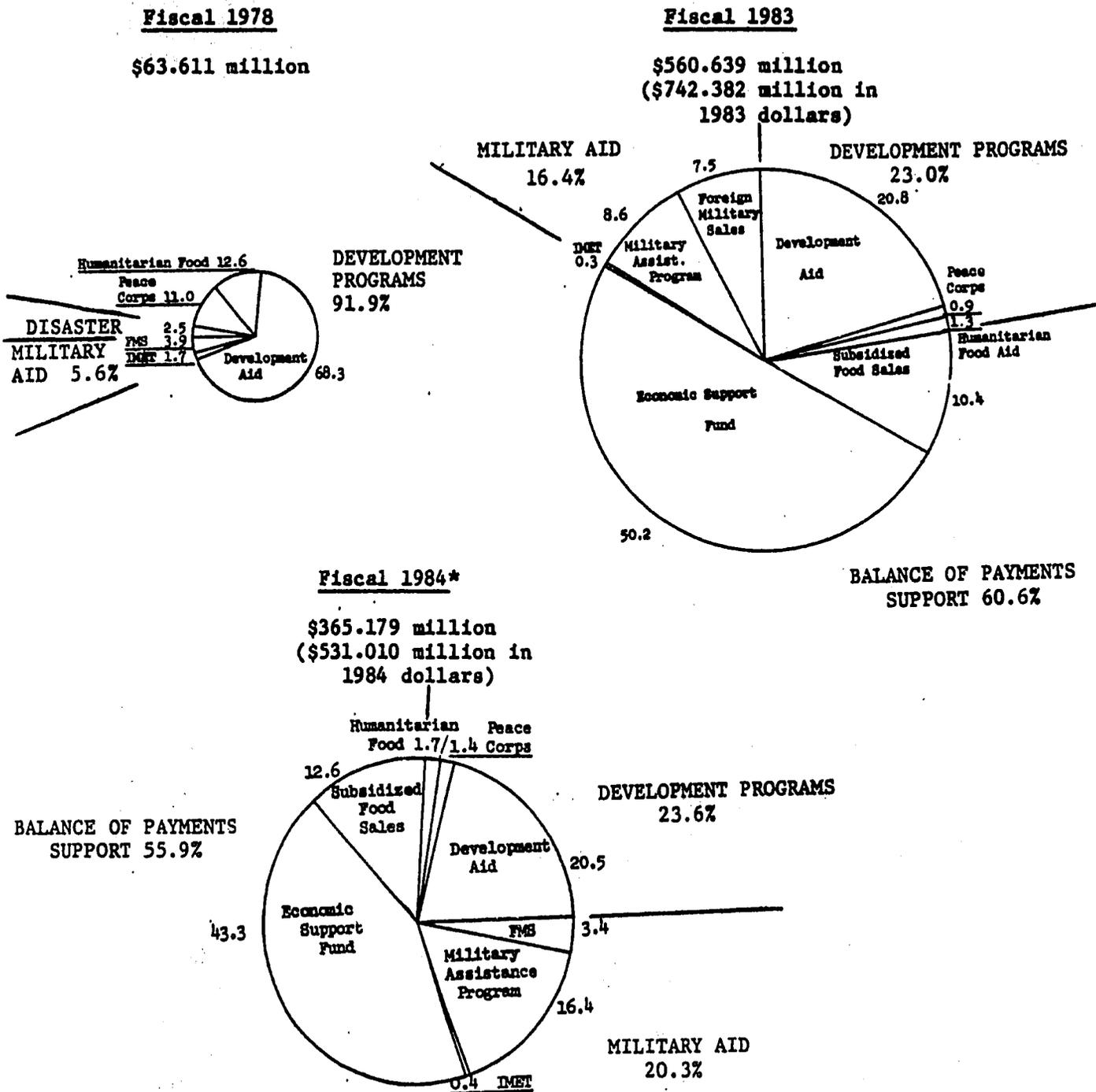
#### TYPES OF U.S. AID

The structure of the U.S. aid program in Central America has also changed dramatically over the last five years, as Figure 2 illustrates. In fiscal 1978, development programs (AID development aid, Peace Corps, and Title II food aid) accounted for 92 percent of all U.S. assistance to Central America. In fiscal 1983, development programs accounted for only about 23 percent of U.S. aid to the region, while balance of payments aid (Economic Support Fund and subsidized food sales) grew from zero to 61 percent of the total. Military aid also expanded from less than 6 percent to over 16 percent of the U.S. aid effort during the same period. (See Appendix II on page 28 for a description of the types and terms of aid provided by the major U.S. foreign assistance programs.)

#### USES OF U.S. AID

Perhaps as important as the shifting distribution of U.S. aid among the various programs are the changes in the way the funds are used within the individual programs.

**Figure 2. U.S. Foreign Aid to Central America, 1978-84:**  
 changes in size and program composition  
 (in constant 1978 dollars)



\*Estimated by AID. Includes only the funds appropriated to date by Congress. Does not include any supplemental appropriations requested by the Administration but not yet approved by Congress.

### Economic Support Fund

The Economic Support Fund is one of the two main balance of payments support programs funded through U.S. foreign aid. The other, P.L. 480 subsidized food sales, is discussed in the food aid section below.

The Economic Support Fund has rapidly become a major instrument of U.S. policy in Central America. Though no ESF aid was provided to the region in fiscal 1978, by fiscal 1983 ESF aid accounted for half the expanded U.S. aid program in the region. As Figure 3 illustrates, Costa Rica and El Salvador are the main recipients (42 and 38 percent respectively) while Honduras ranks third with 15 percent. (Guatemala and Belize also got slightly less than 3 percent.) This ESF aid constitutes a major element of the total U.S. assistance program for each country -- 44 percent of the total for El Salvador, 73 percent of the total for Costa Rica, and 40 percent of the total for Honduras.

