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United States Department of State
Agency for International Development
Office of Management and Budget

Report to the President
and the Congress:

**A Plan for Fully Funding
the Recommendations of
the National Bipartisan
Commission on Central
America**

March 1987

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President's Message to Congress, March 3, 1987

To the Congress of the United States:

The one hundred million dollars in assistance for the Nicaraguan democratic resistance approved by Congress in October of last year was intended as only one aspect of an integrated, comprehensive approach for United States efforts to promote economic and political development, peace, stability and democracy in Central America and to encourage a negotiated resolution of the conflict in the region. In that law (Title II of the Act making appropriations for military construction for the fiscal year ending September 30, 1987, as contained in Public Laws 99-500 and 99-591, hereinafter "the Act"), the Congress recognized, as does the Executive branch, that the Central American crisis has its roots in a long history of social injustice, extreme poverty, and political oppression. These conditions create discontent, which is often exploited by communist guerrillas in their war against democracy. The focus of United States policy in Central America goes beyond the military aspects of the problem. To help address the underlying social and economic causes of conflict in the region, the Congress directed that additional economic assistance be made available for four Central American democracies: Costa Rica, El Salvador, Guatemala, and Honduras.

Progress Toward Democracy

Democracy is making great strides in these four countries. Their progress in building societies in which their citizens enjoy freedom of choice and equal justice under law stands in marked contrast to the totalitarian subjugation suffered by the Nicaraguan people. This progress, however, cannot be sustained without concurrent economic growth. Political freedom cannot prosper in an environment of hunger and despair. Nor, as found by the National Bipartisan Commission on Central America (NBCCA), can we

expect the Central American democracies to recover from a severe economic recession without significant outside assistance. The Central American democracies cannot attract adequate private investment to achieve sustainable economic growth in the current environment of violence and subversion. The four democratic nations of Central America will have little appeal for investors as long as there is an aggressive communist regime nearby—a militant regime bent on ideological expansion and already in command of the largest army in the history of Central America.

Congressional Attempt To Aid the Democracies

To help the Central American democracies preserve their hard-earned progress in making democracy work, the Congress in October 1986 approved in section 205 of the Act the transfer of three hundred million dollars in unobligated funds for economic assistance to the Central American democracies. Title III of the Act also appropriated an additional three hundred million dollars for this purpose, to be available through fiscal year 1987. Unfortunately, despite the best intentions of those in the Congress who supported the additional assistance for Central America and despite this Administration's strong support for that assistance, the Foreign Assistance Appropriations Act mandated that the three hundred million dollars be regarded as part of the specified (and very limited) FY 1987 worldwide total for economic support fund assistance, thus precluding us from considering this sum as additional assistance. As a practical result there could be no increased aid for Central America. When this became apparent, we shared the great disappointment of bipartisan supporters in the Congress, not to mention the Central Americans who were counting on this assistance after it had been approved in both the Senate and House of Representatives.

Report to Congress on Assistance Needs

Clearly, there is the desire in the Congress to make good on this commitment. Toward that end, there is a provision in the law that the Executive branch should develop a plan for fully funding the assistance to the Central American democracies proposed in the January 1984 report of the National Bipartisan Commission on Central America. I am transmitting that plan to the Congress with this message.

The Bipartisan Commission determined that the Central American crisis was the result of a long history of interrelated political, security, and socio-economic conditions and recommended a greatly expanded financial assistance program for the years 1984-89. The Central America Democracy, Peace and Development Initiative (CAI), transmitted to the Congress in February 1984, was designed to accomplish most of the NBCCA's recommendations. This program concentrated on strengthening democratic institutions, arresting economic decline while promoting stabilization and recovery and increasing the benefits of growth. Results in the political sector have been more rapid than anticipated. In the economic and social areas much also has been achieved. Nevertheless, this progress remains fragile and much remains to be done. The plan herewith transmitted to the Congress proposes a 3-year extension of the program's execution until 1992. The extension would increase the total amount of funds originally recommended in the CAI for the period FY 1984 to FY 1989 from \$6.4 billion to \$6.9 billion in appropriated funds for the period FY 1984 to FY 1992. As economic recovery in the region proceeds, the benefits of growth, economic and political stabilization will be enjoyed by an ever-increasing percentage of the region's population.

After reviewing the findings of this study, I have concluded that additional assistance is required

immediately in order to help meet the economic goals of the Bipartisan Commission and to keep faith with the millions of men and women who through hard work and sacrifice are making democracy a living reality in Central America.

This assistance is urgently required to help meet the great economic and social needs of the struggling democratic governments of the region. By generating conditions of violence in Central America that undermine prospects for economic growth, the communist government of Nicaragua works to discredit the democratic system as a viable alternative for development. To offset this effort, it is the responsibility of the friends of democracy to help Central America's democrats prove that even in adversity democracy offers their people a better way of life. The Soviet Union and its allies have provided the Sandinista regime military hardware and sufficient economic aid to keep Nicaragua's failed economy afloat. The United States must help those small nations in Central America that have chosen freedom.

Request for Additional Assistance

To carry out the recommendations contained in the report being forwarded to the Congress, Section 215(2) of the Act further provides expedited procedures for requests from the President for additional economic assistance for the Central American democracies. I hereby request that such expedited consideration be given to my request for an additional \$300,000,000 for fiscal year 1987 as economic support fund assistance for Costa Rica, El Salvador, Guatemala, and Honduras, notwithstanding section 10 of Public Law 91-672.

In order to assure that this additional assistance is fully consistent with applicable requirements of law and sound budget principles, I further request that the amounts made available for this additional economic assistance for Central America be transferred from unobligated balances in such accounts as I may designate for

which appropriations were made by the Department of Defense Appropriations Act, 1985 (as contained in Public Law 98-473); the Department of Defense Appropriations Act, 1986 (as contained in Public Law 99-190); the Department of Defense Appropriations Act, 1987 (as contained in Public Laws 99-500 and 99-591); and the Department of

State Appropriations Act, 1987 (as contained in Public Laws 99-500 and 99-591).

I urge the prompt enactment of a joint resolution expressing approval of this request.

RONALD REAGAN

Letter of Transmittal to the President, February 17, 1987

Mr. President:

The Congress has instructed the Secretary of State, the Administrator of the Agency for International Development, and the Director of the Office of Management and Budget to develop a plan for fully funding assistance to the Central American democracies proposed in the January 1984 report of the National Bipartisan Commission on Central America. The legislation required that a report describing the plan for full funding of the recommendations be provided to the Congress no later than March 1, 1987. We have completed our work, and we are very pleased to transmit the report to you.

Our report indicates that, with our help, the Central American democracies have made great strides in improving democratic processes and respect for human rights, the essential underpinnings of all free societies. Significant progress also has been made toward economic stabilization in the region. In addition, more free market-oriented economic policies are beginning to develop. If these policies can be nurtured and there is further progress in this direction, a key objective of the plan described in our report, then the foundation will have been laid for sustained economic growth. The report also relates achievements and goals in spreading the benefits of economic and social progress. To help ensure that this progress is solidified, the report recommends

that the timeframe of the plan be extended to 1992 with a modest increase of \$500 million in the originally recommended levels of financing to be provided by the United States.

The ongoing process of realizing interrelated political, social, economic, and security objectives of our Central American neighbors remains fragile. While a great deal has been accomplished, much remains to be done. If the recommendations set forth in the report are implemented by the Central American governments with the support and encouragement of the United States, there is reason to expect further progress toward achieving stronger democracies, more solidly based economies, and greater social equity, in a more stable and secure environment. These goals are of fundamental importance to U.S. national interests.

Sincerely,

GEORGE P. SEULTZ
Secretary of State

JAMES C. MILLER III
Director, Office of
Management and Budget

M. PETER MCPHERSON
Administrator, Agency for
International Development

Summary

In the Continuing Resolution of October 1986¹, Congress requested that the Secretary of State, the Administrator of AID, and the Director of OMB develop a plan for fully funding the assistance to the Central American democracies proposed in the January 1984 report of the National Bipartisan Commission on Central America (NBCCA). Congress also requested that the report include recommendations on how more effective use can be made of U.S. agricultural commodities in alleviating hunger and contributing to the economic development in the region.

This paper outlines the Commission's recommendations, assesses the status and prospects of achieving these in Costa Rica, El Salvador, Guatemala, and Honduras, as required by law. Consistent with the original NBCCA report, it also addresses Belize and Panama. It proposes a plan for fully funding the assistance proposed by the NBCCA. The paper also includes a section on agricultural commodity assistance and agricultural programs, prepared in consultation with the Secretary of Agriculture.

Essential Recommendations of the Commission

The NBCCA determined that the crisis in Central America had indigenous roots in a long history of social injustice, maldistribution of national income, government oppression, and closed political systems. It identified three inseparable elements of the crisis—political, security, and social/economic issues.

In the economic and social areas, the Commission recommended a greatly expanded financial assistance program and estimated that \$21 billion (excluding Nicaragua) would be required (including \$10–\$12 billion in U.S. assistance) for the period 1984–90. The NBCCA stressed its belief that economic progress would depend on reductions in regional violence, improved economic

policies and performance by the Central American economies, increased economic assistance beginning in 1984, and an ever-improving world economic environment. Not all of these assumptions have been borne out since 1984. To address the political and security elements, the NBCCA recommended multiyear funding of military aid to the region, without specifying funding levels.

In February 1984, the President transmitted to Congress proposed legislation—known as the Central America Democracy, Peace, and Development Initiative (Central America Initiative or CAI)—which encompassed many of the NBCCA's recommendations and requested \$8.4 billion in U.S. Government assistance and guarantees for the region for the period FY 1984–89. The Central America Initiative concentrated on the economic, social, and democratization areas and emphasized four principal goals:

- Strengthening democratic institutions and processes;
- Arresting economic decline and promoting economic stabilization;

Key Facts on the Commission

The National Bipartisan Commission on Central America (referred to in this study as "the Commission") was named in July 1983 by President Reagan to advise on "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."

Henry A. Kissinger served as Commission Chairman. The Commissioners were: Nicholas F. Brady, Henry G. Cisneros, William P. Clements, Jr., the late Carlos F. Diaz-Alejandro, Wilson S. Johnson, Lane Kirkland, Richard M. Scammon, John Silber, the late Potter Stewart, Robert S. Strauss, and William B. Walsh. Senior Counselors were Jeane Kirkpatrick, Winston Lord, William D. Rogers, Daniel K. Inoué, Pete V. Domenici, Lloyd Bentsen, Charles McC. Mathias, William S. Broomfield, Jack F. Kemp, James C. Wright, and Michael D. Barnes. Harry W. Shlaudeman served as Executive Director.

The Commission submitted its report to the President on January 10, 1984. The complete text was published commercially as *The Report of the National Bipartisan Commission on Central America* (N.Y.: MacMillan Publishing Co., 1984).

- Laying the basis, through structural transformation, for sustained economic growth; and
- Increasing equity and spreading the benefits of economic growth.

The CAI was launched in 1984, when Congress approved \$370 million in supplemental funds, and its basic policy provisions were enacted in 1985 as a new Chapter 6, Part I, of the Foreign Assistance Act of 1961.

Prospects for Achieving the Commission's Objectives

In the political sphere, there has been rapid and substantial progress.

Democratization and Human Rights. As proposed in the CAI, U.S. efforts and assistance now focus on facilitating the electoral process, strengthening national legislatures, improving the administration of justice, expanding citizen participation in democratic processes, and promoting freedom of the press.

In the economic and social sphere, the CAI proposed an ambitious series of goals, and, despite difficulties, much has been achieved.

Economic Stabilization. Sharply increased economic assistance has facilitated an upturn in the region's economic situation. Nevertheless, progress toward recovery is fragile and the continued implementation of improved policies is vital.

Structural Transformation. The CAI proposed a strategy for generating economic growth, based primarily on increased private investment and the rapid growth of nontraditional exports. Investment levels have increased modestly but steadily. The growth in nontraditional exports has been very encouraging.

Spreading the Benefits of Economic Growth. The CAI emphasized rapid economic growth as the most important vehicle for achieving higher standards of living. In some countries, this is likely to be insufficient to ensure benefits for poorer groups. Therefore, a number of specific programs in the

¹Section 205(c) of the act appropriating funds for military construction for the Department of Defense for the fiscal year (FY) ending September 30, 1987, and for other purposes (as contained in section 101(k) of the joint resolution on continuing appropriations for the FY 1987, and for other purposes (House Joint Resolution 738; PL 99-500 as supplemented by PL 99-591)).

education, health, family planning, and housing fields are being implemented. Although significant progress has been achieved, not all of the original targets have been met.

Regional Security. The defensive capability of the region's democracies has been strengthened. Central American militaries have used U.S. assistance to improve organization, training, and equipment. Fostering stability in the region is a long-term undertaking, however, and it is unlikely that broad U.S. security objectives for the region will be fully realized by the end of the decade.

Problems Encountered. While substantial progress has been made toward achievement of the Commission's objectives, this progress has taken place under conditions substantially more adverse than those assumed by the Commission. External economic trends, notably world prices for Central America's main export commodities, have been substantially worse than anticipated. The Commission projected that the military/security climate would be largely resolved within 18 months from the time of the report. There have been improvements, but the military/security climate remains unsettled and is a major impediment to capital investment and economic recovery.

The Need for Full Funding of NBCCA Recommendations

Economic assistance levels for Central America have been substantial over the past 3 years, but they have been diminishing and falling short of the levels recommended by the NBCCA, particularly with respect to appropriated funds. The shortfall in appropriated funds will be approximately \$760 million by the end of FY 1987, assuming passage of the \$300 million requested as supplemental economic assistance for the Central American democracies. This \$300 million is needed immediately. Any reduction in the FY 1987 supplemental, of course, will increase the shortfall further.

We propose to fund the Central America Initiative fully by extending the period of execution of the program by 3 years to 1992. This would increase the originally recommended amount of appropriated funds by approximately \$500 million to a total of \$6.9 billion, while the level of \$2 billion in guarantees

"Too often in the past, the United States failed to identify with the aspirations of the people of Central America for freedom and a better life. Too often our government appeared indifferent when democratic values were at risk. . . . Today, however, with American support, the tide is turning in Central America. In El Salvador, Honduras, Costa Rica—and now in Guatemala—freely elected governments offer their people the chance for a better future."

**President Reagan,
June 24, 1986**

remains unchanged. It is important to note that if the Central America Initiative had ended in 1989, an ongoing assistance program would have been required to consolidate and sustain economic and social progress. The proposed extension is responsive to funding limitations under the budget deficit reduction act and reflects the difficulties inherent in the implementation by sovereign governments of essential reforms. It also reflects the political and security realities of the region, the external conditions of world markets, the limited availability of external capital from other public and private sources, and investment attitudes. The decision to extend the CAI is a practical response to a changed situation.

The 3-year extension would ensure that:

- There is a solid trend in all the countries toward democratization;
- The region's economies are stabilized;
- Essential structural reforms are institutionalized; and
- Mechanisms are in place for a broader distribution of increasing economic benefits.

The projected assistance levels also reflect a shift in focus, beginning in FY 1989, away from stabilization and toward an increased emphasis on structural transformation that leads to

economic growth and a broadening of its benefits. The levels are predicated on the assumption that the Central American governments will implement economic measures to promote export-led growth and essential structural reforms. We hope that the major economic objective of the CAI—recovery—will be achieved by FY 1992 and that the need for economic support assistance will be less. Central America's development is a long-term proposition, however, and a need for well-designed development assistance programs will continue beyond 1992.

The extended program will not vary significantly from that currently underway, although the pace of accomplishment will vary among countries and goals. U.S. assistance to democratization has grown in size and sophistication and will continue to focus on facilitating the election process, strengthening the capabilities of legislators, improving on the administration of justice, expanding citizen participation, promoting freedom of the press, and providing new training and educational opportunities for Central Americans in the United States under the Central American Peace Scholarship program. The term and level of continued balance-of-payments support for economic stabilization will vary by country but should decline significantly by 1992. The focus of our economic support assistance will shift toward macroeconomic and sector policies designed to institutionalize sustained growth, as the requirement for balance-of-payments support declines.

As economic stabilization benefits are achieved, progress to ensure the spreading of the benefits of the region's economic growth will increase.

Agricultural Commodity Assistance and Agricultural Programs

The United States has provided increasing amounts of food commodities to Central America and continues the effort to use its programs more effectively to alleviate hunger and contribute to economic development in the region. The Administration uses its food aid authorities to support the CAI, primarily through traditional PL 480 programs, Section 416 of the Agriculture Act of 1949, new benefits allowed under PL 480, and the new Food for Progress program. In addition, the Central American governments are undertaking under PL 480 self-help activities designed to contribute to their general economic development.