For the most part, the new influx of ESF money is being used in Central America not just as balance of payments support but also as a stimulus to the private sector. The program provides dollars to finance imports of necessary raw materials and intermediate goods for the private sector, so that foreign exchange shortages will not hamper production in key (mainly export) industries in these countries. In most cases, the local currency proceeds 2/ are used to help the private sector -- mostly loans for working capital and credit to

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2/ The recipient country government receives a line of credit in dollars from the U.S. aid programs which may be used to purchase specific goods from the United States. The local government then makes these dollar credits available to the local importers of those goods in exchange for an equivalent payment denominated in local currency (pesos, colones, etc.). The recipient country must repay the United States in dollars for the aid, but this is phased over a long period at low interest rates. In the meantime, the local government has the use of the local currency proceeds from the aid to augment its finances. 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.

**Figure 3. Changes in Size and Allocation of Economic Support Fund Aid to Central America**  
(Note: size of circle is not proportional to program size.)

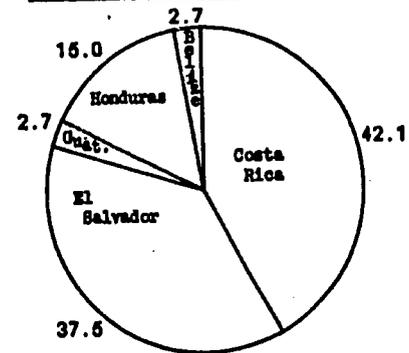
Country Allocations  
fiscal 1978

no Central  
American  
program

fiscal 1978:  
nothing

fiscal 1983:  
\$373.000 million  
fiscal 1983 (in 1978 \$):  
\$267.575 million

Country Allocations  
fiscal 1983



facilitate business activity during the current credit crunch -- although in El Salvador and Guatemala some of the money is also used to finance agricultural reform or development-type activities. <sup>3/</sup>

The Reagan administration and many analysts contend that this effort to promote growth through aid to the private sector is essentially a development program, which benefits all the citizens of the recipient countries. Many other experts disagree. They argue that the ESF in Central America is basically a security/military program undertaken to prop up the existing regimes and the elites who support them. The critics say that ESF aid is rarely "developmental," for it finances few of the basic human needs or aid-to-the-poor projects which have been at the heart of the U.S. development aid program for the last decade.

This debate is not easily resolved. Clearly, the ESF in Central America does not finance directly the development-type activities which are normally undertaken through the Agency for International Development's (AID) development

<sup>3/</sup> This information on ESF uses in Central America was drawn from the AID Congressional Presentation documents and the executive branch's Security Assistance Congressional Presentation documents for the relevant fiscal years.

assistance (DA) program. On the other hand, the ESF has sought to do more than just provide short-term balance-of-payments support to the recipient nations. In some cases, ESF aid has sponsored activities that were previously financed with DA funds. As far as the local currency proceeds are concerned, the picture varies from country to country. In most cases, the United States has negotiated strict agreements with the government specifying that all the local funds will be targeted for development activities. For El Salvador, on the other hand, the local currency proceeds went until recently into the recipient's national budget and the United States tried to persuade the government to expand its overall spending on development programs.

Critics argue that, because the end-use of this aid-related money cannot be ascertained, the local currency proceeds in El Salvador might well be used for military purposes. The State Department says that, starting in fiscal 1984, it plans to have the local currency placed again in a separate account, to be used for specific development purposes. The State Department contends that, during the earlier period, a more rigorous targeting process was not desirable and that, without this flexibility, El Salvador would probably have had a more difficult time meeting the budget targets it promised the IMF. In that case, the State Department says, the budget outlays for development-type activities might have been lower than those financed under the looser arrangement. 4/

#### Development Programs

The United States finances three programs in Central America which focus on on developmental concerns. The largest of these, the AID development assistance (DA) program, concentrates on projects and programs for countering the social and economic problems that inhibit development. As Figure 4 indicates, over

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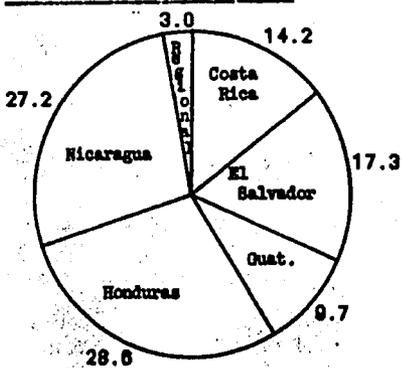
4/ Information obtained through interviews by CRS staff members with State Department personnel, October 1983 and January and February 1984.

one-third (37.9 percent) of AID's commitments in this category in 1983 were in El Salvador, but there are also major DA programs in Honduras and Costa Rica. The Peace Corps, a much smaller program, has 550 volunteers in four countries in the region (almost half of them in Honduras) working with local government agencies in areas such as rural health, education, community activities, agricultural projects, and forestry. The P.L. 480 Title II grant food aid program (which is discussed later in the food section) also has a small nutrition and feeding program in the region which is essentially developmental in nature.

In its development aid program, AID has also placed new stress on programs in Central America that expand industrial and agricultural productivity and strengthen the private sector. Some critics argue that this is a violation of

**Figure 4. Changes in the Size and Allocation of U.S. Development Programs in Central America, 1978-83.**  
 (Note: size of circle is not proportional to program size. See also Figure 5 for humanitarian food aid.)

**Country Allocations  
fiscal 1978**

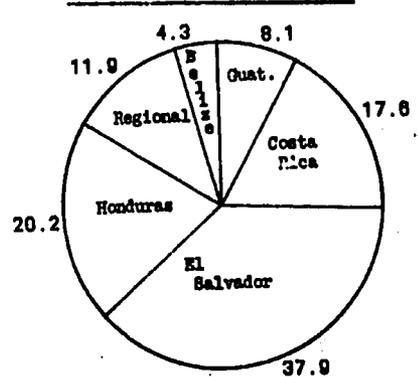


**A. AID DEVELOPMENT AID**

fiscal 1978:  
\$43.406 million

fiscal 1983:  
\$154.438 million  
fiscal 1983 (in 1978 \$):  
\$110.788 million

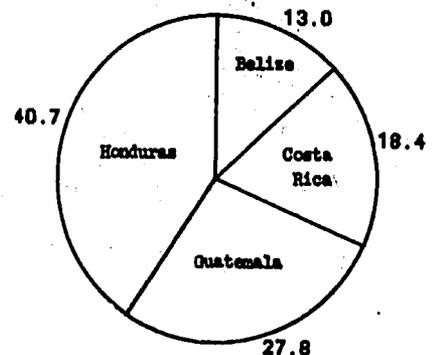
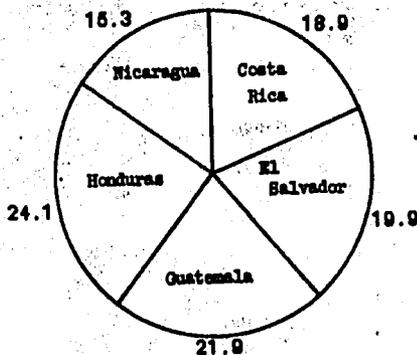
**Country Allocations  
fiscal 1983**



**B. PEACE CORPS**

fiscal 1978:  
\$6.977 million

fiscal 1983:  
\$6.840 million  
fiscal 1983 (in 1978 \$):  
\$4.907 million



AID's statutory guidelines, which specify that DA funds shall be used for basic human needs programs and activities benefiting the poorest people in the recipient nations. AID contends, though, that these programs increase production, employment, and growth, and that the rural and urban poor are still the ultimate beneficiaries of the aid.

This new emphasis has been particularly evident in AID's Selected Development Activities (SDA) account, which finances a variety of activities that do not fit in the other sector categories. In 1981, for example, the Carter administration proposed a \$3 million program under SDA to encourage worker-owned industry in Costa Rica. The Reagan administration dropped the plan and substituted instead a program of loans to make private firms more productive. In Honduras, the SDA account switched from funding municipal improvements to financing small business development and export promotion.

A similar, though smaller, change is also evident in AID's agriculture and nutrition category. In some Central American countries, AID's new agriculture projects seem to be aimed less at food production or directly helping the rural poor than at expanding the output of commercial crops and promoting agricultural exports. In Belize and Honduras, for instance, projects totalling \$25 million have been started since 1981 to help expand coffee and livestock output, both major exports. (This accounts for virtually all the U.S. assistance to Belize and 46 percent of the new agricultural aid to Honduras.) In Costa Rica, over 22 percent of AID's new starts in the agriculture sector (\$4.2 million) have been for private sector export credits or programs to increase private sector production for export. In part, this is a rapid way to expand output and employment. In part, it is also a method to generate the foreign exchange needed to help finance foreign debts and purchase needed imports. AID's regional program for Central America (ROCAP) has also switched almost completely to this new orienta-

tion. Before, it focused on things such as alternative energy and small farmer production systems. Since 1981, most of ROCAP \$21 million in new commitments in this area have been for export promotion or pest and disease management programs.

These changes notwithstanding, AID's agriculture program still seems to have retained much of its traditional small-scale or rural development emphasis in several countries. In Honduras, for example, 22 percent (\$4.2 million) of AID's new starts in the agriculture sector since 1981 have been aimed at rural housing, rural energy needs, and agricultural credit. In Guatemala, virtually all the \$22 million in agricultural aid committed in this period has gone to help poor small-scale farmers, especially the Indian population of the Western highlands. In El Salvador and Honduras, U.S. aid has sought to strengthen national land reform programs -- almost all the \$39 million in new agriculture funds for El Salvador and 29 percent of the new agricultural starts for Honduras since 1981 have been committed for this purpose. 5/

For some of these seemingly traditional programs in the agriculture sector, though, the link between AID operations and U.S. foreign policy in the recipient country seems quite strong. In Honduras and El Salvador, for example, land reform programs (and the other programs to increase services to rural poor) are part of an overall effort to increase political stability and enhance the government's support in rural areas. In Costa Rica, a new \$14 million infrastructure and agricultural settlement program in the Northern Zone seems to be designed -- many observers say -- as much to enhance the government's control (and put civilian Americans on the ground) in this sparsely-populated region on the Nic-

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5/ These AID expenditures are solely for the purpose of providing technical and support services. Sec. 620(g) of the Foreign Assistance Act of 1961, as amended, and Sec. 730 of the International Security and Development Cooperation Act of 1981 both stipulate that no U.S. aid funds may be used to compensate the previous owners of nationalized or expropriated property. This seems to preclude any use of U.S. aid funds to help purchase land for land reform programs.

araguan border as to deal with agricultural development problems.

Another trend in development assistance seems to be the increased emphasis AID is giving to agriculture and selected development activities and the lower priority it seems to be giving to health and education programs. 6/ If the AID obligations between 1978 and 1984 are divided into two periods, the following changes in its obligations are apparent:

<u>Functional Acc't</u>	<u>Fiscal 1978-81</u>	<u>Fiscal 1982-84</u>	<u>% of Growth or Decline</u>
Agriculture	60%	62%	Up 2 percentage points
Population	3%	5%	Up 2 percentage points
Health	10%	6%	Down 4 percentage points
Education	12%	5%	Down 7 percentage points
Selected Activities	15%	22%	Up 7 percentage points

Aside from Belize, where some small program development grants were made after AID began operations in the newly independent country, there has been only one new project in the health area and only five in the education area in Central America since 1981. Three of the latter were for special purposes: private sector employment training and public sector administration (Honduras) and government administrative reform and financial management (Costa Rica.) Much of the current effort in these sectors is the result of initiatives begun in previous years. Unless there are some new project starts, spending on health and education programs in Central America will decline further in the future as the current projects are completed. 7/

6/ The pattern in Central America is somewhat different from the worldwide trend. For the same periods, AID overall commitments in the agriculture sector fell from 54 to 49 percent, while SDA commitments stayed roughly 10 percent. AID's new commitments worldwide in the population and health sectors declined some (from 16 to 15 percent and 11 to 9 percent, respectively), while its commitments for education-type programs doubled (from 8 to 16 percent.)

7/ This discussion of AID development assistance activities is drawn from the AID Country Presentation documents for the relevant years and from interviews by CRS staff with State Department and AID personnel.