The CAI was not designed to solve all of Central America's problems in 5 or 6 years but rather to assist these countries to take the essential steps required to establish the basis for gradual, steady, and sustainable political and economic progress over the longer term. These are still achievable goals and significant progress has been made toward them. It is clear, however, that the timeframe for laying a firm political and economic foundation must be extended. Also, our firm commitment to the NBCCA and the CAI objectives must be sustained into the next decade, if we and the Central American democracies are to succeed in achieving the goals of the NBCCA.

I. Essential Recommendations of the Commission

MAJOR GOALS

The National Bipartisan Commission on Central America found that the Central American crisis had indigenous roots in a long history of social injustice, maldistribution of national income, government oppression, and closed political systems. The crisis had been brought to a head by an ongoing international economic recession and Soviet-Cuban intervention in the region. The Soviet- and Cuban-supported Nicaraguan military buildup, the Sandinista export of revolution, and the Marxist insurgency in El Salvador were signs of a deteriorated security environment. Efforts to achieve peace, social progress, and economic well-being were undercut by extremist violence, subversion, and externally supported insurgency. Fundamentally, the crisis elements were political, security, and economic/social issues that were intertwined; none could be separated, and each had an impact on the others.

Therefore, the analyses and recommendations of the NBCCA report were organized around these three major categories. (See Appendix A for a list of the report's major recommendations and a summary.²)

OVERVIEW OF CONDITIONS, 1983-84

During the summer of 1983, when the NBCCA began its deliberations, Central America probably was experiencing its most serious crisis.

- The security of Guatemala and El Salvador was seriously threatened by leftist insurgencies, widespread political

violence from the extreme right, and significant human rights abuses.

- Nicaragua was providing sites for the command, control, training, and logistical support of Salvadoran insurgents; the country was becoming increasingly militarized.

- Soviet bloc deliveries of military supplies to Nicaragua had grown; Soviet, Cuban, and other Soviet-bloc military personnel numbered in the thousands.

- El Salvador already had suffered as much as \$1 billion in damage to infrastructure and other economic losses from the conflict.

- Between 1980 and 1983, the region's per capita income declined 12% (almost 20% in El Salvador, following an already sharp decline between 1978 and 1980).

- Between 1980 and 1982 approximately \$1.5 billion in capital had left the region.

- Private investment had plummeted.

- The region's external debt was \$10 billion.

- More than one-half million refugees and displaced persons were in the region, and perhaps as many had fled.

- Foreign exchange reserves were depleted.

- Social services were deteriorating.
- Judicial systems in some countries were virtually inoperative, suffering from decades of neglect and abuse by entrenched interests.

- Only two countries (Costa Rica and, since 1982, Honduras) had democratically elected presidents. (Newly independent Belize also had an elected prime minister, who had come to office during the British colonial administration.)

NBCCA FUNDING PROPOSALS

On the economic side, the NBCCA recommended an expanded financial assistance program sufficiently large and comprehensive to help Central

²Reports were made to the President by the Secretary of State in 1985 and 1986 on the status of implementing NBCCA recommendations. These reports were transmitted to the Congress (see "Sustaining a Consistent Policy in Central America: One Year After the National Bipartisan Commission Report," Special Report No. 124, April 1985, and "The U.S. and Central America: Implementing the National Bipartisan Commission Report," Special Report No. 148, August 1986).

Americans recreate conditions for "sustainable economic growth." A major objective was to recover, by the end of this decade, the per capita income levels of 1980 for five countries (i.e., Belize, Costa Rica, El Salvador, Guatemala, and Honduras) and that of 1982 for Panama. This would require an average annual real growth rate of about 6% by 1990—a difficult goal under the best of circumstances.

The NBCCA estimated that an external financing requirement of \$24 billion for the region (\$21 billion excluding Nicaragua), most of which would have to come from official creditors. Approximately \$12 billion was expected to come from international institutions, other donor countries, and through loans and investment from private sector sources. The estimate also included at least \$10–\$12 billion in U.S. financial assistance and guarantees over the period 1984–90. The NBCCA proposed a program of U.S. Government assistance of \$8 billion over the next 5 fiscal years (FY 1985–89).

Achievement of the economic recovery target was predicated on four assumptions.

- Without a considerable reduction in the levels of violence, efforts to revive the regional economy would fail.
- Over time, the Central American countries would adopt a coherent set of economic policies.
- External economic assistance would increase significantly beginning in 1984.
- The global economic environment would continue to improve.

On the political/security side, the NBCCA recommended multiyear funding of military aid to the region to ensure predictability of support over the long term. For El Salvador, the NBCCA recommended more military assistance based upon sufficient progress in human rights, free elections, and political reforms. The recommended approach required strengthening the professionalization of each country's armed forces in order to combat insurgency and deter the Nicaraguan military threat. Without sufficient improvement in the regional security situation, meaningful political, economic, and social progress would be impossible.

Central America Defined

There are seven sovereign nations on the isthmus between Colombia and Mexico—Panama, Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala, and Belize—but not all are necessarily included when the term "Central America" is used.

For purposes of addressing the Central American security and diplomatic crises, the Commission focused on five countries: El Salvador, Honduras, Nicaragua, Guatemala, and Costa Rica. This is the same definition as that of the Contadora process. These states together

THE CENTRAL AMERICA INITIATIVE

The Commission formally submitted its report to the President on January 10, 1984. On February 21, the President transmitted to the Congress proposed legislation for FY 1984–89, known as the Central America Democracy, Peace, and Development Initiative, which encompassed more than 40 of the NBCCA's recommendations. To implement the program, \$8.4 billion in U.S. assistance (including \$2 billion in guarantees) was requested for the period (see Appendix B).

Although the Congress did not agree to commit itself to fund a multiyear program until 1985, on August 10, 1984, it did appropriate \$370 million to begin implementing the Commission's recommendations. The FY 1985 Continuing Resolution of October 12, 1984, contained 88% of the \$1.11 billion in economic assistance funds requested by the Administration for the coming fiscal year. The proposed strategy, funding, and supporting activities were organized around four fundamental elements or goals.

Strengthening democratic institutions and processes to bring about greater participation in the political and development processes. This element, perhaps the most important to the long-term success of our effort, recognized that the basic purpose of economic development is increased human welfare, best achieved within a democratic environment. It initially focused on improving electoral and judicial institutions and processes and on a major new scholarship program.

made up the Captainty-General of Guatemala during the Spanish colonial period and have shared traditions and cultural similarities.

For purposes of addressing Central American economic and political development, however, the Commission included Belize and Panama. Unless otherwise noted, economic data cited in this report is for Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama. Nicaragua does not publish up-to-date data on its economic performance and has excluded itself from U.S. development activities.

Arresting economic decline and stabilizing the region's economies. The principal means would be world economic recovery, balance-of-payments support from external sources, and implementation by the Central American countries of sound exchange rate, monetary, and fiscal policies. It was hoped that this phase would be completed in 2–3 years, depending on the level of violence, the amount of external assistance, conditions in the world economy, and the will of the countries to initiate stabilization measures.

Economic transformation and laying the basis for sustained economic growth. Economic policy reforms were needed to decrease dependence on traditional agricultural export crops and to create a sound foundation for diversified and export-led growth of nontraditional agricultural crops and manufactures, once political and economic stability was achieved. This is a much longer process than financial stabilization and involves a series of continuing reforms in such areas as exchange rate, interest rate, and tariff policies, as well as other measures to stimulate private savings and investment, diversify the region's production and export base, and develop markets for diversified production.

Increased equity and spreading the benefits of economic growth. The CAI called for improvements in infant mortality rates, primary school enrollments, housing and infrastructure, and other areas affecting socioeconomic well-being.

II. Prospects for Achieving NBCCA Objectives

DEMOCRATIZATION AND DIPLOMATIC EFFORTS

There has been substantial progress in Central America toward institutionalizing democratic processes and improving respect for human rights. While democratic institutions in El Salvador, Honduras, and Guatemala are still fragile and need continued support, progress has been more rapid than many anticipated. Since May 1984, El Salvador, Guatemala, Honduras, and Costa Rica have held open and honest presidential elections, as was the parliamentary election in Belize.

With the return to constitutional government in several countries, respect for human rights also has improved. In Guatemala and El Salvador, the number of politically motivated deaths and disappearances has been reduced dramatically.

There also has been a fundamental change in military attitudes about the need to respect human rights in countries where, in the past, military and security forces had been involved in gross violations of human rights. Nowhere is that change more apparent than in El Salvador, where both the military and civilian leadership are committed to improved human rights performance. Military personnel now receive human rights training, and the National Police recently inaugurated a comprehensive course in human rights that is mandatory for all personnel. In the past 2 years, human rights violations have been reduced to a fraction of their previous levels. Similar improvements in human rights performance have occurred in Guatemala.

The relationship of the military to the state also has been the subject of important legislative changes. In several countries basic laws governing the military have been changed to prohibit or limit its participation in politics.

Nicaragua remains the major exception to the democratic advances in Central America. The Sandinista government continues to work actively against the democratic trend within and outside that country's borders. Democracy also suffered a setback in Panama in 1985 when the country's elected president resigned under pressure from opponents including the Panamanian Defense Force.

Under the CAI, U.S. assistance to the process of democratic political development in Central America has increased in scope and sophistication. We have a strategy for supporting democratic political developments, based on the recognition that democracy is an evolutionary process involving a range of civic institutions, cultural attitudes, and sociopolitical resources. U.S. efforts to promote and strengthen democracy in the region focus on the following areas: facilitating the electoral process, strengthening national legislatures, improving the administration of justice, expanding citizen participation in democratic processes, promoting freedom of press and democratic labor organizations, and exposing thousands of Central American youths and future leaders to life in the United States.

The United States has implemented new methods to reinforce its traditional support for democratic institutions, such as labor unions, private and voluntary organizations, and cooperatives. For example, the United States Information Agency (USIA) has increased its programming of U.S. speakers traveling to Central America and of Central

Americans invited to the United States to discuss democratic processes. (For further details on USIA's programs, see Appendix D.) AID, with USIA's assistance, has initiated a scholarship program to bring to the United States Central Americans from nonelite backgrounds who otherwise would not have an opportunity to study here.

The U.S. Government also has encouraged the activities of nongovernmental organizations, particularly the National Endowment for Democracy and affiliated institutes of the U.S. Chamber of Commerce, the AFL-CIO, and the Republican and Democratic Parties.

A major U.S. effort involves support for improving the administration of justice. In March 1985, AID provided funding for the UN-affiliated Latin American Institute for the Prevention of Crime and Treatment of Offenders (ILANUD) to expand its assistance to the Governments of Costa Rica, El Salvador, Guatemala, Honduras, and Panama. The 5-year ILANUD program has three principal components:

- Training courses for judges, prosecutors, and other judicial system personnel;
- Technical assistance to improve the collection of criminal statistics, to modernize information systems, to develop better law libraries, and to supply basic commodities for courtrooms; and
- Assistance to develop programs suited to each country's judicial system and problems.

In addition, the United States has worked to improve the administration of justice through assistance to the Inter-American Bar Foundation which is strengthening links among bar associations in Central America. Also, the Department of Justice has developed a program to enhance the skills of investigators who develop evidence for judges and prosecutors, as well as the knowledge of judges who supervise investigations.

The Center for Electoral Assistance and Promotion (CAPEL)—a private, nonpartisan institute promoting free and fair elections established by the Inter-American Institute for Human Rights with AID assistance—has sent observers

"There can be no democracy if political parties are persecuted. There can be no democracy if the people's rights to representation and decision making are not respected."

**José Napoleón Duarte,
President of El Salvador,
May 23, 1986**

to the national elections in the region and cosponsored a series of training courses on election laws and procedures.

The United States also has helped the legislatures of El Salvador, Guatemala, and Honduras to design and conduct training programs for their members and to begin developing permanent support systems that will strengthen their capacity to participate in democratic decisionmaking.

Finally, the Central American Peace Scholarship program has brought more than 3,400 Central Americans to the United States for professional and skills training and to observe the practice of democracy in the United States.

Diplomatic Efforts

The United States has consistently pursued the NBCCA's recommendations that U.S. policy test "Nicaragua's willingness to enter into a general agreement" and support a just and lasting solution to the Central American crisis.

The United States has supported the Latin American initiative for a negotiated solution to the crisis, known as the Contadora process, since its inception in 1983. U.S. objectives in Central America are consistent with the 21 points listed in the September 1983 Document of Objectives and which the Contadora countries (Colombia, Mexico, Panama, and Venezuela) and the five Central American states agreed were essential for a lasting peace. Common objectives include the ending of military hostilities, reductions in foreign military advisers and equipment, the end of support for insurgencies, and dialogue between insurgents and the governments they oppose—leading to open, competitive, democratic processes in which all citizens may participate. So long as it is fully implemented by all parties, the United States will support and respect a comprehensive, verifiable, and simultaneous implementation of an agreement fully embodying the Document of Objectives.

To date, the Sandinistas' conviction that they are a revolutionary "vanguard" that must exercise national leadership has kept them from negotiating seriously to fulfill the Contadora goals. This claim to exclusive political power is fundamentally incom-



President Reagan welcomes President Azcona of Honduras to Washington, D.C., May 27, 1986.

patible with the other Central American nations' pluralistic vision of democracy.

Through 1985 and 1986, the Sandinistas repeatedly hampered efforts to conclude an agreement. For example, in June 1985, Nicaragua's refusal to discuss an agreed-upon agenda torpedoed a Contadora meeting and temporarily interrupted Contadora negotiations. In November 1985, the Sandinistas went public with extensive, detailed objections to the September 1985 Contadora draft agreement that they had said that they would accept. In December 1985, they called for a 6-month suspension of the negotiations.

With the Contadora negotiations deadlocked in 1985 because of Sandinista intransigence, four South American countries (Argentina, Brazil, Peru, and Uruguay) formed the Support Group in an effort to revitalize the negotiating process. In January 1986, the Contadora and Support Groups issued a "Message of Caraballeda" urging resumption of Contadora talks and other steps to resolve the crisis. In June, the Contadora and Support Groups presented the Central Americans an amended draft agreement. The Central American

democracies noted that this draft contained major deficiencies; it essentially left open key provisions and asked them to "sign now and negotiate later." They called for further negotiations to strengthen the draft. The Sandinistas stated that they would accept the new draft agreement on the condition that future arms talks be held on their terms. In July, they filed suit against Costa Rica and Honduras at the International Court of Justice, effectively blocking further negotiations on the agreement.

In September 1986, the Contadora countries met at the United Nations in New York to discuss ways of reviving the negotiating process. After a spirited debate, the OAS General Assembly in Guatemala in November accepted by acclamation a resolution urging Contadora to persevere in its efforts to find a negotiated settlement. The UN General Assembly adopted a similar resolution the following week. On November 18, the UN and OAS Secretaries General presented a joint initiative listing services available from their organizations to assist Contadora.

Contadora and Support Group foreign ministers met in mid-December and announced their intentions to institutionalize the process by scheduling regular meetings and expanding its scope to include other regional political and economic issues. They also announced a January 1987 tour of Central America accompanied by the UN and OAS Secretaries General. The January 19-20 visit demonstrated their continuing interest in seeking an agreement, but no breakthroughs resulted.

Costa Rica invited the presidents of the four Central American democracies to meet on February 15, 1987, in San Jose. At that time Costa Rica presented a new peace proposal focusing on the key issue of national reconciliation and democratization in Nicaragua. The Sandinistas have criticized the summit and Costa Rica's peace plan. In a parallel effort, on February 6, seven parties of the Nicaraguan civic opposition presented a proposal to achieve national reconciliation.

The United States has sought to cooperate with the Contadora process. From June to December 1984, the United States participated in bilateral talks with the Sandinistas at the request of Contadora. In January 1985, after nine rounds of talks, the United States decided not to schedule further meetings due to concern that the Sandinistas were using the talks to avoid a comprehensive agreement within Contadora's multilateral framework.

On February 10, 1986, Secretary of State Shultz met in Washington with the foreign ministers of the Contadora and Support Groups. The Secretary reiterated that the United States was prepared to reopen bilateral discussions with Nicaragua if the Sandinistas talked to their democratic opposition, including the armed resistance.

In March 1986, Ambassador Philip C. Habib became the new Special Envoy for Central America. Ambassador Habib has made 10 trips to the region to meet with Central American and Contadora/Support Group leaders and reaffirm our support for the negotiating process.