The Peace Corp's current activities in Central America are essentially of the same type as were programmed in fiscal 1978. The Peace Corps programs in Nicaragua and El Salvador were terminated in 1979, because of the danger to the volunteers. A new program has opened in Belize, however, and the Peace Corps has expanded its level of activity in Honduras. In the latter country, the Peace Corps effort seems geared to the general policy of expanding services to the rural population, in order in part to strengthen its support for the government. In Guatemala, the Peace Corps reportedly plans to shift the locus of its work, starting in fiscal 1984, from the mountains of the north (where it serves mainly an Indian population) to the eastern plateau (where it will work more with the European-stock urban poor.) 8/

#### Food aid

The food aid program under P.L. 480 has two parts. The aid provided under Title I (subsidized food sales) is basically balance of payments support. The aid under Title II (humanitarian food relief) is essentially developmental in character.

In the last five years, there has been a rapid increase in the volume of U.S. food aid to the Central American countries. 9/ Most of the growth has been in the amounts allocated for subsidized commercial food sales rather than for humanitarian relief. As Figure 5 indicates, the Title I food sales program has grown from nothing, in 1978, to the fourth largest U.S. aid program in Central America in fiscal 1983. Its three recipients were El Salvador (51 percent), Costa Rica (36 percent), and Honduras (13 percent.) For fiscal 1984, Guatemala is also scheduled to receive \$7 million in balance of payments aid from the Title

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8/ The foregoing discussion of Peace Corps activities in Central America is based on information obtained through interview with Peace Corps headquarters staff as well as from program summaries provided by the Peace Corps.

**Figure 5. Changes in the Size and Composition of U.S. P.L. 480 Food Aid to Central America, 1978-83**  
 (Note: size of circle is not proportional to program size.)

Country Allocation  
fiscal 1978

no Central American program

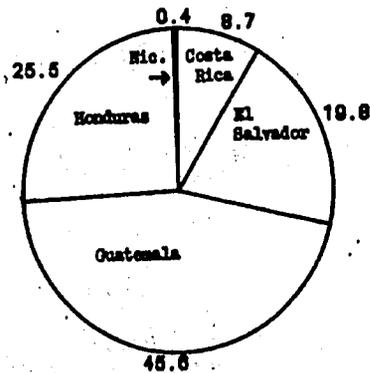
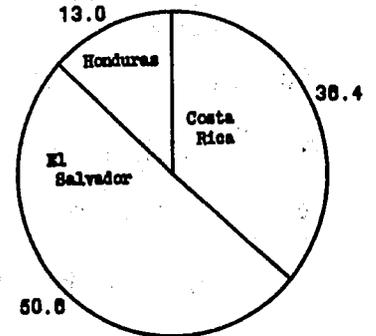
A. SUBSIDIZED FOOD SALES  
(P.L. 480 TITLE I)

fiscal 1978:  
 nothing

fiscal 1983:

\$55.237 million

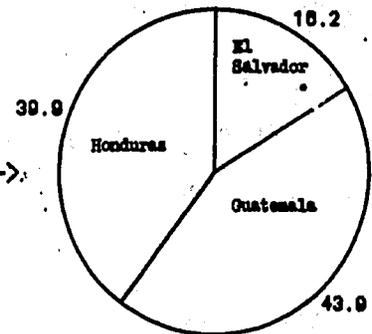
Country Allocation  
fiscal 1983



B. HUMANITARIAN FOOD AID  
(P.L. 480 TITLE II)

fiscal 1978:  
 \$7.995 million

fiscal 1983:  
 \$9.932 million  
fiscal 1983 (in 1978 \$):  
 \$7.125 million



I program. The Title II humanitarian grant aid program has shrunk a bit, in real terms, in the last five years. The current recipients -- Guatemala (39 percent), Honduras (34 percent), and El Salvador (27 percent) still receive roughly the same shares they got in fiscal 1978.

Under the food sales program, the United States finances shipments of U.S. foodstuffs on easy credit terms, and the food is sold through the regular commercial channels. The recipient country governments have agreed that the local

9/ This information on P.L. 480 activities in Central America is drawn from data in the AID Congressional Presentation documents for the relevant years as well as from interview by CRS staff with State Department, Agriculture Department, and AID personnel.

currency proceeds from the sale will be used to finance the local share of some development projects -- usually projects in the agricultural sector -- which are currently underway in the country. Wheat accounts for the bulk of the food shipped to Central America under this program. Currently, almost all of El Salvador's wheat imports are financed through the Title I program. In 1982, over half of Honduras and Costa Rica's wheat imports were funded in this manner and the data suggest the current figure is closer to 80 percent.

As noted before, the humanitarian food aid program (Title II) has not grown, in real terms, in Central America since 1978. Thus, to an increasing degree, U.S. food aid in Central America is being distributed more through commercial sales in the marketplace than through direct grants to the needy by U.S.-aided private voluntary organizations (PVOs.)

The State Department says this emphasis on Title I aid reflects Central America's relatively high per capita income and the policy of reserving grant assistance for the neediest cases. Some critics suggest that, to the extent these countries could have financed their grain imports with their own funds, the Title I aid provides a balance of payments subsidy which enables them to spend their own funds on other non-food imports. Other critics say the Title II program is better for targeting aid to the truly needy and to people on the periphery of the economy. State Department officials reply that BOP support is supposed to be one of the goals of the Title I program and that sometimes the bulk of the population -- not just the peripheral poorest people -- need aid. They also argue that, unless one is feeding people who are completely outside the money economy, or those who might not eat much otherwise, the Title II grant aid probably also provides BOP subsidies to its recipient countries. 10/

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10/ Information drawn from interviews by CRS staff member with State Department personnel.

### Military Aid Programs

The United States has three main military aid programs in Central America: the Military Assistance Program (MAP), the Foreign Military Sales (FMS) guarantee program, and the International Military Education and Training (IMET) program. <sup>11/</sup> The volume of U.S. military aid has expanded rapidly in recent years and it is probably the most controversial portion of the U.S. aid portfolio for Central America. As Figure 6 indicates, the United States provided these countries with \$3.6 million in aid through the three military aid programs in fiscal 1978. In fiscal 1983, because of the El Salvador war and increased tensions in the area, the three programs totalled \$121.3 million.

There have been major changes in the composition of U.S. military aid program for Central America as well. Previously, the IMET program accounted for a large share (and virtually all the grant portion) of the U.S. military aid effort in the region. Most of it was spent on professional or technical training, with the apparent dual aim of building a more professional military (attuned to modern methods and more respectful of the human rights of the civilian population) and keeping good relations with the countries' future military leadership. There was almost no grant MAP aid and -- save for a modest effort in Honduras -- no FMS loan program for Central America.

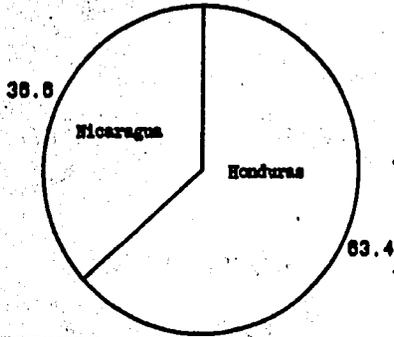
IMET still emphasizes training to improve basic professional and technical skills. But in recent years, IMET has put more stress in Central America on training in operations, strategy, and other more directly applicable military skills. In real terms, the IMET program has not grown much since 1978.

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<sup>11/</sup> The following discussion of FMS, MAP, and IMET activities in Central America is based on information contained in the executive branch security assistance congressional presentation documents for the relevant years and on interviews by CRS staff member with State and Defense Department personnel.

**Figure 6. Changes in Size and Composition of U.S. Military Aid Programs in Central America, 1978-83**  
 (Note: size of circle is not proportional to program size.)

**Country Allocations  
fiscal 1978**



**A. INTERNATIONAL MILITARY EDUCATION AND TRAINING PROGRAM**

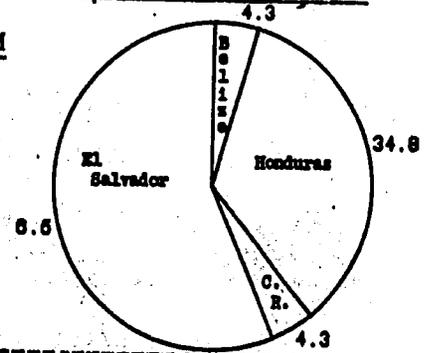
fiscal 1978:  
\$1.092 million

→

fiscal 1983:  
\$2.300 million

fiscal 1983 (in 1978 \$):  
\$1.650 million

**Country Allocations  
fiscal 1983**



**B. MILITARY ASSISTANCE PROGRAM**

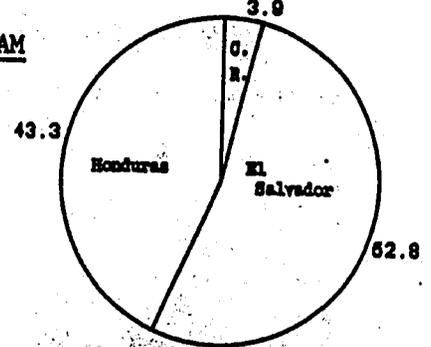
no significant  
Central  
American  
program

fiscal 1978:  
\$0.033 million

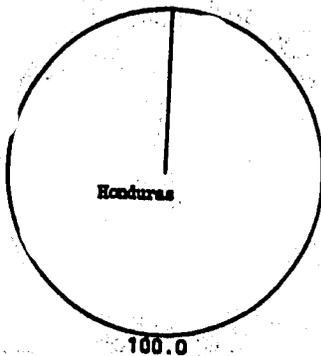
→

fiscal 1983:  
\$63.500 million

fiscal 1983 (in 1978 \$):  
\$45.552 million



**C. FOREIGN MILITARY SALES GUARANTEE LOAN PROGRAM**

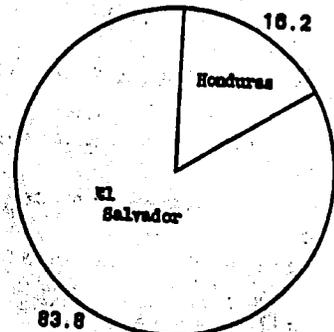


fiscal 1978:  
\$2.500 million

→

fiscal 1983:  
\$55.500 million

fiscal 1983 (in 1978 \$):  
\$39.813 million



By contrast, the volume of MAP and FMS aid for the region in the last few years has grown dramatically -- from \$2.5 million (virtually all FMS loans) in fiscal 1978 to \$119 million (over 53 percent MAP grants) in fiscal 1983. In real terms, this was a 34-fold increase. For fiscal 1984, the Administration has allocated the funds approved by Congress so that over 82 percent of this aid

will be on a grant basis, thus reducing the strain on the recipients' balance of payments and effect of this aid on their international debt situation.

The MAP and FMS programs in Central America have provided grants and loans to help the regional countries import weapons, vehicles, helicopters, support aircraft, and other basic military equipment from the United States. For El Salvador and Honduras, U.S. aid has also been used increasingly in recent years to purchase light arms, ammunition, field equipment, and other such "consumable" items as well as for training in combat skills and counter-insurgency techniques for military units from these countries.

State and Defense Department experts estimate that approximately 15 percent of the MAP aid for El Salvador goes to finance troop training programs, more than the sums expended through IMET for training purposes. Besides the up to 55 U.S. military advisors who may be in El Salvador at any one time, training individuals and groups on special military skills, the U.S. military also staffs a Regional Military Training Center, just over the border in Honduras, to train complete units of the Salvadoran and Honduran military. The number of U.S. trainers there may vary from 25 to 120, depending on the training schedule and the types of instruction occurring at the time.