(For further information on the political situation in Nicaragua and the other Central American countries, see Appendix C.)

ECONOMIC AND SOCIAL ISSUES

Economic Stabilization

Central America underwent a severe economic contraction during the early 1980s. Total production declined yearly between 1980 and 1983, causing per capita incomes to fall by 12% over the period. The decline in production was reflected in a sharp fall in private investment, massive capital flight, and a general deterioration of the economic climate.

Sharply increased economic assistance resulting from implementation of the NBCCA's recommendations facilitated a turnaround in the region's economic situation. Table I summarizes the main macroeconomic conditions in 1983 and 1986 and presents several key indicators of progress to date in stabilizing the region's economies. The reversal of the downward spiral in overall production is the broadest indicator of this turnaround. After declines of -2.6% in 1982 and -0.8% in 1983, regional gross domestic product rose in 1984 by 1.7%, in 1985 by 0.9%, and in 1986 by an estimated 1.4%.

TABLE I
Macroeconomic Indicators for
Central America, 1983 and 1986¹

Indicator	1983	1986 (est.)
GDP Growth Rate	-0.8%	+1.4%
Private Investment (% of GDP)	8.9%	11.4%
Private Capital Flows	-\$101 million	+\$215 million
Government Fiscal Deficits (% of GDP)	5.1%	2.8%
Total Nontraditional Exports	\$808 million	\$1,221 million
Nontraditional Exports to U.S.		
Fruits and Vegetables	\$33 million	\$66 million
Manufactures	\$290 million	\$440 million

¹Excludes Nicaragua.

Overall economic conditions have substantially improved. Nevertheless, the recovery is still precarious. The economic growth rate of 1.4% in 1986 falls short of the 2.5%-3.0% hoped for 2 years ago. The two most significant shortfalls have been in Guatemala, where major U.S. funding did not begin until an economic stabilization program was implemented in 1986 after the transition to an elected government, and in El Salvador, where continued guerrilla attacks and destruction make economic stabilization and recovery more difficult. In addition, El Salvador suffered a major earthquake in October 1986, causing a conservatively estimated \$822 million in damage to infrastructure alone.

The slowness of the recovery appears to be the result of both internal and external factors. The major factors are as follows.

An adverse political/military climate still exists. The NBCCA projected that the major problems—insurgency in El Salvador and Nicaragua and the destabilizing political conflict between Nicaragua and its neighbors—would largely be resolved within 18 months of the report's issuance (i.e., by sometime in 1985). This has not proven to be the case.

External economic trends have been worse than anticipated. Sluggish world economic growth and unfavorable commodity prices have limited Central American growth. The NBCCA had anticipated that prices of the major export commodities of Central America—coffee, sugar, bananas, beef, and cotton—would slowly recover from the very low levels existing during the 1981-83 period. However, prices of sugar, cotton, and beef remain significantly below their 1980 levels. After rising in 1985-86, coffee prices have fallen below the depressed levels of 1982-84.

Anticipated capital inflows have not materialized. The NBCCA report projected total inflows of capital during the 1984-90 period of \$21 billion (excluding Nicaragua), including \$10-\$12 billion to be provided by the U.S. Government. Actual U.S. assistance flows have been behind schedule; even if a \$300 million FY 1987 supplemental is approved, the cumulative shortfall through the current fiscal year will be

\$760 million. An anticipated repatriation of capital sent abroad earlier and sharp upsurges in private domestic and foreign investment and in World Bank lending have not occurred.

Governments have been slow to make economic policy changes. To varying degrees, governments have been reluctant to take some of the steps necessary to resolve their economic problems.

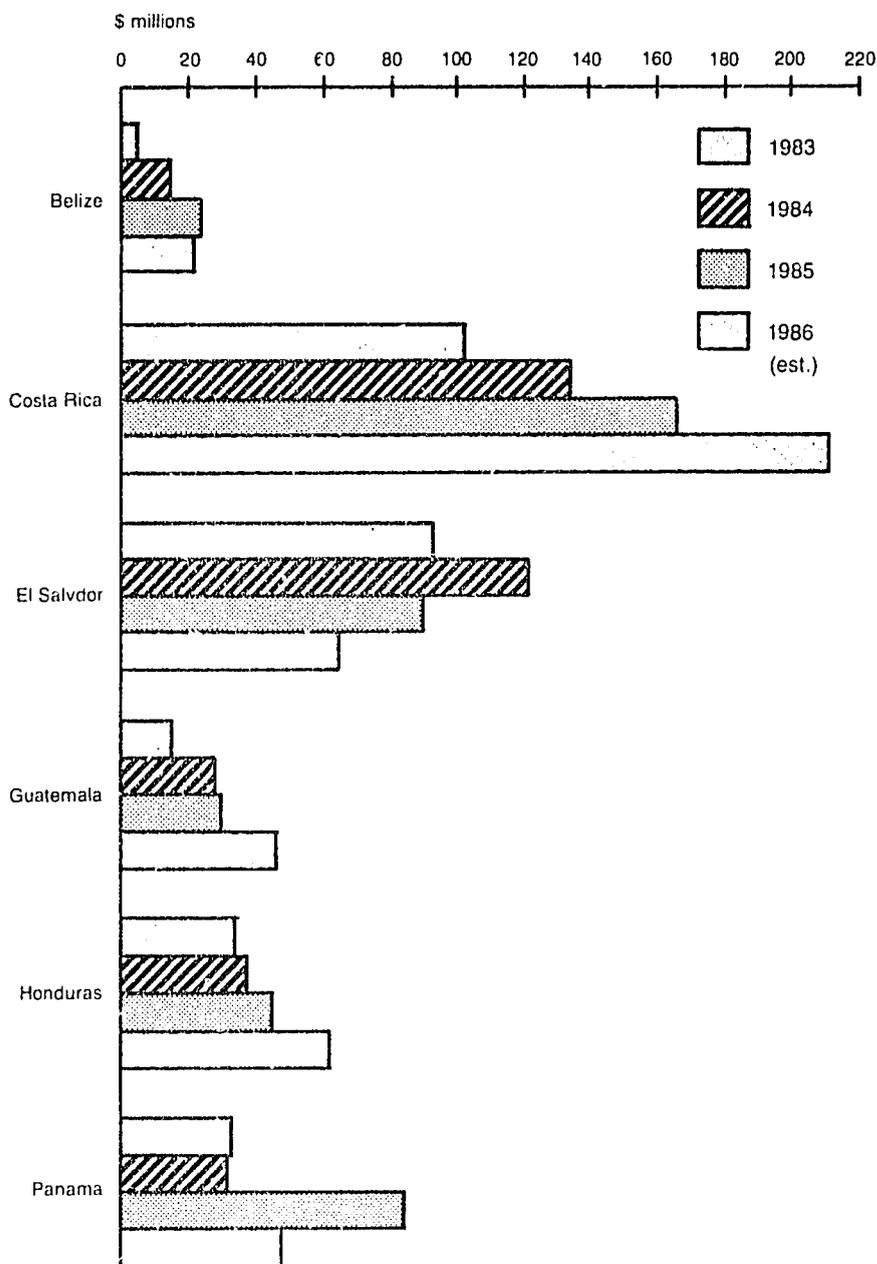
Progress in exchange rate realignment has been substantial but remains incomplete. This is not an issue in Belize, Costa Rica, or Panama. Guatemala adjusted its exchange rate for most transactions to a realistic level in early 1986 and has pledged to complete the process. El Salvador also undertook a major adjustment in 1986 but has not made needed followup adjustments. In Honduras, the exchange rate remains a policy concern.

Economic policy coherence has not been fully achieved. In addition to difficulties in maintaining an appropriate exchange rate system, El Salvador, despite the substantial gains of 1984 and 1985, continues to suffer from a lack of public and private consensus on economic policy. Costa Rica's overall economic policy under the current administration has been the subject of protracted negotiations, while its relationship with its commercial creditors deteriorates.

Government deficits are still too large. Fiscal deficits have been cut sharply, but further reductions are needed in some countries. A relaxation of fiscal discipline in Costa Rica is threatening to undo some of its progress, while the Salvadoran Government's inability to control fiscal deficits threatens inflationary pressures.

Implementing such structural economic reforms presents a dilemma for fragile democratic governments. In the short run, such actions impose economic hardship on some groups upon which the governments depend for support. Over the long term, failing to correct underlying structural problems will only lead to worsening economic conditions for the entire country. U.S. economic assistance, therefore, must be conditioned upon implementation of needed reforms, or ever-higher assistance levels will be required just to prevent further economic decline.

CHART I
Central America: Manufactured Exports to the U.S., 1984-86



Structural Transformation

The CAI proposed a strategy for generating economic growth by the end of the decade, based on increased private investment, reduced government intervention, and accelerated growth of non-traditional exports. Gross domestic product (GDP) growth in the region was targeted to reach 6% per year by 1990, fueled by new investment, particularly in nontraditional export products. Non-

traditional exports were projected to rise from \$400 million in 1983 to \$1 billion by 1990. The following reviews progress to date.

Investment. Domestic private investment in the region declined sharply during 1980-83. For the region as a whole, the ratio of private investment to GDP fell from 16% in 1980 to a



An AID irrigation project helps small farmers produce nontraditional crops for export.

low of 9% in 1983. Since then, the ratio steadily rose to more than 11% in 1986, with all of the countries (except Belize) realizing some recovery by 1985.

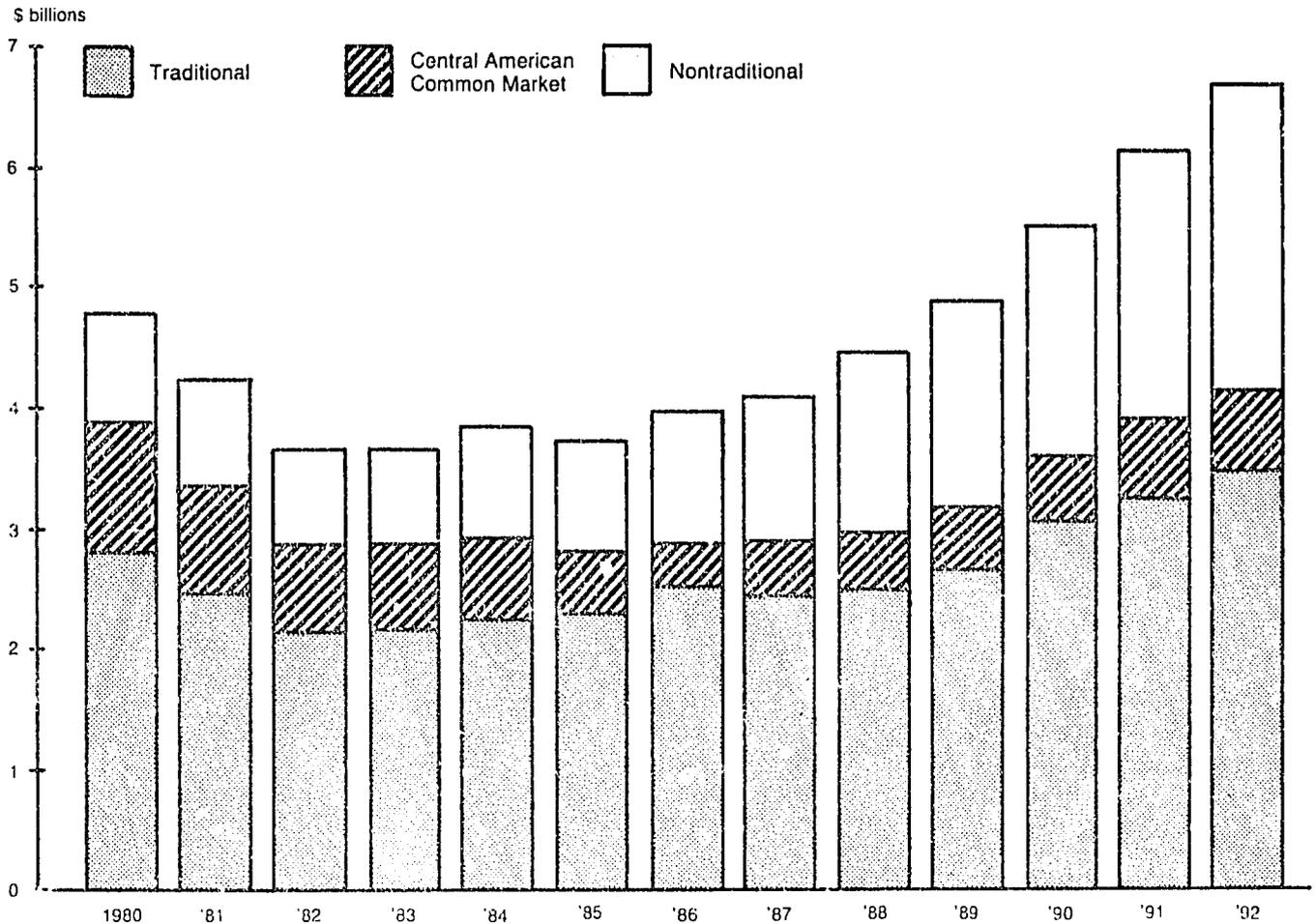
The most promising trend has been in Costa Rica, where the private investment/GDP ratio fell from 17% in 1980 to 11% in 1982 but then regained its 1980 level by 1985. This turnaround can be attributed primarily to the significant economic policy reforms undertaken by the Costa Rican Government during that period. Sharp declines in private investment occurred in Belize, Guatemala, and Honduras. In El Salvador, the ratio remained in the 6%-7% range during 1980-83, then rose to 8.4% in 1985 and 9.2% in 1986. This level, however, is still far below those of the 1970s.

While improvement in overall economic conditions is likely to stimulate investment from larger firms, the United States is actively engaged in more direct efforts to promote small business. A series of specific projects is underway, including technical assistance to small business, training of managers, and increased credit.

Another important aspect of improving the investment climate has been the reduction in the role of government enterprises. The United States supports efforts to sell or liquidate such enterprises in several countries, notably Costa Rica and Honduras, eliminating a serious drain on government finances, and improving efficiency of operation. A number of firms already have been sold or liquidated. In Costa Rica, the drain on government resources from the state holding company has been reduced from \$65 million in 1983 to only \$5 million in 1986; the figure is expected to drop to zero in 1987.

Nontraditional Exports. Although central to long-run prospects for sustained growth, nontraditional agricultural and industrial export products cannot play a significant economic role in the near term. For Costa Rica, the largest exporter of manufactures, manufactured exports to the United States (the primary extraregional market) were valued at only \$100 million in 1983 or less than 10% of total exports. Even a doubling of this figure

CHART II
Central America: Commodity Exports, 1980-92^a



^aData for 1980-86 are actual; those for 1987-92 are projected.

would have a smaller effect on export earnings than a significant rise in coffee prices.

A sustained effort over a decade or more will be needed if nontraditional products are to play an important role in generating export earnings. An annual growth rate of 15%-20% per year in nontraditional exports would seem to be necessary both for arriving at substantial export levels in the medium term and for maintaining the attention of policymakers to the potential in this area for further rapid growth through appropriate policy changes.

The experience so far has been encouraging. Nontraditional exports

have been growing since 1983 at an annual rate of 15%. As a result, their share of total exports has risen from 21.6% in 1983 to 26.5% in 1986. We project (see Chart II) that they will rise to 40% by 1992, providing a basis for dynamic growth by then. Nevertheless, the speed with which countries have been able to move to an export-led growth rate has varied.

Costa Rica appears to be on a rapid growth path, with exports to the United States rising from \$72 million in 1982, when policy reform began, to an estimated \$211 million in 1986—an

annual growth rate of about 30%. Panama, Guatemala, Honduras, and Belize also show favorable trends in nontraditional exports to the United States, although they began from much smaller bases than in the case of Costa Rica. In El Salvador, a significant decline occurred in 1985 and 1986, suggesting that the policy framework and civil strife contributed to an inadequate environment for stimulation of new exports.

Spreading the Benefits of Economic Growth

Rapid economic growth is probably the most important vehicle for achieving adequate standards of living for the people of Central America. Economic oppor-

tunity for all groups in society is most likely to result from growth of employment opportunities and from replacement of government controls and non-price rationing by market forces. However, disparities in income and opportunity in some countries are so wide that a direct attack on such problems is needed.

To promote progress in these social and economic opportunity areas, the Central America Initiative considered it crucial to assure that the benefits of the growth process are broadly distributed. Significant progress is being achieved. Table II summarizes our best estimates of social indicators for 1983 and 1986. Specific activities in these areas are described below.

Education. Under the CAI, the United States and other donors have undertaken a series of projects aimed at increasing access to education, including the following.