Besides the regular military aid program, the United States has also paid for some other substantial military activities in the region. Prominent among these are the Big Pines I and II joint military exercises in Honduras (financed by the U.S. Department of Defense) and the so-called "covert" operation (funded by the CIA) against the Sandinista government of Nicaragua. In neither case is economic or military aid a primary goal of the U.S. effort. In both cases, however, Honduras has gotten direct or indirect benefits which might arguably be tabulated as a supplemental form of U.S. foreign aid. (These are not included, however, in the aid totals in this paper.) At least 5 batallions of Honduran

troops (6,000 soldiers, about half the Honduran army) were reportedly trained in field operations and counter-guerrilla skills during the Big Pine II exercise, for example, and major improvements were made in anti-tank and other military facilities using exercise funds. Congress also appropriated \$21 million for major improvements at two airfields that will be available to U.S. forces in emergencies but will be used by the Hondurans on a normal basis. <sup>12/</sup>

#### Country Differences in Program Distributions

U.S. officials point out that, in Central America, the United States is trying to deal simultaneously with three different problems -- a major economic crisis, development needs, and a perceived security threat -- and that the exact mix of these problems varies from country to country. This variation, they maintain, requires the composition of U.S. aid to also vary for each country. Some countries, notably El Salvador and Honduras, have been major beneficiaries for almost every U.S. aid program in the region. Others, such as Guatemala and Costa Rica, have been mainly the recipients of economic aid. The different U.S. aid programs vary considerably in their distribution patterns. For some, such as the Peace Corps and the humanitarian food aid program, the country shares have stayed about the same since 1978. For other, including ESF, MAP, and the subsidized food sales program, major new programs have grown up with only a few recipients. Figure 7 (next page) shows the different types and quantities of U.S. aid that the individual countries of Central America have received in recent years.

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<sup>12/</sup> Washington Post, "U.S. Buildup in Honduras Described," February 1, 1984, p. 1, and Time Magazine, "Honduras: Making Themselves at Home," September 19, 1983, pp. 41-2. U.S. Congress. House. Committee on Appropriations. "Military Construction Appropriation Bill, 1984." June 9, 1983 (H. Rept 98-238), p. 13. See also Senate report of same title, (S. Rept. 98-180) July 14, 1983, p. 37.

**Figure 7. U.S. Foreign Aid to Central American Countries, 1978-84: changes in size and program composition. (constant 1978 dollars)**  
 (Note: the size of the circles accurately reflects differences in program size for each country from year to year. Circle size does not reflect, however, differences in program size between countries.)

BELIZE

fiscal 1978

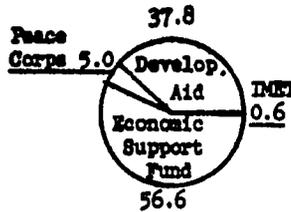
no program---  
not yet  
independent

fiscal 1983

\$12.684 million  
(\$17.681 million in  
1983 dollars)

fiscal 1984 (estimated)\*

\$3.770 million  
(\$5.509 million in  
1984 dollars)



COSTA RICA

fiscal 1978

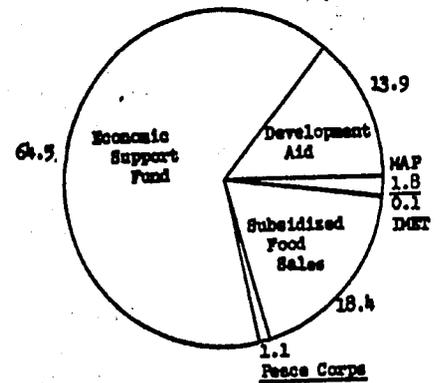
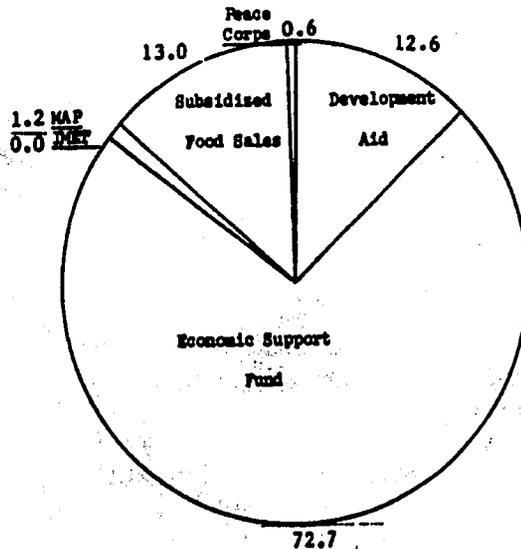
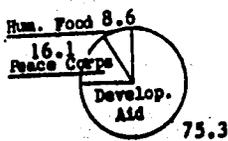
\$8.100 million

fiscal 1983

\$154.955 million  
(\$216.002 million in  
1983 dollars)

fiscal 1984 (estimated)\*

\$75.419 million  
(\$108.500 million in  
1984 dollars)

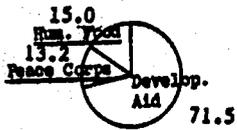


\* Does not include proposed fiscal 1984 supplemental appropriations.

EL SALVADOR

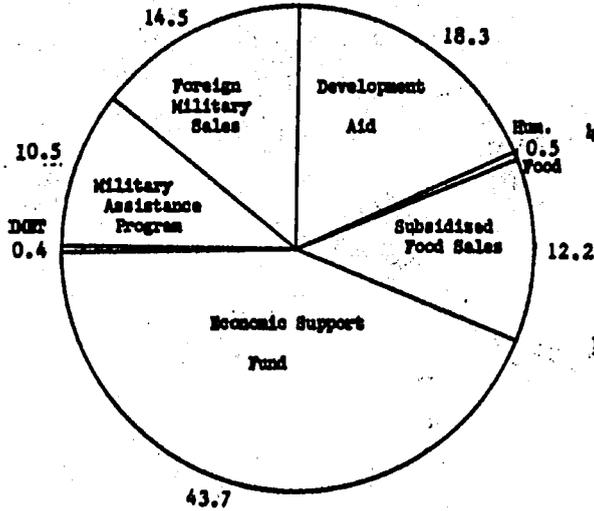
fiscal 1978

\$10.525 million



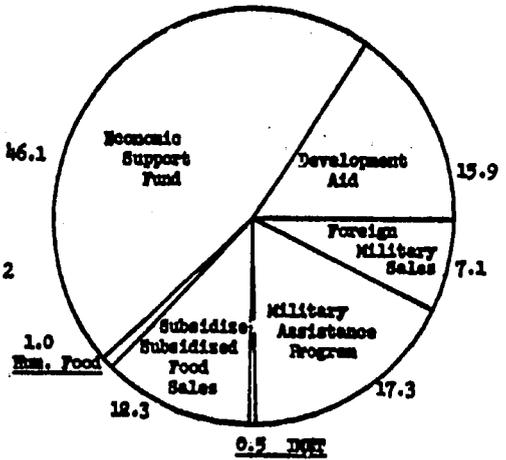
fiscal 1983

\$229.879 million  
(\$320.451 million in 1983 dollars)



fiscal 1984 (estimated)\*

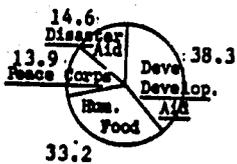
\$178.343 million  
(\$260.561 million in 1984 dollars)



GUATEMALA

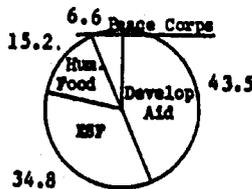
fiscal 1978

\$10.997 million



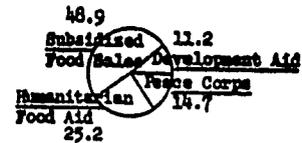
fiscal 1983

\$20.636 million  
(\$28.765 million in 1983 dollars)



fiscal 1984 (estimated)\*

\$9.781 million  
(\$14.290 million in 1984 dollars)

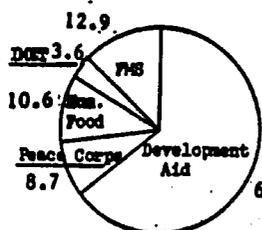


\* Does not include proposed fiscal 1984 supplemental appropriations.

HONDURAS

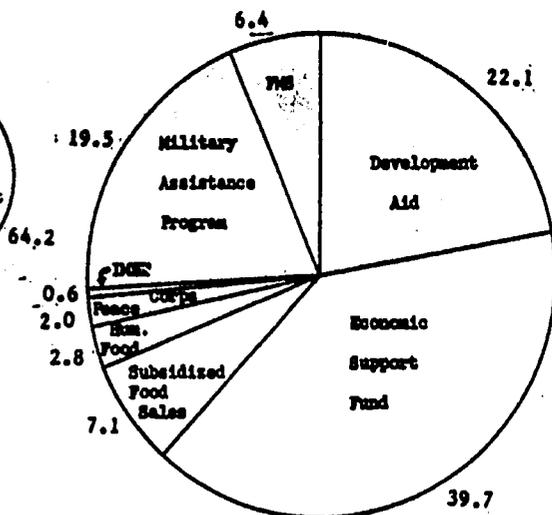
fiscal 1978

\$19.306 million



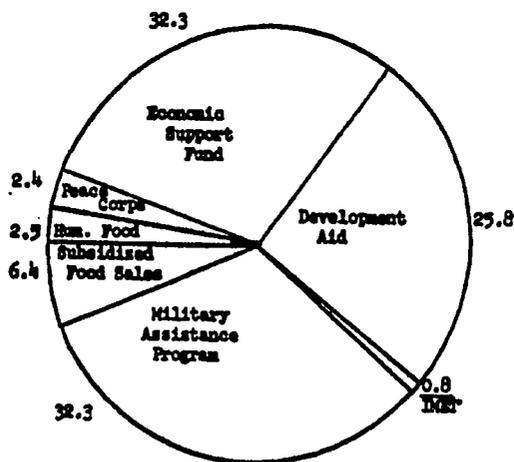
fiscal 1983

\$109.084 million  
(\$141.229 million in 1983 dollars)



fiscal 1984 (estimated)\*

\$87.574 million  
(\$128.380 million in 1984 dollars)



\* Does not include proposed fiscal 1984 supplemental appropriations or any aid received as a consequence of DoD or CIA-sponsored activities in country.

Appendix 1: Total U.S. Aid to Central America, Fiscal Years 1978-84

(\$ Thousands; by date of obligation)

	Disaster	DA	ESF	Economic			HG*	Military		
				PL480I	PL480II	PC		IMET	MAP	FMS
<b>Belize</b>										
1984(E)	---	4,000	---	---	---	---	---	---	---	---
1983(E)	---	6,690	10,000	---	---	909	3,000	100	500	---
1982	---	---	---	---	---	871	2,000	75	---	---
						624	---	26	---	---
<b>Costa Rica</b>										
1984(E)	---	15,100	70,000	20,000	---	1,200	---	150	2,000	---
1983(E)	---	27,146	157,000	28,000	---	1,256	---	125	2,500	---
1982	---	11,540	20,000	18,000	---	1,007	20,000	58	2,000	---
1981	---	11,475	---	---	1,092	1,007	---	35	---	---
1980	---	13,561	---	---	1,814	1,746	---	---	---	---
1979	---	15,686	---	---	74	1,461	---	---	---	---
1978	---	6,148	---	---	20	1,464	---	---	---	---
					699	1,317	11,400	---	---	---
<b>El Salvador</b>										
1984(E)	---	41,300	120,000	32,000	2,461	---	---	1,300	45,000	18,500
1983(E)	---	58,540	140,000	39,000	1,611	---	---	1,300	33,500	46,500
1982	3,376	36,199	115,000	27,200	7,687	---	5,000	2,002	63,500	16,500
1981	553	32,792	44,900	17,200	9,077	---	5,500	492	25,003	10,000
1980	---	43,155	9,100	3,000	3,269	---	9,500	247	8	5,700
1979	---	6,045	---	---	2,573	1,561	---	---	5	---
1978	---	7,527	---	---	1,584	1,389	---	---	25	---
<b>Guatemala</b>										
1984(E)	---	1,600	---	7,000	3,590	2,100	---	---	---	---
1983(E)	---	12,500	10,000	---	4,360	1,905	---	---	---	---
1982	264	1,688	---	---	5,617	1,653	10,000	---	---	---
1981	---	1,207	---	---	7,554	2,046	---	---	---	---
1980	---	7,764	---	---	3,676	1,851	---	---	---	---
1979	368	16,500	---	---	5,415	2,103	---	---	6	---
1978	1,608	4,215	---	---	3,645	1,525	---	---	4	---