Access to primary education has significantly increased over the past several years in the countries with the most serious problems—Guatemala, El Salvador, and Honduras. In Guatemala, the gross enrollment ratio increased from 71% to 76% between 1980 and 1986, and in Honduras by 9%. For El Salvador, current data are not available because of the October 1986 earthquake. These increases reflect AID inputs, international efforts, and large amounts of assistance from the World Bank and the Inter-American Development Bank.

Efficiency of education also is improving. In Guatemala, the average number of student-years of schooling needed to produce a sixth-grade graduate has dropped by 1 year since 1980, and in Honduras it has dropped by 1.6 years. In Belize, Panama, and Costa Rica, where access to primary education is already close to complete, improvements in efficiency also are taking place.

Between 1984 and 1986, more than 4.5 million textbooks were produced and distributed in the region through AID and World Bank projects. Another 9 million textbooks are planned for production and distribution between 1987 and 1990.

TABLE II
Trends in Social Indicators, 1983 and 1986

Social Indicator	1983 (est.)	1986
Health		
Infant Mortality Rate (per 1,000 births)	61.1	56.9 (1985)
Education		
Primary School Enrollments ¹	3,040,000	3,300,000
Percent of Population (Ages 7–12) ¹	90%	91%
Primary School Completion Rate ¹	72%	75%
Central American Peace Scholars	—	3,497
Family Planning		
Couples using Family Planning	1,150,000	1,400,000
Percent Coverage	37.5%	41.7%
El Salvador Land Reform		
Titles Issued to Phase I Cooperatives	41	196
Phase III Titles Issued	5,456	17,426

¹Education statistics exclude El Salvador, for which current data are not available.

The United States has supported training of 16,000 teachers in Guatemala and Honduras during the past 4 years, and plans are underway for training another 50,000 during the 1987–90 period.

Current U.S.-financed projects have supported construction or renovation of 3,000 classrooms in Honduras and El Salvador, with smaller efforts in Guatemala and Costa Rica. Plans for another 4,000 during 1987–90 are being implemented.

AID has important vocational, technical, and management training activities underway or in development in each country. In Honduras and Costa Rica, 6,000 managers were trained between 1984 and 1986, and 20,000 persons are expected to benefit from vocational, technical, and/or management training between 1987 and 1990.

Health and Nutrition. Available data indicate that infant mortality is declining in the region. The goal of reducing infant mortality by 10% can be expected to be attained by 1989. AID's health projects focus on developing a sustained capacity to provide oral rehydration therapy (ORT), immuniza-

tions, and other important child-survival interventions and to reduce the incidence of malaria.

Oral rehydration therapy reduces infant mortality by treating the dehydration resulting from diarrhea by the ingestion of a simple solution of water, sugar, and salts. This technology already has prevented thousands of deaths each year in Central America. AID-supported programs include local production of ORT solutions in Guatemala and mass media campaigns promoting its use in El Salvador.

The rate of immunization coverage in Central America, except in Costa Rica and Panama, is low. AID helps to vaccinate children and to institutionalize vaccination programs. In Guatemala, a new AID-funded project assists the Ministry of Health to make immunizations routinely available in all health facilities. Each household in rural

Housing, Water, Sewerage, and Other Infrastructure. At present, AID is financing more than 50 separate activities related to housing; water and sewerage systems; and other infrastructure, such as roads, bridges, irrigation projects, and energy. Other donors, including the Inter-American Development Bank and the World Bank, also have been active.

Because of depressed economic conditions and tight government budgets, expansion of housing and infrastructure construction has been slow. Available data indicate that access to water and sewerage is expanding faster than overall population growth but only modestly so. As economic conditions improve, resources available for these activities will expand.

Security Developments

The NBCCA concluded that indigenous Central American problems "have been exploited by hostile outside forces. . . ." The Commission recommended more security assistance for El Salvador, contingent on sufficient progress in human rights, free elections, and political reforms. It also urged greater predictability of U.S. support through multiyear funding of military aid to the Central American region. U.S. policy is to signal solid U.S. commitment to the Central American democracies—through security assistance, training, and exercises—while promoting the professionalization of each country's armed forces. Soviet, Cuban, and other Soviet-bloc assistance to the Sandinistas continues unabated. In the face of externally supported insurgent movements and the increasing Nicaraguan military threat, the United

States assists the Central American democracies to provide the protective security shield which makes development possible.

Progress to Date. Remarkable progress has been made toward the basic objective of improving the regional security environment through U.S. assistance in strengthening the defense capabilities of the region's democracies. This effort has promoted the professionalization and effectiveness of each country's armed forces to enable them to better combat security threats, e.g., insurgency and the Nicaraguan military challenge. Central American militaries have used U.S. assistance to improve organization, training, and equipment. Increased battlefield success and reduced guerrilla strength, particularly in El Salvador, have marked these efforts. They have been accompanied by improved human rights performance (see Appendix E).

At the same time, however, the Nicaraguan military threat has increased due to an upgraded military hardware capability and the growing size of their armed forces, which reached 75,000 active duty personnel in 1986. Soviet, Cuban, and other Soviet-bloc military assistance to the Sandinistas continues unabated, reaching a peak level of 23,000 metric tons of equipment in 1986.

Although the U.S.-supported Nicaraguan democratic resistance has increasingly forced the Sandinistas to pay more attention to internal conditions, the Sandinistas continue to support subversion in the region and to offer training, logistical, and command and control facilities to the Marxist guerrillas in neighboring countries.

In the last 2 years, U.S. security assistance has been constrained by budgetary restrictions and the Administration's aid request levels to Congress have not been fully funded.

Prospects for Meeting Objectives Through 1989. The crisis in the region is a long-term problem—in the absence of a comprehensive, simultaneous, and verifiable implementation of the 21 objectives of the Contadora Document of Objectives of September 1983—will require a coordinated long-term response and commitment of resources. Soviet-bloc military assistance to Nicaragua alone exceeds U.S. military assistance to all the Central American democracies. Consolidation of the Sandinista regime and Nicaragua's ability to destabilize the region continue to frustrate peaceful negotiations. That country's military capability is improving. Soviet, Cuban, and other Soviet-bloc military assistance to the Sandinistas and various insurgent groups in Central America is likely to increase.

Meeting the security objectives will require that the United States simultaneously continue to:

- Strengthen the security shield of each of the Central American democracies to ensure continued progress in democratic development, economic growth, and national reconciliation; and
- Support efforts to achieve a democratic outcome of the conflict in Nicaragua and a comprehensive, verifiable implementation of the 21-point Contadora Document of Objectives.

Although substantial progress has been made toward the realization of the security objectives in the region, there is a grave risk of compromising the success of the effort if there is a reduction in funding for the security shield to the region's democracies or for the democratic resistance.

III. The Need for Full Funding of NBCCA Recommendations

SUMMARY OF ACCOMPLISHMENTS

The CAI was based on certain economic and social recommendations contained in the NBCCA report. Much has been accomplished in the past 3 years.

- Democratically elected governments, dedicated to human rights improvements, are found in Belize, Costa Rica, El Salvador, Guatemala, and Honduras; Marxist-Leninist Nicaragua stands in stark contrast in this trend.

- Politically motivated violence in El Salvador and Guatemala has been reduced significantly.

- A fundamental change has occurred in the attitudes of the military toward human rights in El Salvador and Guatemala.

- The severe economic slide so evident in 1980-81 has been arrested and recovery is underway in every country of the region.

- Capital flight from the region has been reduced, and private investment and private capital have begun to return.

- Nontraditional exports (believed to be the economic key to Central America's long-term future) are expanding in every country and dramatically in Costa Rica.

- Infant mortality rates are dropping more rapidly than targeted.

- Primary school enrollments are increasing.

- Programs for improvements in the administration of justice are underway throughout the region.

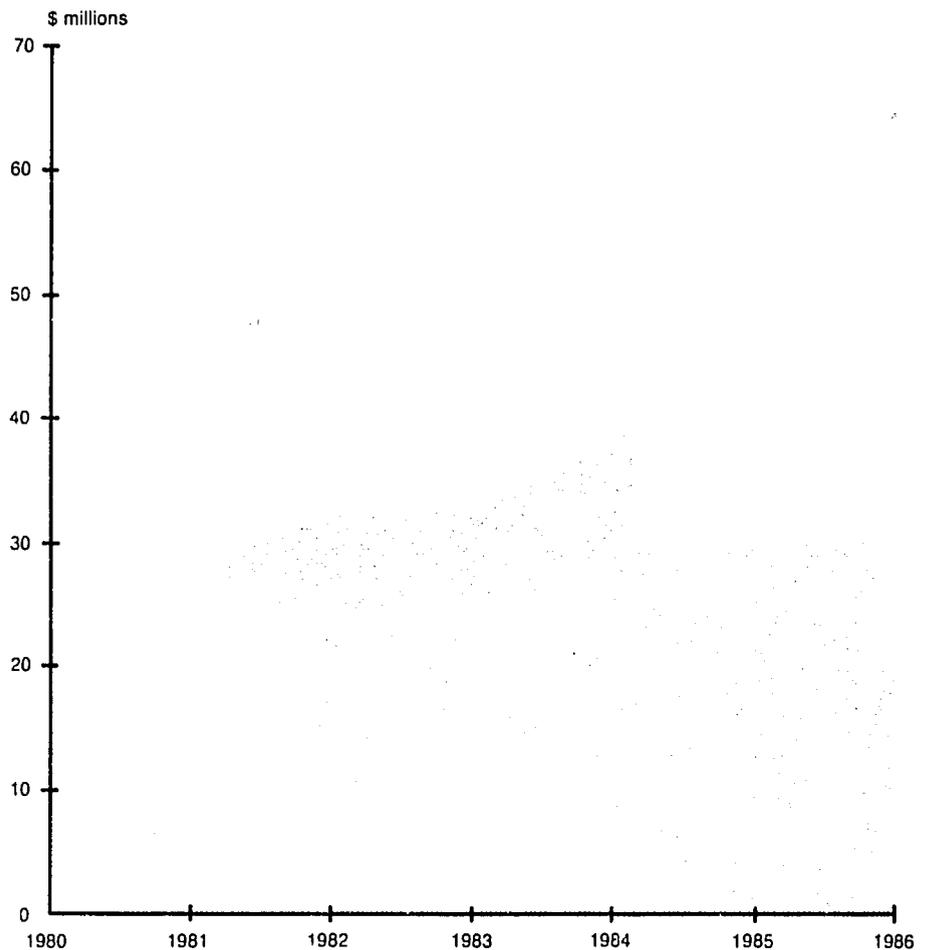
- 3,497 "peace scholars" already have come to the United States under the Central American Peace Scholarship program.

- Central Americans have begun to establish the proposed Central American Development Organization.

In its report, the NBCCA indicated that the United States should furnish \$10-\$12 billion in resources and guarantees to Central America from 1984 to 1990. The CAI proposed a more modest beginning—a 5-year effort totaling some \$8.4 billion, of which \$2 billion was to be in guarantees and the balance in appropriated funds from Economic Support Funds (ESF), development

CHART III

U.S. Fruit and Vegetable Imports from Central America, 1980-86^a



^aExcludes bananas.

assistance, PL 480, Peace Corps, USIA, and the refugee program.³ Excluding the FY 1984 supplemental request of \$400 million, this averages out to an annual requirement of \$1.2 billion in appropriated funds and \$400 million in guarantees for the 5-year period.

³ For further information on Peace Corps and refugee programs, see Appendix G.

Actual funding against these targets as of the end of FY 1986 totaled \$2.155 billion in appropriated funds and \$377 million in guarantees (see Table III, p. 18).

Economic assistance levels for Central America have been substantial over the past 3 years, but they have been diminishing and falling short of the levels recommended by the NBCCA and in the CAI, particularly with respect to appropriated funds. In terms of the

original assistance targets, the shortfall in appropriated funds will be approximately \$760 million by the end of FY 1987, assuming passage of the full FY 1987 supplemental.⁴ Any reduction in the FY 1987 supplemental level will, of course, further increase the shortfall.

The NBCCA made no specific dollar-level recommendation for military assistance. In general, it did recommend more aid at a level that would adequately promote the strengthening and professionalization of each democracy's armed forces. An effective security shield against violence and intimidation had to be built for Central American democracies in order to create an environment in which political, economic, and social progress could succeed. The need for sustained, sufficient military aid for regional armed forces and the Nicaraguan democratic resistance remains.

Do the Goals Need Modification?

Most of the recommendations contained in the NBCCA report remain sound. It is increasingly evident, however, that not all of the objectives originally set forth in the NBCCA's report can be fully achieved within the 5-year timeframe of the CAI.

We believe the basic goals of the CAI—strengthening democratic institutions, economic stabilization, economic transformation, and spreading the benefits of growth more broadly—are consistent with the NBCCA recommendations and remain a sound and appropriate focus for U.S. assistance to Central America.

It is clear that several of the major targets under these goals will require additional time and all of the resources recommended by the NBCCA.

Targets under **strengthening democratic institutions** were never quantified, and efforts in this area will need to continue well into the 1990s. Specifically, over the next several years, we would hope to greatly expand activities in such areas as the administration of justice, leadership training, improvement of electoral processes and support-

⁴The FY 1987 supplemental requests \$300 million in economic assistance for the four Central American democracies, \$100 million of which is for earthquake recovery in El Salvador.

TABLE III
Funding of the Central America Initiative, FY 1984/85–1987
(\$ thousands)

	1984/85	1986	TOTAL	1987 Supplemental	1987	TOTAL
Appropriated Funds						
ESF	826,993	457,812	1,284,805	415,000	200,000	1,899,805
Development Assistance	299,933	254,952	554,885	231,062	100,000 ^a	885,947
PL 480						
Title I	130,100	89,500	219,600	89,000	0	308,600
Title II ^b	11,591	19,671	31,262	18,181	0	49,443
Subtotal	1,268,617^c	821,935	2,090,552	753,243	300,000	3,143,795
Peace Corps	18,200	10,600	28,800	10,500	0	39,300
USIA	7,800	19,500	27,300	15,900	0	43,200
Narcotics ^d	548	326	874	1,255	0	2,129
OPIC	4,544	3,330	7,874	3,300	0	11,174
Subtotal^e	31,052	33,756	64,848	30,955	0	95,803
Total appropriated	1,299,709	855,691	2,155,400	784,198	300,000	3,239,598
Guarantees						
Trade Credit Insurance Program	0	176,600	176,600	200,000	0	376,600
Housing	5,000	40,469	45,469	2,600	0	48,069
Commodity Credit Corporation	59,700	34,000	93,700	48,000 ^f	0	141,700
OPIC	10,103	33,050	43,153	33,000 ^f	0	76,153
Eximbank	9,943	7,957	17,900	8,500 ^f	0	26,400
Subtotal	84,746	292,076	376,822	292,100	0	668,922
TOTAL	1,384,455	1,147,767	2,532,222	1,076,298	300,000	3,908,520

^a FY 1987 supplemental includes \$100 million for El Salvador earthquake reconstruction.

^b Includes Section 416 commodities \$5 million in FY 1986 and \$7.7 million in FY 1987.

^c For FY 1984, includes supplemental plus \$25 million of PL 480 reallocations only.

^d For further information on narcotics program see Appendix G.

^e Excludes non-CAI related program costs.

^f Projected based on FY 1986 allocations.

ing systems, improvement of local governments, legislative processes, trade union development, and creating a role for women in development.

While **economic stabilization has been achieved** in varying degrees throughout the region, it is quite fragile and could be easily reversed by any significant economic, political, or military setback. Another 3–5 years will be needed to solidify the economic stabilization process and to ensure that the Central American economies are securely on the road to recovery.

The prolonged economic stabilization process, among other factors, has affected the speed at which the all-important **economic transformation** has

been simultaneously taking place. Stabilization concerns have directed attention and resources away from the structural reforms and programs needed if Central America is to attain the type of self-sustaining economic growth essential to equity and the preservation of democracy and human dignity. It now is obvious that transformation of these economies—changing the base from traditional exports of bananas, coffee, sugar, cotton, and meat, to non-traditional agricultural products and manufactures—will require significantly more time than envisioned by the

NBCCA. Under optimistic projections, it will be 1992 before Central America again achieves a 5% growth rate—one percentage point less than originally contemplated in the NBCCA report and only slightly more than two percentage points above the annual increase in population.

In terms of spreading the benefits of growth more broadly, several specific targets may be largely met by 1989 or 1990, e.g., reduction in infant mortality, increased use of family planning services, improved access to potable water, and meeting the objectives under the Central American scholarship program; others will not. For example, the creation of 250,000 jobs per year must await a fairly high and sustainable economic growth rate. Other social benefit targets—for example, primary school enrollment growth and reduction in primary school repeaters—were probably overly optimistic within either the CAI's 5-year or the NBCCA's 7-year timeframe. Accordingly, we have established more realistic targets in education for the region (including El Salvador) for 1990: 90% gross enrollment ratios; 70% completion rates; and 9 years to produce a sixth-grade graduate. Finally, it will be a long and difficult effort to incorporate equitably the less advantaged into the new productive base which we are helping the Central Americans to build.

Fully Funding the Objectives

We intend to fund the CAI fully by extending the period of execution of the program by 3 years to 1992. The target growth rate is being revised to slightly more than 5%. The extension will increase the original budget by approximately \$500 million to a total of \$6.9 billion in appropriated funds while retaining the original \$2 billion in guarantees. This extension is responsive to funding limitations under the budget deficit reduction act and reflects the difficulties inherent in the implementation by sovereign governments of essential reforms. It is attuned to the political and security realities of the region and the external conditions of world markets and

investment attitudes. We consider this extension of the CAI a practical response to a changed situation.

A 3-year extension of the original 5-year timeframe will help to ensure that:

- There is a solid trend in all countries toward increased democratization and participation of the populace in the electoral and governing processes;
- The Central American economies are stabilized and well on the road to recovery and are moving toward regaining or exceeding their precrisis rates of growth;
- Essential structural reforms are in place or sufficiently initiated to permit Central America to achieve and sustain positive per capita economic performance based on export-led growth; and
- Policies and other programs are in place to ensure broader participation in the benefits of these higher growth rates.

Projected assistance levels also reflect a shift in emphasis, beginning in FY 1989, away from stabilization and

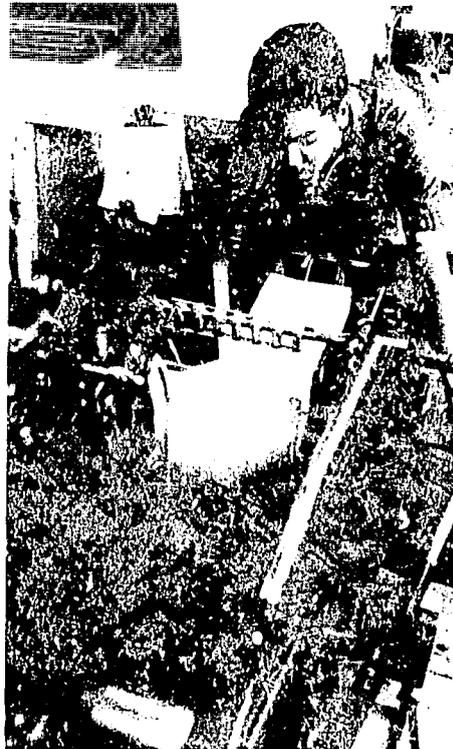
toward structural transformation and equity concerns. Economic Support Funds will continue to play a major role in this transition by helping to fund some of the larger projects that are aimed at increasing and diversifying both production and exports through improved infrastructure, technology, and/or equipment. ESF-generated local currencies will be paired with U.S. and other donor assistance to support programs designed to broaden access to basic social services and promote equity. U.S. aid will be tied to sector-wide reforms designed to put policy, institutional, and financial frameworks in place, to ensure that growth is both quantitatively and qualitatively appropriate and sustainable.

We hope that the year 1992 represents a reasonable date by which the CAI's major economic objective—recovery—will be achieved and the need for economic supporting assistance will be significantly less. Central America's development is a long-term proposition, however, and we intend to develop a follow-on program for the years beyond 1992. This will be needed especially for some of the newer initiatives under democratization, structural reform, and programs to ensure broader participation and human resource development.

Table IV (p. 20) summarizes by major goal area and major funding source: the levels of financial assistance under the CAI already committed or programmed through FY 1987; the planned FY 1988 request; and estimated funding requirements beyond FY 1988 and through FY 1992 to fund fully and complete as many of the NBCCA recommendations as possible. The actual outlays in each country may be less than authorized if a country fails to implement significant economic reforms.

Program Summary

The program we envision under the extended timeframe will not vary significantly from that currently underway. The pace of accomplishment over



Under its Employment Generation program, AID provided a loan to the owners of this small printing shop; five jobs were created.

TABLE IV
Central America Initiative Financial Plan, FY 1984/85-1992
(\$ millions)

	1984/85 ^a	1986 ^b	1987	1984/87 Subtotal	1988	1989	1990	1991	1992	1988/92 Subtotal	TOTAL
Economic Stabilization											
ESF	707	417	538	1,662	415	286	230	130	70	1,131	2,793
Development Assistance	21	8	8	37	0					0	37
PL 480 ^c	130	95	97	321	80	50	45	30	25	230	551
Trade Credit Insurance Program	(0)	(177)	(200)	(377)							
Commodity Credit Corporation	(60)	(34)	(48)	(142)							
SUBTOTAL	858	520	643	2,020	495	336	275	160	95	1,361	3,381
Structural Change											
ESF	71	9	14	94	47	150	160	100	80	537	631
DA	116	113	91	320	93	94	84	65	50	386	706
PL 480	0	0	0	0	0	31	35	40	45	151	151
OPIC Financing	5	3	3	11	3	3	3	3	3	15	26
OPIC Guarantees	(10)	(33)	(33)	(76)							
Eximbank Guarantees	(10)	(8)	(9)	(27)							
SUBTOTAL	192	125	108	425	143	278	282	208	178	1,089	1,514
Spreading Benefits											
ESF	25	27	51	103	25	40	40	40	40	185	288
DA	160	128	219	507	120	120	140	140	120	640	1,147
PL 480	12	15	10	37	14	9	9	5	5	42	79
Narcotics	1	0	1	2	1	1	2	2	2	8	10
Peace Corps	18	11	11	39	10	10	10	10	10	50	89
Housing Guarantee	(5)	(40)	(3)	(48)							
SUBTOTAL	215	181	292	688	170	190	201	197	177	925	1,613
Democracy											
ESF	24	5	12	41	15	20	20	20	15	90	131
DA	3	6	13	22	17	18	23	28	29	115	137
USIA	8	20	16	43	16	16	16	16	16	80	123
SUBTOTAL	35	31	41	106	48	54	59	64	60	285	391
TOTAL											
Appropriated	1,300	856	1,084	3,240	856	848	817	629	510	3,660	6,900
Guarantees ^d	85	292	292	669	301	300	280	225	225	1,331	2,000
Grand Total	1,385	1,148	1,376	3,909	1,157	1,148	1,097	854	735	4,991	8,900

^a Includes FY 1984 supplemental of \$370 million plus \$25 million of FY 1984 PL 480 reallocations.

^b Total includes \$300 million requested in FY 1987 supplemental, \$100 million of which is destined for El Salvador earthquake recovery.

^c Includes Section 416 commodities for FY 1986 and FY 1987. Outyear levels for Section 416 are dependent on regional allocations and future legislative actions.

^d Out-year total estimates for guarantees are projected, based on experience to date.

the next 5 years, however, will vary. The following provides a general description of program content and focus.

Democratization. The continuation and strengthening of democratically elected governments, democratic processes, and civilian institutions in the region are critical to overall success in achieving the recommendations of the NBCCA report and the goals of the CAI. The elected civilian governments of the region must be able to govern effectively and honestly, to protect and extend the human and legal rights of their citizens, and to organize alternative programs and choose among them peacefully.

U.S. aid to democratization must grow in size and sophistication as we and the Central Americans confront the fact that democracy is an evolutionary process involving a range of civic institutions, cultural attitudes, and socio-political resources. AID programs will continue to focus on facilitating the election process itself, expanding citizen participation and leadership training, strengthening the professional capabilities of legislatures, and promoting the freedom and competency of the press. AID also is working to upgrade the competency and independence of the judiciary and the investigative organs of government so that they may more effectively serve the populace and protect human rights.

The Central American Peace Scholarship program, aimed at providing 10,000 or more scholarships, will be continued. This highly successful effort aims to not only acquaint trainees with the values and institutions of democracy, but—because it is targeted at the less advantaged—to increase their ability to compete in the employment marketplace. We see the program as an invaluable tool to facilitate our efforts to redirect Central American agricultural and manufacturing production toward the highly competitive world market. A highly trained workforce is essential if Central America is to succeed in such a competitive environment.

In addition, AID and USAID should develop programs to improve the professional capabilities of Central American civilian officials, for example, through courses that complement existing U.S. Government training programs by helping Central American civilian officials relate U.S.-oriented course matter to Central American requirements.



Voters in El Salvador, March 1984.

Stabilization. We envision that balance-of-payments assistance to El Salvador and Honduras through ESF cash transfers will be required throughout the period at gradually declining levels. ESF funding for Panama and Belize should not be required after 1989 or for Costa Rica and Guatemala after 1991. This assumes that we will be successful in convincing the nations of the region that our commitment to economic and social reform equals that of our concern for democratization and our opposition to the spread of Marxism. Otherwise, there will be a danger of creating economic dependency by continuing high ESF levels without appropriate structural adjustment.

Economic Transformation. As the requirement of ESF for balance-of-payments financing declines, we intend to shift the focus of USF funding and its associated policy dialogue to the macroeconomic and sectoral policy and institutional impediments to rapid and sustained growth. A combination of ESF, development assistance, and Food for Peace resources will be used to build on programs currently underway to strengthen and stimulate the private sector as the primary force behind economic recovery, employment, and wider participation in growth and development.

Particular attention will be given to the question of economic equity, not through government largesse but

through programs that permit the less advantaged to play a larger role in production and in the marketplace. We will continue to examine ways in which small farmers can be integrated into the effort to produce nontraditional agricultural exports as independent producers and small- and medium-sized industries can expand their sales beyond narrow domestic markets.

The NBCCA report suggested that infrastructure needed for renewed growth would require external financing. We had hoped that the multilateral development banks and other donors would play the major role in meeting this need. Their response has been less than projected. We will reexamine the infrastructure needs of the region, particularly in Belize and in the highlands of Guatemala and Honduras, to identify where farm-to-market roads, rural electrification, and other relatively small-scale activities could play a decisive role in bringing small farmers into a diversifying economy. We will also look at the irrigation requirements of nontraditional crops, regional processing and shipping facilities, and industrial parks. Efforts will have to be made to restore the essential economic infrastructure in El Salvador damaged by insurgents and by a major earthquake.

Spreading the Benefits of Economic Growth. The NBCCA recognized that economic growth alone does not ensure greater equity for low-income groups. Disparities in income and economic opportunity—particularly in Guatemala, El Salvador, and Honduras—are wide and in some cases growing. They must be reduced if economic and political gains are to be preserved. A shift to higher value, non-traditional agricultural crops and increased industrial exports will mean little if workers lack basic education and if skills training is not available.

Availability of agricultural credit has little impact on small farmers who do not qualify for it because they do not own their farms or have secure and equitable tenure arrangements. Even in areas where the economic and social effects are less direct and longer term—such as child survival, nutrition, family planning, and better housing—early progress is essential if the United States and the elected governments of the region are to demonstrate convincingly that democracy is preferable to totalitarian and Marxist regimes.

As economic stabilization is achieved, we will expand our programs in the equity area through a mixture of development assistance, ESF, Food for

Peace, local currency generations, and housing guarantees. These programs will be concentrated in Guatemala, El Salvador, and Honduras and will require gradually diminishing U.S. support.

Funding Alternatives

This section describes the broad macroeconomic implications of three funding alternatives that were considered.

Option 1: Funding Stretched out to FY 1992. (This is the chosen option.) We project that stretching out the program through FY 1992—with total appropriated funding of \$6.9 billion—would fulfill its main economic, social, and political objectives. Economic growth in 1992, at 5.2%, would be lower than the original target but would be sustainable at that level in subsequent years with lower levels of assistance. Equally important, the social and democratization goals of the program would be more securely in place.

Achievement of these results assumes continued economic policy reform by Central American governments. Without such action, we would project a 1992 growth rate of only 3.2% even with full funding. However, we

would continue to condition our aid to such reforms, so actual funding levels would be adjusted downward if reforms were not forthcoming.

Option 2: Full Funding by 1990.

Were full funding of the CAI to occur by 1990, we project, under favorable assumptions, that growth by 1990 would nearly reach the original growth target (5.8% v. the targeted 6%). This would require about \$1 billion more in appropriations during FY 1988-90 than the funding profile of Option 1. It was rejected for two reasons.

- While achieving the growth target for that year, the growth would be artificially induced and would not be self-sustaining, so growth rates after 1990 would fall sharply, causing backsliding on the progress made through 1990; and
- It would increase the risk that Central American governments would fail to undertake assumed policy actions, thereby reducing the effectiveness of the assistance and the prospects for sustained growth.

Without the policy actions, we project a 1990 growth rate of 3.1%—only slightly higher than population growth.

Option 3: Achieving 6% Growth by 1990. Under the most favorable assumptions, slightly more than \$7.2 billion would be required to achieve 6% growth by 1990. We rejected this option because, as indicated in the discussion of Option 2, this growth would not be self-sustaining after the end of large-scale aid.

As in the previous scenarios, achievement of the goal would require continued policy action by Central American governments. If such policy actions were not forthcoming, the additional cost of achieving the 6% growth by 1990 would rise dramatically to \$11.2 billion.

Status of Other NBCCA Recommendations

The CAI, as proposed and carried out thus far, embraces most, but not all, of the NBCCA recommendations. As we have gained experience with implement-



AID provided assistance to this small bakery in Panama.

ing the program, it has become clear that some of the specific NBCCA recommendations are no longer appropriate. Examples are noted below.

Organize a Meeting of Central American and U.S. Leaders. The United States did not initiate such a meeting for a variety of reasons. An annual private sector-sponsored conference in Miami, however, brings together the political and economic leaders of Central America, the Caribbean, and the United States. In 1986, President Cerezo of Guatemala called a meeting of all Central American leaders in Esquipulas, Guatemala, at which regional political and economic issues were discussed. Former President Monge of Costa Rica began discussions on trade imbalances and ways to reinvigorate the Central American Common Market. Similar meetings are likely to take place over the next few years, especially if a Central American Development Organization becomes a reality (for details on CADO, see Appendix F).

Revitalization of the Central American Common Market (CACM). Subsequent to the NBCCA report, an AID-financed study of the CACM recommended against trying to revitalize the CACM through emergency financial credits, as suggested in the NBCCA report. Emergency credits would not have stimulated trade on a sustained basis in light of the disequilibrium of exchange rates in the region. We are focusing on the exchange rate problem through our bilateral policy dialogues. Because future economic growth in the region will come predominantly from exports to extraregional markets, our primary concern is to ensure that the region's currencies are in tune with the world currency regime. Although the U.S. Government has deferred taking action, there have been some potentially hopeful signs of interest by the Central Americans in reviving the CACM. The most noteworthy is agreement by the region's economic ministers to introduce a new instrument for the CACM that may help increase intraregional trade without requiring the use of hard currencies.



AID helps small pig farmers in Belize to learn the latest swine production techniques.

Establish a Venture Capital Corporation. This recommendation is still being studied. In the meantime, at least three countries in the region are in various stages of establishing private investment corporations. One is already operating in Costa Rica, and similar institutions are under consideration in Honduras and El Salvador. A study of the feasibility of establishing a regional venture capital corporation has been initiated, along with a broader assessment of medium- and long-term credit, financial instruments, and policies needed to attract foreign investment. If the study results of the regional venture capital corporation study are favorable, the earliest date at which AID could initiate a project of this kind is FY 1988.

The U.S. Government Should Join the Central American Bank for Economic Integration (CABEI). The United States has a longstanding policy of not joining or taking equity positions in subregional banks. While the United States did not join CABEI, we are assisting it through a \$50-million grant/loan and related technical assistance project. In the 18 months that this project has been in operation, the U.S. contribution has helped bring about the payment of \$38 million in arrearages and \$40 million in new capital from

CABEI member countries. CABEI also has secured commercial refinancing in the amount of \$170 million. The project also calls upon CABEI to raise an additional \$50 million in capital from extraregional sources by August 31, 1987. CABEI's efforts toward meeting this condition are proceeding well, and as much as \$100 million might be raised in paid-in capital and/or concessionary loans. AID expects to sign an agreement this fiscal year for \$15 million in housing guarantees and \$4 million in grant assistance to support a Housing and Urban Development program for the region.

Appropriate Funds for Central America on a Multiyear Basis.