CRS-25

	Economic						Military			
	Disaster	DA	ESF	PL480I	PL480II	PC	HG*	IMET	MAP	FMS
<b>Honduras</b>										
1984(E)	---	32,000	40,000	8,000	3,100	2,983	25,000	1,000	40,000†	---
1983(E)	---	31,180	56,000	10,000	3,961	2,788	---	800	27,500†	9,000
1982	---	31,167	36,800	7,000	3,091	2,621	10,000	1,275	11,000	19,000
1981	---	25,660	---	5,800	4,646	2,442	15,000	535	---	8,400
1980	---	45,824	---	2,000	2,829	1,974	10,000	441	11	3,530
1979	---	20,697	---	2,000	2,625	2,103	---	250	7	2,000
1978	---	12,395	---	---	2,038	1,681	10,500	692	---	2,500
<b>Nicaragua</b>										
1984(E)	---	---	---	---	---	---	---	---	---	---
1983(E)	---	---	---	---	---	---	---	---	---	---
1982	---	679	5,100	---	643	---	---	---	---	---
1981	---	1,825	56,574	---	1,240	---	---	---	---	---
1980	249	8,057	1,125	15,000	2,571	98	---	---	---	---
1979	3,029	192	8,000	2,600	3,652	245	---	7	5	---
1978	---	11,821	---	---	29	1,065	---	400	4	---
<b>Regional</b>										
1984(E)	---	15,000	---	---	---	---	---	---	---	---
1983(E)	---	18,382	---	---	---	---	---	---	---	---
1982	---	13,130	---	---	---	---	---	---	---	---
1981	---	9,698	900	---	---	---	---	---	---	---
1980	---	4,156	---	---	---	---	---	---	---	---
1979	---	2,645	---	---	---	---	25,000	---	---	---
1978	---	1,300	---	---	---	---	19,000	---	---	---

See footnotes on following page.

Appendix I (continued)

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\* Figures for the Housing Investment Guarantee program should not be included in the overall totals for U.S. foreign aid. As of July 1, 1983, most or all the HG authorizations for Belize, Costa Rica, Guatemala, and Honduras and over half those for regional aid were unused. Regional \$18 million. All unused Nicaraguan authorizations had been canceled.

¶ Does not include any resources which might be provided through Sec. 506 drawdowns of DOD stocks.

† Does not include military support and training provided by the Defense Department as a consequence of the joint military exercises held in Honduras during the year or aid channeled through the CIA in conjunction with its "covert" assistance to anti-Sandinista forces.

(Sources: Figures for Disaster Assistance, DA, and P.L. 480 drawn from AID's Congressional Presentation documents for relevant years. Figures for IMET, MAP, FMS, and ESF drawn from executive branch Security Assistance Congressional Presentation documents for relevant years. Figures for HG program drawn from Housing Investment Guarantee Program annual reports for relevant years and from AID Loan Management Division's "Financial Summary, Housing and other Credit Guarantee Programs." Report W-239, June 30, 1983, Sections A-4 through A-8.)

## APPENDIX II: PURPOSES AND TERMS OF

## THE MAIN U.S. FOREIGN AID PROGRAMS, A GLOSSARY

Development Aid:

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 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 Latin 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:

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.

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 anyway, 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.

#### 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.

#### Housing Investment Guarantees:

The Housing Investment Guarantee (HG) program at AID seeks to expand the amount of private capital which is available to help upgrade or expand the stock of housing in developing countries. These loans should not be counted, strictly speaking, as U.S. foreign aid, since the principal comes from private investors (at commercial rates comparable to those in the U.S. mortgage market) and the HG program only guarantees its repayment. The program is intended, nevertheless, to have a developmental effect. It encourages the long-term financing of housing for low-income people at commercial rates. (Actually, most of the beneficiaries will be people in the middle-income range in most countries. The poorest members of the population would probably not qualify for the market-rate loans.) It strengthens local credit unions and other lending institutions in the housing area. Perhaps just as significant, at least from a short-term perspective, is its effect in stimulating local construction and expanding employment and growth in the local economy. Because interest rates have been very high in the United States in recent years, many countries have postponed their borrowings and not used all the HG program guarantees which were authorized for them previously. Congress does not set annual ceilings on the amount of HG program guarantees.

#### Overseas Private Investment Corporation:

The Overseas Private Investment Corporation (OPIC) also encourages the flow of private capital into developing countries. It offers loan guarantees and war risk and expropriation insurance to underwrite U.S. investors against losses on their new investments in developing countries. OPIC also has a very small

program which makes direct loans to new firms owned by U.S. investors. OPIC loans and insurance should also not be included in any totals for U.S. foreign aid. The principal comes from private investors, who pay a fee for OPIC coverage, and the contingent liabilities from the OPIC insurance program are not comparable to those for guarantee programs. Nevertheless, the program is intended to have a developmental effect, since the new private investment is expected to expand employment, stimulate growth, promote development in the host country. OPIC is also an off-budget program, and Congress does not set annual ceilings on its guarantee and insurance operations.

### 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 and instruction in counter-insurgency operations.

### Military Assistance Program

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 Guarantee Program

This loan program finances, at near-market rates, the same types of military purchases which are available through the MAP program. Technically, the FMS is a guarantee program. The Federal Financing Bank, an instrumentality of the U.S. Treasury, borrows money on the U.S. commercial market and relends it at the same rates (plus a small service charge) to a foreign country to finance their purchases of U.S.-made military equipment. 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 allocation questions. It guarantees the FFB that the loan will be repaid. If the borrower country should default, the FFB receives payment from the FMS guarantee reserve fund. When the FMS reserve fund declines below a certain level, the Administration must ask Congress to appropriate funds for its replenishment. Inasmuch as the U.S. Government is both the lender and the guarantor, it seems appropriate that FMS guarantees should be included in any total for U.S. foreign aid. To an extent, because of recent high interest rates, some countries have put off using all the FMS guarantee authority that has been approved for them. The FMS program is off-budget, though Congress legislates annual ceilings each year in the foreign aid appropriation bill.