Although this was initially judged to be politically infeasible, it remains most desirable. Congress has authorized appropriations for nonmilitary assistance to Central America through FY 1989 (Section 416 of the Foreign Assistance Act) and has made funds appropriated in the FY 1987 Foreign Assistance Appropriation Act available for obligation over a 2-year period. These measures demonstrate a willingness by Congress to address the issues considered by the NBCCA in the longer term.

IV. Agricultural Commodity Assistance and Programs

The Congress, in Section 205(2) of the Foreign Assistance Act, stated that:

... the report requested by paragraph (1) shall include an analysis and recommendations, prepared in consultation with the Secretary of Agriculture, on how more effective use can be made of agricultural commodities from the United States in alleviating hunger in Central America and contributing to the economic development of the Central American democracies.

Over the past 3 years, the United States has provided increasing amounts of food commodities to Central America under various sections of PL 480 as well as under the authority of Section 416 of the 1949 Agriculture Act. The major commodities that we provide to Central America are wheat, corn, rice, vegetable oil, dairy products, tallow, and breeding livestock. Actual tonnages provided have increased, but because of declining world prices for many of these commodities, the total dollar equivalents may not show increases (see Table V).

While the global funding levels for the PL 480 program were cut in FY 1986 and FY 1987 due to budgetary constraints, these reductions have not been as severe as in the case of ESF and development assistance. Therefore, food aid is assuming a relatively larger role in our total resource flows.

The U.S. Government will continue to use its food aid authorities to support the CAI. Food aid provided under the concessional loan authority of Title I of the Agricultural Trade Development and Assistance Act of 1954 (PL 480) will continue to be the primary means of assistance in this area. In addition to the ongoing use of this authority to help meet the agricultural commodity import needs of these countries with minimal foreign exchange use, recent actions by Congress offer a newer benefit of this program.

A new Section 108 in Title I authorizes a program that will promote the local private sector as the means to economic growth. This new section allows the United States to sell agricultural commodities, up to the authorized levels, for local currencies. These U.S.-owned currencies are lent to

financial intermediaries, which then make loans to the indigenous private sector based on commercial practices. This new effort will allow more effective use of U.S. agricultural commodities to promote private sector economic growth in the region.

A second new program, Food for Progress, also may be effective in the region. This program, which is authorized by Congress through either PL 480 or a newer food aid authority (the Section 416 Overseas Donations Program), provides for multiyear donations of U.S. agricultural commodities to support countries "that have made commitments to introduce or expand free enterprise elements in their agricultural economies. . . ." The multiyear nature of this program will enhance its effectiveness.

Section 416, which makes use of agricultural commodities owned by the Department of Agriculture's (USDA) Commodity Credit Corporation, also has recently helped countries in the region affected by the required changes in U.S. sugar quota arrangements. These programs have allowed the recipient governments to sell the U.S. commodities locally, thereby creating funds to support development activities.

USDA's Office of International Cooperation and Development (OICD), in cooperation with AID, has successfully

completed many programs to alleviate hunger and help Central Americans achieve economic development through scientific and technical exchanges, technical assistance, training activities, and agribusiness promotion to facilitate trade, investment, and employment generation.

USDA's Animal and Plant Health Inspection Service currently administers several important long-term programs with Costa Rica and other Central American countries to suppress the Mediterranean fruit fly, to eradicate cattle screwworm, and to conduct phytosanitary preclearance programs for fresh fruits and vegetables.

OICD's Private Sector Relations Division has successfully channeled development efforts through agricultural marketing workshops for the region, providing a forum not only for practical marketing information dissemination but also for establishing and strengthening business contacts and trade with the U.S. private sector.

OICD's Scientific and Technical Cooperation Division and International Research Division are involved in programs that were designed for mutual benefit to the agricultural sectors of both the United States and the cooperating country. Collaborative research efforts are underway with Costa Rica to identify and evaluate fruit flies, study the prevalence of blue tongue virus in livestock, and determine the effectiveness of pheromone bait hives in attracting and capturing Africanized bees.

These activities are providing better and more efficient use of agricultural assistance to support the CAI.

In addition, under PL 480 Title I agreements, several Central American democracies are undertaking self-help activities designed to contribute to economic development. Costa Rica is pursuing measures intended to stabilize its economy and reduce government budget deficits, including more rational agricultural pricing policies; expansion of grain storage, handling, and marketing systems; reduction of postharvest losses;

TABLE V
PL 480 and Section 416 Assistance for Central America, FY 1981-87^a

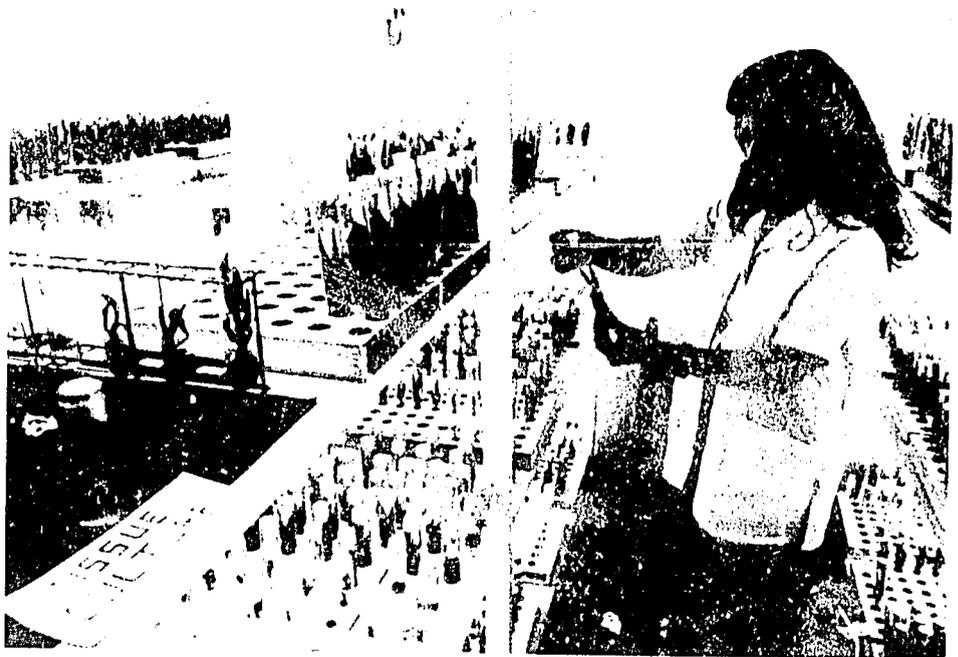
	1984 (supple- mental)	1985 (actual)	1986 (actual)	1987 (est.)	1984-87 (est.)
Title I/III	25.0	105.1	89.5	89.0	308.6
Title II	—	11.6	14.6	10.5	36.7
Section 416	—	0.0	5.0	7.7	12.7
TOTAL	25.0	116.7	109.1	107.2	358.0

^a Excludes World Food Program assistance.

and improvements in administrative and operational efficiency in supporting government agencies.

The Government of El Salvador is continuing efforts to improve production incentives offered to small farmers and provide financial support for maintenance of agricultural storage facilities and other rural support activities, such as basic community services, rural employment generation, rural potable water facilities, and supplementary feeding programs. In Guatemala, efforts emphasize increased use of the private sector in distribution of Title I commodities and support of agricultural sector developments. In Honduras, the PL 480 Title I agreements support activities in animal and plant health, and in agricultural education. All the countries in the region are either currently implementing or are in the process of concluding agreements under the Section 416 programs, several of which are designed to compensate for the reduction in the sugar quota to the region.

In El Salvador, Guatemala, and Honduras, PL 480 Title II commodities support maternal and child health, school feeding, and food-for-work programs that enhance nutritional levels among pregnant and lactating women and their young children. Based on a decade of evaluating findings concerning the design and implementation of Title II programs, AID has developed and sent to private and voluntary organizations and to AID missions revised guidance and technical review procedures for PL 480 Title II Operational Program Plans. These new procedures require the following: precise statements of program objectives, detailed identification of target populations, detailed descriptions of problems to be addressed, and identification of complementary inputs



This Central American agricultural analysis and research facility conducts quick growth/reproduction experiments on bananas and pineapples.

(besides food) necessary for achieving project objectives. The Institute of Nutrition for Central America and Panama will be providing technical assistance to governments and private and voluntary agencies to strengthen their capacity to design, monitor, and evaluate Title II programs.

The Administration is making major efforts to use these programs more effectively to alleviate hunger in Central America and contribute to economic

development. It is important to note several constraints to the overall amount of commodity assistance that can be provided to these countries. One is the limit of their absorptive capacities; there is only so much that the countries can store, distribute, and use. Second, we have to be careful that our assistance does not result in disincentives for local farmers whose livelihoods depend on producing many of these items. Given these considerations, however, we believe that we are using commodity assistance creatively and effectively in Central America.

APPENDIX A

NBCCA Recommendations

No.	Recommendation	No.	Recommendation	No.	Recommendation
1	Organize summit of U.S. and Central American leaders.	21	Promote small businesses.	24.3	Expand secondary-level technical and vocational education and apprenticeship programs;
2	Increase private sector involvement.	22	Accelerate agricultural development;	24.4	Increase support for education programs in business and public administration;
3	Establish U.S. Government role in renegotiation of official debt.	22.1	Provide long-term credit for land purchases by small farmers;	24.5	Expand the International Executive Service Corps;
4	Encourage renegotiation of private debt.	22.2	Study the holding of idle, potentially productive land;	24.6	Develop a program for 10,000 government-sponsored scholarships;
5	Increase economic aid in FY 1984.	22.3	Improve title registration and the defense of property rights of farmers;	24.7	Prepare and implement a plan to strengthen universities; and
6	More emphasis on housing and infrastructure.	22.4	Provide short- and medium-term credit for working capital improvements and equipment;	24.8	Subsidize translation, publication, and distribution of books and educational material.
7	Provide trade credit guarantees.	22.5	Encourage pricing policies which protect the interests of both producers and consumers;	25	Expand health and nutrition programs;
8	Revitalize the Central American Common Market.			25.1	Increase technical assistance for health programs;
9	The United States should join the Central American Bank for Economic Integration.			25.2	Eradicate vector-borne diseases, e.g., malaria and dengue fever;
10	Should be a major increase in other donor assistance to Central America.			25.3	Expand oral rehydration and immunization programs;
11	Authorize \$8 billion in U.S. assistance funds and guarantees for 5 years, FY 1985-FY 1989.			25.4	Train primary health care workers; and
12	Appropriate funds on a multi-year basis.			25.5	Encourage adequate public investment in primary health care and in preventive and environmental interventions.
13	Require host government economic policy reforms.			26	Continue AID population and family planning programs.
14	Help create a Central American Development Organization.			27	Strengthen judicial systems; impose sanctions against death squad members.
15	Use economic aid to promote democracy;			28	Support refugee programs.
15.1	Promote community organizations and democratic institutions;	22.6	Encourage an equitable distribution of agricultural wealth, including agrarian reform and land-to-the-landless type of program;	29	Give more military aid to El Salvador.
15.2	Expand USIA's binational centers; and,	22.7	Improve and expand rural infrastructure, e.g., roads, storage facilities, and rural electrification;	30	Authorize multiyear funding of military aid to ensure predictability.
15.3	Increase USIA's exchange programs.	22.8	Increase rural research and extension programs;	31	Military aid to El Salvador should be tied to periodic reports on human rights, progress toward free elections and elimination of death squad activities, and other political reforms.
16	Help Central Americans to receive duty-free trade with other countries.	22.9	Halt deforestation and environmental degradation; and		
17	Review U.S. nontariff barriers.	22.10	Increase support for cooperatives.		
18	Promote exports from Central America and development of energy sources.	23	Increase emergency food aid.		
19	Establish a venture capital corporation.	24	Increase funding for training and education programs;		
20	Expand Overseas Private Investment Corporation insurance coverage.	24.1	The Peace Corps should expand recruitment of teachers to serve in a new literacy corps;		
		24.2	The Peace Corps should expand recruitment of primary, secondary, and vocational teachers to serve in a new Central American teachers corps;		

"The best route to consensus on U.S. policy toward Central America is by exposure to the realities of Central America."

**Henry Kissinger,
January 10, 1984**

Summary of Commission Report¹

OUTLINE

The report, which was dedicated to Senator Henry Jackson and transmitted to the President on January 10, 1984, consisted of the following chapters:

1. Introduction and basic themes.
2. Placed crisis in larger hemispheric context.
3. Provided historical perspective.
4. Examined prospects for economic and political development; presented recommendations.
5. Discussed social issues—health and education particularly—and made recommendations.
6. Explored security issues and recommended U.S. action.
7. Looked at diplomatic aspects and offered recommendations on pursuing negotiated settlements.
8. Conclusion.

—On security and diplomatic issues, the report dealt with El Salvador, Honduras, Nicaragua, Guatemala, and Costa Rica. Panama and Belize were included for discussion of development programs.

MAJOR THEMES SET FORTH IN THE COMMISSION REPORT

—The crisis in Central America is acute. Its roots are indigenous—in poverty, injustice, and closed political systems. But world economic recession and Cuban-Soviet-Nicaraguan intervention brought it to a head.

—The crisis will not wait. It must be addressed at once and simultaneously in all its aspects. Ultimate resolutions depend on economic progress, social and political reform. But insurgencies must be checked if lasting progress is to be made on these fronts.

—Indigenous reform, even indigenous revolution, is no threat to the United States. But the intrusion of outside powers exploiting local grievances for political and strategic advantage is a

serious threat. Objective of U.S. policy should be to reduce Central American conflicts to Central American dimensions.

—United States has fundamental interests at stake: Soviet-Cuban success and resulting collapse of Central America would comper substantial increase in our security burden or redeployment of forces to detriment of vital interests elsewhere.

—As a nation we have deep and historic interest in the promotion and preservation of democracy. Report concludes that pluralistic societies are what Central Americans want and are essential to lasting solutions. In this case, our strategic interests and our ideals coincide.

—Central Americans desperately need our help, and we have a moral obligation to provide it. The United States and other nations can make a difference. But, in the end, solutions will depend on the efforts of Central Americans themselves.

—Although there is urgent need for action, no quick solutions can be expected. The United States must make a long-term commitment and stick to a coherent policy.

—That policy can and should be bipartisan. Commission found wide consensus on principles and objectives.

POLITICAL AND ECONOMIC DEVELOPMENT

—Central American economies grew substantially during the 1960s and early 1970s. But income distribution was highly inequitable, except in Costa Rica and Panama.

—Trend toward more pluralistic political systems in El Salvador, Guatemala, and Nicaragua reversed in early 1970s.

—World recession and rising political violence had catastrophic effect on region's economies in late 1970s, early 1980s. All have declined dramatically. El Salvador's gross domestic product is off 25% since 1978.

—Even with successful stabilization programs and restored political stability, per capita wealth in 1990 would only be three-quarters of what it was in 1980.

—There must be substantial increase in outside assistance.

—Commission believes economic development cannot be separated from political and social reform. Objective must be parallel development of

pluralistic societies and strong economies with far more equitable distribution of wealth.

—We propose a program of U.S. assistance designed to promote economic growth, democratization, and greater social equity.

—We encourage the greatest possible involvement of the U.S. private sector in the stabilization effort. Recommend the formation of an emergency action committee of private sector personalities to provide advice on new private-public initiatives to spur growth and employment.

Recommendations: An Emergency Stabilization Program

—Leaders of the United States and Central America should meet to initiate a comprehensive approach to economic development of the region and reinvigoration of the Central American Common Market.

—A \$400-million supplemental in FY 1984, over and above the \$477 million now in the budget for the seven countries. There is urgent need to stabilize economies now going downhill very fast.

—Focus this assistance on labor-intensive infrastructure projects and housing. Unemployment is a critical problem—politically and economically.

—Establish a program to provide U.S. Government guarantees for short-term trade credits. External credit has dried up. Without it economies cannot be reactivated.

—Provide an emergency loan to the Central American Common Market to permit the reactivation of this vital organization. Lack of resources in the market to settle trade accounts among the countries has stalled it.

—U.S. Government should take an active role in the efforts to resolve the external debt problems of Central America and should encourage the countries that have not done so to seek multilateral rescheduling.

—Also encourage commercial banks to renegotiate at the lowest possible interest rates.

Recommendations: Medium and Long Term

—Commission estimates \$24 billion in net external exchange inflows needed by 1990 to foster a growth rate of 3% per capita, returning these countries to

¹From "The U.S. and Central America: Implementing the National Bipartisan Commission Report," Special Report No. 148, August 1986.

prerecession levels of per capita wealth. About half—\$12 billion—is expected to come from international institutions, other donor countries and loans, and investments from private sector sources.

—U.S. Government will have to provide as much as \$12 billion if these financing needs are to be met.

—We propose, in this context, a program of \$8 billion over next 5 fiscal years (FY 1985-89) in U.S. Government assistance. This would be divided very roughly into about \$6 billion in appropriated funds and about \$2 billion in contingent liabilities covering guarantees, insurance, and the like.

—Compared with current projections for FY 1985-89, these contributions would constitute an increase of about \$2.8 billion in appropriated funds and \$0.7 billion in contingent liabilities over the 5-year period.

—Urge that Congress authorize multiyear funding of this program. Commission believes firm, long-term commitment is essential.

—To give form and structure to the development effort, suggest establishment of the Central American Development Organization (CADO). Perhaps one-quarter of U.S. aid could be channeled through CADO.

—CADO would consist of the United States and those countries of the seven willing to commit themselves to internal democracy and reform. Continued membership would depend on demonstrated progress toward those goals. Adherence to regional security pact also required.

—Nicaragua could participate by meeting these conditions.

—CADO's principal body would be a Development Council with tripartite, ILO [International Labor Organization]-style representation. Would assess program and progress toward economic growth, democratization, reform, and preservation of human rights.

—Other democracies would be invited to join.

Additional Recommendations

—Expanded assistance from the U.S. Government for democratic institutions and leadership training—neighborhood groups, cooperatives, binational centers, and visitor programs for leaders of labor unions, local governments, and other organizations.

—Require a firm commitment by the Central Americans to economic policies, including reforms in tax systems, to encourage private enterprise and individual initiative, to create favorable

investment climates, to curb corruption where it exists, and to spur balanced trade.

—Urge extension of duty-free trade to Central America by other major trading nations.

—Review nontariff barriers to imports from Central America with a view toward using whatever flexibility that exists within the framework of multilateral agreements to favor Central American products.

—Establishment of the Central American Development Corporation—a privately owned venture-capital company which could initially be financed by a loan from the U.S. Government.

—Recommend that the United States join the Central American Bank for Economic Integration.

—Technical and financial support for export promotion and a U.S. Government review of nontariff barriers to Central American imports.

—Expanded availability of insurance guarantees for new investments from the U.S. Government's Overseas Private Investment Corporation.

—Increased focus in assistance programs on small business and accelerated agricultural development—particularly in production of food for domestic consumption.

HEALTH AND EDUCATION

—Democracy and prosperity in the region require accelerated human development. Hunger, disease, and illiteracy sap a people's vitality and impede the growth of viable democratic institutions.

—Literacy rates are unacceptably low in several countries (e.g., Guatemala, 45%; El Salvador, 63%; Honduras, 60%), handicapping education efforts seriously.

—Widespread malnutrition also handicaps education by sending physically and mentally underdeveloped children to school.

—Goals should include a reduction of malnutrition, elimination of illiteracy, expanded education, health, and housing opportunities.

—Initial efforts must be to increase food assistance to Central America through the PL 480 programs.

—Commission calls for formation, under direction of the Peace Corps, of a Literacy Corps and a Central American Teachers Corps.

—To meet needs in higher education, U.S. Government scholarships should be raised to approximately 10,000 over 4-6 years, a level comparable to Cuban and Soviet Union efforts.

—Educational reform can also be encouraged in the areas of technical and vocational education through the expansion of the International Executive Service Corps and through closer cooperation with Central American universities to improve the quality of education.

—Judicial systems in Central America can be strengthened by providing resources for training judges, judicial staff, and public prosecutors.

—Continuation and expansion of existing programs for disease control and eradication, as well as immunization and oral rehydration.

—Training of primary health workers, especially nurses, should be expanded and the means developed to integrate private and public financing of health services.

—Assistance programs should target the area's severe housing shortage.

—Training of public administrators required to improve public service.

—U.S. Government should provide more resources to meet critical problem of refugees and displaced persons—more than 1 million of them need help.

SECURITY ISSUES

—In El Salvador there are two separate conflicts: (1) between those seeking democratic reform and those seeking to retain their privileges; (2) between Marxist-Leninist guerrillas and those who oppose Marxism-Leninism.

—In discussing the latter we identify three general propositions about such guerrilla movements:

(1) They depend on external support. Without it they are unlikely to succeed.

(2) They develop their own momentum which reform alone cannot stop.

(3) Victorious, they create totalitarian regimes, even though they have enlisted support of democratic elements in order to project democratic, reformist image.

—External support comes from Soviet Union, Cuba and now Nicaragua. Cuba has developed into a leading military power through Soviet assistance. Since Sandinista victory, Soviets have come around to support Cuban strategy of armed road to power in Central America.

—There are serious strategic implications for the United States in Soviet-Cuban support for armed insurgency in the region.

—Triumph of hostile forces there could require us to devote large resources to defend our southern approaches.

—This could mean either substantially increased defense burden for the United States or redeployment of forces to the detriment of our interests elsewhere.

—Threat to our shipping lanes in the Caribbean.

—Increased violence and dislocation in the area from which we could not isolate ourselves.

—Erosion of our power to influence events worldwide as we are perceived as unable to influence events close to home.

El Salvador

—The war is stalemated, a condition to the ultimate advantage of the guerrillas.

--U.S. military assistance is inadequate to permit modern, humane, and successful counterinsurgency.

—Commission recommends that the United States provide significantly increased levels of military assistance for greater mobility, more training, higher force levels, and more equipment.

—Assistance is to be conditioned through legislation on terminating death squads, progress toward democracy, and establishment of the rule of law.

—In Guatemala, such assistance should only be provided if the same terms are met.

—Increased military assistance also needed for Honduras to build a credible deterrent and to meet renewed efforts at insurgency.

—Commission concludes that U.S. security interests are importantly engaged in Central America. Larger program of military assistance needed, as well as expanded support for economic growth and social reform.

—Success will depend on an end to massive violations of human rights and the neutralization of external support for the insurgencies.

THE SEARCH FOR PEACE

—A successful U.S. political strategy in Central America requires resources to promote economic growth; vigorous efforts to advance democracy and reform; other inducements and penalties.

—General strategic objective of U.S. diplomacy in Central America should be to reduce the civil wars, national conflicts, and military preparations to Central American dimension.

—Specifically, we should seek to stop the war and killing in El Salvador. Create conditions under which Nicaragua becomes a peaceful and democratic member of the Central American community. And open the way for democratic development in all countries.

--Commission calls for negotiations in El Salvador between guerrillas and the government to be elected in March to establish conditions for later legislative and municipal elections in which all could participate: electoral commission with FMLN/FDR [Farabundo Martí National Liberation Front Revolutionary Democratic Front] representation, cease-fire, and end to all violence; international observation of elections.

—Adequate economic and military assistance from the United States can help to achieve such a settlement.

—Commission believes military stalemate works against rather than for a political settlement based on the popular will.

—In Nicaragua, consolidation of a Marxist-Leninist regime would create a permanent security threat. Nicaragua's mainland location makes it a crucial stepping-stone to promote armed insurgency in Central America. Cuban personnel (2,000 military advisers and 6,000 civilian officials); several hundred Soviet, East European, Libyan, and PLO [Palestine Liberation Organization] advisers; extensive arms deliveries (13,000 tons in 1983) add an external dimension to the threat posed by Nicaragua to its neighbors.

—What gives the current situation its special urgency is the external threat posed by the Sandinista regime in Nicaragua; supported by Cuban military strength; backed by Soviet weapons, guidance, and diplomacy; and integrated into the Cuban network of intelligence and subversion.

—Central American leaders believe pluralistic political orders are essential to long-term security.

—An alternative would be an attempt at containment. But that would be threaten militarization of the isthmus—the creation of garrison states. Democracy would wither. And the United States could find itself as surrogate policeman.

—Commission proposes comprehensive regional settlement based on:

(1) Respect for sovereignty and nonintervention.

(2) Verifiable commitments to nonaggression and an end to all attempts at subversion—covert or overt.

(3) Limitations on arms and sizes of armed forces. Prohibition of foreign forces, bases, and advisers.

(4) No military forces, bases, or advisers of non-Central American countries would be permitted.

(5) Commitment to internal pluralism and free elections in all countries.

(6) Provision for verification of all agreements.

(7) Establishment of an intergovernment council to meet regularly to review compliance.

(8) Adherence to the overall agreement would be required for membership in the Central American Development Organization.

—The United States would support the agreement and provide assistance and would commit itself to respect results of elections within countries as long as principles of pluralism at home and restraint abroad are observed.

—Commission's proposal based on and amplifies 21 points of the Contadora Group.

—Commission fully endorses Contadora efforts.

—Finally, majority of Commission opposes dismantling existing incentives and pressures for the regime in Managua to negotiate seriously.

—As for Cuba, Commission sees little possibility of separating it from Soviet Union. But the United States should be prepared to negotiate seriously if Cuba were to show itself prepared for genuine coexistence, dropping support for insurgency in Central America and revolutionary violence elsewhere in the world.

—As for Soviet Union, establishment of Soviet military base in Nicaragua is not the major concern. Before that could have happened, the crisis would have reached proportions not containable in Central American dimensions.

—There is little promise in negotiating with the Soviet Union over Central America. Soviets would seek to cast such negotiations in terms of sphere of influence, an unacceptable concept for the United States.

APPENDIX B

Economic Assistance to Central America, as Proposed in the CAI¹

(\$ millions)

Purpose	Supplemental FY 1984	FY 1985	FY 1986-89	TOTAL
Stabilization				
ESF	272	541	1,644	2,457
PL 480	25	103	—	128
Guarantees	—	470	—	470
Subtotal	297	1,114	1,644	3,055
Growth				
ESF	10	80	789	879
Development Assistance	8	87	327	422
PL 480	—	—	410	410
Guarantees	—	90	1,240	1,330
Counterpart ²	(100)	(220)	(520)	(840)
Subtotal	118	477	3,286	3,881
Equity				
Development Assistance	66	196	1,096	1,361
PL 480, I,	—	17	70	87
Guarantees	—	40	160	200
Counterpart ²	(100)	(220)	(880)	(1,200)
Peace Corps	2	18	94	114
State, Refugees	—	15	78	93
Subtotal	168	506	2,381	3,055
Democracy				
ESF	8	20	85	113
USIA	7	36	179	222
CADO	—	1	4	5
Subtotal	15	57	268	340
Operating Expenses				
	2	6	20	34
TOTAL²	400	1,720	6,205	8,325

¹Figures do not include incidental activities or programs such as narcotics and OPIIC insurance; the total used in the text of the paper is \$8.4 million.

²Counterpart figures are local currency generations from ESF or PL 480 balance-of-payments financing for AID-supported activities in the region. Since they are programmed for development purposes, they are included in sector subtotals but not in the overall total.

APPENDIX C

Political Situation and Developments in Individual Countries

Belize. Belize obtained its independence in 1981. In the first postindependence election in 1984 the opposition United Democratic Party, led by Manuel Esquivel, won control of the parliament. In a peaceful transition of power, Esquivel became prime minister.

Costa Rica. Costa Rica is recognized as Central America's longest existing democracy, dating back to the elections

of 1889 with only brief interruptions. The latest presidential elections were held in February 1986 and were honest and open. Oscar Arias, a social democrat, won the close election and was inaugurated on May 8, 1986. A new legislature also took office.

El Salvador. With U.S. support for democratic pluralism, and despite guerrilla opposition, El Salvador held free and open nationwide elections without effective disruption in 1982, 1984, and 1985. Democratic institutions and habits have gained steadily during these years,

as is evidenced by the growing participation by opposition parties in El Salvador's political life. Mid-level members of two of the leftist parties that backed the guerrillas in 1980, and whose cadres had been in self-imposed exile, have begun to return and have carried out political activities without incident.

Guatemala. Democracy began its return to Guatemala with the election of a Constituent Assembly in July 1984, following a generation of military rule and political violence. The country held open and highly competitive elections in November and December 1985, which international observers verified were honest and orderly. Vinicio Cerezo, a Christian Democrat, obtained a national mandate from two-thirds of the electorate in the presidential runoff election and took office in January 1986. Violence and poverty pose enormous challenges to the Cerezo government. In the spring of 1986, the new government enacted comprehensive economic reforms to stimulate the economy and provide new job opportunities for the country's 8 million people. Considerable external assistance will be needed to support the government's efforts to foster institutional development and economic growth at levels to sustain Guatemala's ongoing democratization.

Honduras. The democratic trend was strengthened in Honduras through presidential and legislative elections in 1981 and 1985. The national presidential, legislative, and municipal elections in November 1985 were orderly, open, and enthusiastically celebrated. President Jose Azcona's inauguration in January 1986 was the first transfer of power in Honduras from one elected civilian to another in 53 years. Due to the large number of candidates, the elections were based on a system in which the candidate with the largest number of votes in the party with the largest number of votes becomes president-elect. While orderly, this somewhat confusing system prompted the Honduran Congress to enact an electoral reform law in 1986, which seeks to regulate party primaries and internal elections and sets the stage for national elections in 1989.

Nicaragua. In the years since the NBCCA report, the Sandinista government has moved in an opposite direction from the Central American democracies—against the trend demonstrated by those countries and counter to the open, pluralist system that the Sandinistas

originally promised their people and the Organization of American States. In 1986, Nicaragua was less democratic, more heavily armed, and more dependent upon the Soviet bloc than ever before. The government has increased its repression of religious groups, the press, and opposition political parties. The Sandinista military threat and support for subversion, insurgency, and terrorism impede the progress of democracy in the rest of Central America. Moreover, just as the Somoza dictatorship ultimately sparked national rebellion, the Sandinistas' betrayal of the Nicaraguan people's desires is breeding internal resistance. The Sandinistas' oppression of the Nicaraguan people and their hostility to their

democratic neighbors remain Central America's most pressing security problem.

Panama. In September 1985, less than a year after his inauguration, President Nicolas Barletta resigned under pressure from the military, as well as from party and cabinet leaders. His constitutional successor was First Vice President Eric Arturo Delvalle. Panama remains basically an open society, but Barletta's resignation marked a setback to democratization. Although the presidential election of 1984 remains disputed, the legislative assembly elections, with a few notable exceptions, were regarded as legitimate and established a vociferous, if weak, legislative opposition.

Caribbean Basin Initiative

Background. President Reagan announced the Caribbean Basin Initiative at a meeting of the Organization of American States in February 1982. He introduced important new elements in 1986.

Congress passed the Caribbean Basin Economic Recovery Act to enact the CBI on July 28, 1983. The law came into effect on January 1, 1984, with 20 countries and territories designated as beneficiaries—Antigua and Barbuda, Barbados, Belize, the British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Christopher and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. The Bahamas subsequently was designated on March 14, 1985, as was Aruba (formerly a part of the Netherlands Antilles) on April 11, 1986.

Other countries—Canada, Mexico, and Venezuela—are making their contribution to the effort to help the Caribbean Basin realize its economic potential. Mexico and Venezuela have assisted the Caribbean beneficiaries in saving energy costs. Canada is offering a free trade program to the Caribbean Commonwealth nations.

Duty-free Access. The CBI provides 12 years of duty-free access for most U.S. imports from designated beneficiaries. The exceptions include such items as textiles and apparel, petroleum, footwear, flat goods (e.g., gloves, luggage, belts, and wallets), and canned tuna. CBI ethanol also enters duty free, but only if it meets the rules of origin established in the 1986 tax law.

The CBI has been in effect for 3 years. It has been successful in encouraging the growth of nontraditional exports from the Caribbean Basin to the United States at a time when prices have fallen substantially and markets have contracted or shifted for traditional exports, such as petroleum and sugar. U.S. nonpetroleum imports from the region have been growing at an estimated average annual rate of 7.1% (1983-86). The CBI thus enables the United States to form a partnership with the Caribbean Basin beneficiaries in creating jobs and fostering economic growth through trade.

APPENDIX D

United States Information Agency

In support of the NBCCA's objectives of strengthening democracy and improving the quality and availability of educational opportunities in Central America, USIA has undertaken the following activities.

Scholarships. Since 1984, USIA has greatly increased its academic exchanges program and established a pilot program for undergraduates known as the Central American Program for Undergraduate Scholarships (CAMPUS). In 1986, there were 530 academic exchanges, of which 154 were CAMPUS. USIA hopes to maintain this level of exchanges, given ongoing funding and authorization from Congress. A new, million-dollar university partnership program will begin in FY 1987. Another new exchange program, designed to put foreign professionals in contact with their American counterparts, will begin in 1987.

Central American Book Initiative. In mid-1985, USIA instituted this program to provide Spanish translations of U.S. books to university libraries and faculty, as well as to government leaders and institutions in Central America. More than 50,000 books have been presented. USIA plans to continue the program at reduced levels, devoting special attention to the donation of university texts in the humanities and social sciences.

Professional Leadership

Exchanges. USIA's programmed 150 International Visitors and 80 Voluntary Visitors from Central America in FY 1986, a dramatic increase from FY 1984 levels and up somewhat from FY 1985. USIA hopes to maintain these programs at current levels, assuming no drastic cuts in overall program budget levels.

Teaching of English. USIA has established a regional English Teaching Office in Panama to develop and improve English-language competency throughout Central America. Additionally, USIA has organized training workshops for Central American librarians, teachers of English, and Binational Center administrators. Plans are to continue these efforts at somewhat reduced levels.

The educational infrastructure in Central America constrains the rate at which the region can absorb additional resources and programs. USIA staff and funding limitations also make further expansion difficult. The agency believes it is programming at the maximum level possible given these limitations and will continue to be flexible in the application of its resources to ensure the greatest possible impact.

Textile Initiative. President Reagan reinforced the CBI in February 1986 by allowing special access to the U.S. market for apparel assembled in the Caribbean Basin region from cloth cut and formed in the United States. Jamaica, Haiti, Trinidad and Tobago, and the Dominican Republic have signed special access agreements for textiles.

Tax Benefits. The initial CBI legislation offered a convention tax benefit, under which the expenses of business meetings in the CBI countries can be deducted from U.S. taxable income. To be eligible for this provision, a country must sign a tax information exchange agreement with the United States.

Investment Incentive. CBI countries which have a tax information exchange agreement in force are eligible under our new tax law for investments with funds generated in Puerto Rico (through Sec. 936 of the IRS Code). Jamaica and Barbados have such agreements in effect; several other countries have concluded agreements which have not yet entered into force.

The CBI Represents an Opportunity. While the CBI may not have met the expectations of many, it is doing what it was intended to do—offering opportunities for export expansion and diversification. Many countries have taken the difficult steps to open up their economies to market forces so as to encourage savings, investment, and exports; they are taking risks to gain the greatest benefits from the CBI. However, further economic policy changes are needed to encourage private enterprise and attract foreign investment, if the CBI countries want to compete in today's markets.

Overseas Private Investment Corporation

During the past 3 years, the Overseas Private Investment Corporation has intensified its efforts to facilitate U.S. investment in Central America. During FY 1984-86, OPIC insured annually an

average of 13 projects in the region. This is more than double the average during the previous 3-year period. To some degree, this has been due to active efforts to encourage host country governments to improve their project approval procedures. Also during the last 3 years, OPIC has provided more than \$43 million in financing for 20 projects in 5 countries. This number of projects reflects OPIC's extensive efforts to identify and package development-related investments in the region.

Other efforts to encourage investment in the region include investment missions to Costa Rica in FY 1984 and to Belize in FY 1986. OPIC's Opportunity Bank, a data base which serves to match investment opportunities with U.S. investors and host country partners, now lists 145 project opportunities and 548 U.S. firms that have expressed interest in doing business in the region. In addition, OPIC has registrations for insurance for 112 projects in Central America, worth \$387 million in total investment. While only a minority of these registered projects will actually become operational, the number appears high enough to ensure that OPIC's past achievements in the region should be matched in the coming years.

Trade Credit Insurance Program of Eximbank

One NBCCA recommendation was that "new official trade credit guarantees be made available to Central America" to offset the decline in the availability of U.S. bank lines and supplier credits used to finance imports into the region. In October 1984, Congress included a provision in the Foreign Assistance and Related Agencies Appropriation Act, which established for FY 1985 a trade credit insurance program for Central America.

Under the program, AID was authorized to issue guarantees of up to \$300 million to Eximbank during FY 1985 for export credit insurance authorized by Eximbank to support U.S. exports to Central America's private sector. At AID's request, its Board of Directors authorized country limits for FY 1985 totaling \$255 million.

The Continuing Appropriations Act of 1986 authorized AID again to issue guarantees to Eximbank for export credit insurance to be authorized by

Eximbank during FY 1986, but at a reduced level of \$250 million. At AID's request, the \$250 million was allocated as follows: Costa Rica, \$70 million; El Salvador, \$75 million; Guatemala, \$70 million; and Honduras, \$35 million. All country limits will expire on September 30, 1987, i.e., U.S. banks may confirm letters of credit under the program up to that date. It was renewed at a \$275 million level for FY 1987. Consequently, toward the end of this fiscal year, AID and Eximbank will consider renewal and possible changes in the various country limits.

The trade credit insurance program is a letter of credit facility. The central banks of the various countries act as either guarantor or borrower. U.S. banks, supported by Eximbank's insurance, confirm and refinance the letters of credit. The number of participating U.S. banks per country ranges from one (for Costa Rica) to eight (for El Salvador). The number of local financial institutions that have opened letters of credit ranges from 7 to 12. As Eximbank insures 100% of principal and almost all interest (including interest up to the day a claim is paid to the U.S. banks), U.S. banks showed considerable interest in the program. Since there are many parties involved in the process, the time necessary for its implementation is considerable, and in two countries (Costa Rica and Guatemala), this facility is growing more slowly than anticipated.

The first letters of credit were opened in mid-1985. Through December 31, 1986, letters of credit confirmed by U.S. banks totaled \$195.8 million, broken down as follows: El Salvador, \$109.8 million; Costa Rica, \$44.6 million; Honduras, \$32.8 million; and Guatemala, \$8.6 million.

As participating U.S. banks establish new banking relationships in Central America (or reestablish old ones) and have favorable repayment experiences, there is the possibility that they may be willing, at a future date, to do business on an uninsured basis. The trade credit insurance program then would be phased out or reduced.

APPENDIX E

Progress in Meeting Security Objectives

EL SALVADOR

Achievements:

- Civilian control of the armed forces is a fact.
- Public image of the military in El Salvador has changed from one of a defender of a nondemocratic status quo to protector of a democratic future.
- Armed forces are better organized, trained, and equipped.
 - Mobility is better than in 1984.
- Battlefield performance has improved.
 - Guerrillas now generally operate secretly in small units against economic targets versus previous strategy of direct conflict with the military.
 - Frequency of direct confrontation has declined.
 - Guerrilla strength believed to have fallen to about 6,000 from a high of 9,000–11,000.
 - Military operations are now subject to rules of engagement; human rights violations have declined dramatically.
 - Most officers associated with human rights abuses have been removed from command positions and units associated with violations have been disbanded.
- Armed forces are committed to an ambitious civic action program entitled "United to Reconstruct."

GUATEMALA

Achievements:

- Democratization and development strategy initiated by the government in 1982 and continued by the current elected civilian president has produced:
 - A code of military conduct which has improved civil-military relations.
 - A rural civilian population that now participates in defense of its villages.

—Military did not participate in or attempt to influence the 1985 Assembly and presidential elections.

—Military has achieved success on the battlefield:

- The guerrilla threat is now restricted to mountainous rural areas and small Mexican border areas.
 - The size of guerrilla force is estimated to be 1,500–2,000 and has not grown.
- Improvement in human rights and political conditions has permitted the Administration to meet congressional certification requirements.
 - Political violence has been sharply reduced.
 - Nonlethal military U.S. aid has begun.

COSTA RICA

Achievements:

- Assistance is being used to train and equip a rapid-reaction civil guard force of less than 1,000 men and maintain a border guard force. However, current funding will not properly support equipment provided in earlier years and cannot support a continued training program.
- U.S. security assistance has strengthened the will of Costa Rica to resist more confidently Nicaraguan threats and blandishments. However, reduced funding puts this at risk, raising questions by the Costa Ricans as to our willingness to live up to our treaty commitments, the cornerstone of Costa Rican willingness to stand up to the Sandinistas.

HONDURAS

Achievements:

- Armed forces were instrumental in guaranteeing the 1985 election, supporting the elected civilian leadership, and developing the democratic constitutional system.

—U.S. military assistance is helping to build a more effective deterrent to cross-border incursions by Nicaragua.

- The United States has provided emergency assistance in response to Sandinista incursions in 1986.
 - Aging Super-Mystere fighters have been overhauled to extend their flight-life for the short term.
 - Honduran armed forces have successfully detected and defeated terrorist and guerrilla elements that have sporadically surfaced since 1983.
 - Numerous combined military exercises have been conducted in Honduras (e.g., Ahuas Tara, Kings Guard, Blazing Trails, Cabanas).
- The joint U.S.-Honduran training exercises have provided incidental benefits to Honduras, such as medical treatment, road building, and maintenance of airstrips.
- U.S. training programs and combined exercises have promoted increased Honduran armed forces professionalization.

NICARAGUA

—Support to the democratic resistance has impeded the total consolidation of the Sandinista Marxist-Leninist regime.

- Internal opposition has been given hope to continue struggle for democracy.
- The Sandinistas have been forced to divert resources that otherwise would be available to support insurgencies elsewhere.
- Simultaneous support of the Contadora process and regional negotiations by a U.S. Special Envoy have tested Nicaragua's willingness to resolve the Central American crisis.
 - The Sandinistas are intransigent.
- Security assistance to neighbors has enabled these neighbors to more confidently resist Nicaraguan pressure for bilateral accommodations in lieu of regional negotiations and has strengthened their will and capability to confront blackmail and subversion from Nicaragua.

APPENDIX F

Central American Development Organization

In proposing the establishment of a CADO, the NBCCA had in mind a structure that would provide a continuous and coherent approach to the development of the region, a process of review of that development, and access to that process by those who have not before been an integral part of it. The NBCCA recommended that Central American participation in our assistance programs and in CADO should depend on acceptance of and continued progress toward such important elements of democracy as respect for human rights, protection of personal and economic liberties, political pluralism, free elections, mutual security, and a functioning legal system.

The Commission recommended certain principles to develop and institutionalize cooperation among the countries:

- That development of Central America be a cooperative program with policy issues addressed through a process of joint deliberation among the members of CADO;
- That the program should promote the development of Central America in all its dimensions—economic prosperity, social change, political modernization, and peace;
- That while a CADO should exercise some control over development assistance, the ultimate control of aid funds will always rest with the donors and that the governments, including that of the United States, would not be bound to accept the judgments of CADO;
- That the structure of a CADO must be established on a sufficiently permanent basis to demonstrate the long-term commitment of both the United States and the Central American countries to the coordination of economic development with social and political development; and,
- That a CADO must represent the initiative and enjoy the support of the nations of the region or it cannot succeed.

Section 464 of the Foreign Assistance Act expressed the sense of Congress that the President should enter into negotiations with the countries of Central America to establish a CADO. Since passage of the legislation in 1985, preparatory work has been completed by a working group composed of the U.S. Government (i.e., the State Department and AID), the American Institute of Free Labor Development, the Council of the Americas, the Association of the American Chambers of Commerce in Latin America, and Caribbean and Central American Action. This work included several rounds of consultations with the government, labor, and business sectors of the Central American countries. This process culminated in a seminar attended by government, business, and labor representatives in San José in September 1986 at which the issues related to the establishment of an organization such as CADO were examined.

Soundings undertaken by U.S. Embassies/AID Missions subsequent to the seminar confirmed the generally positive interest by business and labor sectors and interest on the part of most governments.

In November, the Honduran tripartite organization invited one labor representative each from Panama, Guatemala, and Honduras (as an observer); business representatives from Honduras and El Salvador; and government representatives from the United States, Costa Rica, and Belize to form a working group to prepare draft statutes. (Costa Rica declined to attend.)

The working group met in Tegucigalpa on December 15-17, 1986. The members of the working group are now consulting on this draft with their governments and the other two sectors in their respective countries. Another meeting is anticipated in March 1987.

APPENDIX G

Peace Corps

In consonance with NBCCA recommendations, Peace Corps developed an Initiative for Central America (IFCA). IFCA addresses the need for teacher training, education, small business development, housing, and improved health in Belize, Guatemala, Honduras, and Costa Rica. Further, following the Caribbean Basin Economic Recovery Act of 1983, countries in that area began a major program to stimulate job-creating small enterprises. Volunteers teach basic skills for credit development and other business management skills.

To achieve our program goals, the Peace Corps has increased collaboration with other government agencies, international agencies, and private and voluntary organizations. These collaborations include projects with AID, the Inter-American Development Bank, the Inter-American Foundation, the Pan American Development Foundation, the Organization of American States, CARE, and CARITAS.

Small Enterprise Development. A major priority is the development of agricultural and other businesses to generate income, provide food, and create employment. In 1987, roughly one-half of the Volunteers will be involved directly or indirectly in the planning, startup, and management of small and medium-scale income-producing projects. The majority of these projects will be in the area of agribusiness and food production.

Health, Nutrition, and Sanitation. During the past two decades, host country governments have improved their health services with assistance from AID, the Inter-American Development Bank, the Pan American Health Organization, and other development assistance agencies. In 1987, Volunteers living mostly in rural communities will continue to conduct health, nutrition, and sanitation education courses for rural mothers and train counterparts to carry on this work. Volunteer nurses will provide basic health care and help staff rural health posts.

Environmental Education and Management. In 1987, Volunteers will continue to conduct educational courses for small-scale farmers and provide technical assistance in reforestation and the energy-efficient use of firewood. The Peace Corps' work in environmental management is enhanced by collaborative support from AID.

Appropriate Technology. Most countries' dependence on expensive imported fuel makes the introduction of low-cost, simple, energy-efficient technology an increasingly important development priority. Programs introducing simple technologies that derive their energy from wind, water, or sunlight will be continued.

Refugees

People fleeing armed conflicts in Nicaragua, El Salvador, and Guatemala constitute the great majority of refugees in need of protection and assistance in Central America. The United States and other donor countries have been working together with various international organizations to ensure that refugees are protected and, where possible, are assisted to return to their homes. Countries in the region, particularly Honduras and Costa Rica, have been generous in providing asylum. Resettlement outside the region has been necessary in relatively few cases.

Of an estimated 300,000 refugees in Mexico and Central America, approximately 120,000 were receiving assistance from the UN High Commission for Refugees (UNHCR), as of mid-1986: Mexico, 40,000; Honduras, 44,000; Costa Rica, 30,000; Belize, 4,500;

and Nicaragua, 2,300. Assistance for registered refugees in Central America is considered by experts to be generally good. Of greater concern is the large number of persons who have crossed national borders without registering themselves as refugees. They live without official refugee status and protection and, in many cases with limited access to food assistance, health care, and other services normally provided to refugees. The number of this group can only be estimated; most authorities, however, assume that it is several times larger than the number of registered refugees.

The United States is working to improve the situation of refugees in Central America.

First, the U.S. Government contributes a third of the UNHCR's \$40 million budget in Latin America. We also contribute to the Intergovernmental Committee on Migration programs for refugees in the region and fund a quarter of the International Red Cross' \$12-million budget for Latin America.

Second, we are working with countries of first asylum (i.e., the country to which the refugees first flee) to improve processing, assistance, and protection of refugees.

Third, we are working with the UNHCR and regional governments on durable solutions, including integration opportunities in countries of first asylum, voluntary repatriation, and, in those cases where it is considered appropriate, resettlement to a third country.

Fourth, we have expanded the Latin American refugee admissions program to enable qualified refugees to resettle in the United States.

The major factors affecting refugee flows in the region are the level of economic growth and political stability in the countries from which the refugees have fled and continue to flee. Those two factors are, of course, intertwined. Although the United States will continue its efforts (as outlined above), the

ultimate solution to the region's refugee issue lies with progress toward political and economic stability.

International Narcotics Control

Central America is a significant transit region for narcotics entering the United States from South America. There also are areas where liberal bank and tax laws have created environments useful for narcotics-money laundering activities. Although some marijuana grown in Central America is apparently entering the U.S. market and some opium poppy is now grown in Guatemala, the countries of the region have not been major producers of narcotics.

Because U.S. narcotics control strategy focuses on the eradication of narcotic crops or interdiction at the source (i.e., the major producing countries), funding provided to the Central American countries has been limited. Over the past several years, Belize has received most of the funding provided to the area to support a substantial aerial herbicide eradication program.

Marijuana eradication has also been funded in Panama and negotiations are underway to fund an aerial herbicide spray effort against opium poppy and marijuana in Guatemala. Costa Rica and Honduras have received small amounts of support for equipment for interdiction operations. Expansion of narcotics control funding for Central America in the future will depend on the degree of production and trafficking in the area.

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