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**BRIEFING MATERIALS**  
**FOR**  
**MR. MARK EDLEMAN**  
**ON**  
**LAC/CEN PROGRAMS**

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## Overview

In July of 1983, President Reagan named a National Bipartisan Commission on Central America (NBCCA), chaired by Henry Kissinger, to recommend a medium-term U.S. policy toward Central America. These recommendations form the basis of the Administration's Central America Initiative (CAI). In its January 1984 report, the Commission proposed greatly expanded economic assistance to the democratic countries of the region. The development component of the CAI is based on four goals:

1. Arresting economic decline and promoting economic stabilization;
2. Laying the basis, through structural transformation, for sustained economic growth;
3. Increasing equity and spreading the benefits of growth; and
4. Strengthening democratic institutions and processes.

The original legislation for the CAI requested \$8.4 billion for the region over 5 years (FY 84-FY 90) in U.S. assistance and guarantees. In FY 87 A.I.D., realizing the shortfall in funding and having reassessed progress toward the goals of the CAI, sent a report to Congress on Fully Funding the Central America Initiative (attached). In the report we requested that the period of the CAI be stretched out through FY 1992 and modified the funding levels to \$8.9 billion in economic assistance and guarantees. Through FY 89 USG assistance, including food assistance, totals over \$5.0 billion (see attached chart) for Central American programs.

The last assessment of progress under the CAI performed in February, 1989 concluded that while progress toward the CAI goals has been made, in many cases it has not been as fast as we had hoped for. The reasons for this cited are overambitious targets, unsettled political climate, slower than hoped for economic reforms, and weak markets for primary exports from the region. The assessment does however conclude that there is solid evidence that the CAI strategy is a sound one and will, as internal and external environments improve, achieve the goals it was set out to reach.

## Political/Economic Situation

The region, or at least much of it, now appears to be emerging from its long economic slide. After ten years of decline, with per capita income dropping nearly one-fifth, the four core Central American countries are now in their third year of positive, if modest, per capita gains. Massive assistance from the U.S. together with economic policy reforms (much of it

associated with U.S., IMF, and IBRD conditionality) and improved terms of trade have altered the economic outlook. Particularly promising has been the upsurge of non-traditional exports from the region.

Concurrently, there is a resurgence of regionalism at the political level. Recognizing that the Central American states cannot insulate themselves from one another's problems, the region's five presidents are collectively asserting themselves to regain control over the region's destiny. One such effort is the continuing efforts to form a Central American Parliament. Currently all countries but Costa Rica have ratified the agreement to establish the Parliament. The peace process begun at Esquipulas has continued with Esquipulas II and the Tesoro Beach summit. Nicaragua continues to present a serious problem, but the presidents have shown a willingness to grapple with the issues. These meetings have had developmental impact as well as political, for instance, the Presidents commissioned their Vice Presidents to develop an Action Plan for the region which was given to the Secretary General of the United Nations. This plan formed the basis of the UN Special Plan for Central America, which is being implemented by the UNDP.

Further, meaningful inter-government cooperation is increasing at all levels. Vice Presidents and ministers now regularly meet with their Central American counterparts, and regional institutions, whose governing boards consist of ministers, are once again becoming important forums for debate and coordination.

The growing interest of other donors is yet another recent auspicious development. This both reflects and enhances favorable political and economic trends. As mentioned above, the UN has approved a \$20 million "Special Economic Plan" for Central America as a predecessor to a massive multiyear, multibillion dollar effort. The European Community is reportedly developing a several hundred million dollar package of regional assistance. Further, the Japanese and individual European countries are increasing their bilateral assistance activities throughout the region. A sizeable share of these funds, particularly those of the EC, is likely to be destined for regional activities.

#### A.I.D. Regional Programs

Regional programs in Central America are implemented both from Washington, through the CA Regional account managed by the technical offices within the LAC Bureau, and through our regional office, ROCAP, located in Guatemala City.

The CA Regional portfolio contains those projects that serve more than one country and are more efficiently managed from Washington, specifically these projects usually involve U.S. based organizations or involve technical specialities and staff capabilities not available in the field Missions. Primarily the projects fall into two categories, technical support and democratic initiatives/administration of justice. FY 89 funding level is \$34.1 million.

The ROCAP program (data sheet attached) focuses on development problems which:

- affect all Central American countries (e.g., environment, natural resources, human and agricultural disease);
- require cooperative solutions (e.g. trade agreements); and/or
- for cost-effectiveness reasons, are best dealt with through regional programs (e.g., technical support on regional problems).

Consistent with this strategy, ROCAP's programs directly address regional developmental problems by providing training, material support, and technical expertise in:

- protecting natural resources and reducing environmental damage;
- developing and spreading ORT and other health technologies;
- developing non-traditional export bases;
- increasing agricultural productivity;
- improving the policy climate for private sector development; and
- fostering regional economic and trade policy coordination.

Equally valid, but less recognized, is the need for strong regional institutions to support and/or administer such programs. ROCAP places considerable importance on developing and supporting (within an explicit goal-oriented context) the regional institutional infrastructure necessary to sustain a long term regional attack on economic and social problems. In general, ROCAP's projects are directed at specific problems and implemented through regional institutions. This approach directly attacks development problems and at the same time supports institutions with long term responsibility in the specific field.

In the context of the CAI structure the ROCAP program generally falls under Goals 2 and 3, sustained economic growth and spreading the benefits of growth. However, ROCAP has, through its programs with the Central American Bank for Economic

Integration (CABEI), made a significant contribution to capital mobilization in the region. ROCAP also serves to monitor regional political and economic events as the only regional USG organization in Central America.

Under Goal 2 ROCAP's program increasingly focuses on the closely interrelated areas of natural resources management, sustainable agriculture, agribusiness development, and non-traditional exports. Complementing these are broad scope activities which foster better economic policies and closer cooperation among the region's economies. To facilitate the spread of benefits of growth throughout the region ROCAP is working with the Nutrition Institute for Central America and Panama (INCAP) to improve the development and implementation of child survival plans and techniques and to increase the efficiency and effectiveness of food assistance to the region. As a specific response to the recommendations of the NBCCA, ROCAP is working with the Regional Housing and Urban Development Office and CABEI on a \$64 million (combined housing guarantee and development assistance) project to make available funding for low-income housing. ROCAP has also participated in the Central American Peace Scholarship project and is currently developing an Intra-regional Scholarship project to strengthen regional higher education facilities and provide scholarships to these institutions. There have been clear benefits from regional scholarship programs implemented by ROCAP in that they foster networking across the region not normally experienced in bilateral programs.

### Issues

- In the past there have been questions both from within A.I.D. and from Congress as to the effectiveness or need for regional programs. This is bound to be a reoccurring question, particularly in periods of budget austerity and due to the particularly bilateral emphasis placed on political dialogue. However, a strong case can be made for the cost-effectiveness of regional programs and particularly in the area of agriculture the essential need for a regional approach. Additionally, we need to be sensitive to the fact that the Central Americans themselves are seeking regional approaches to confront their developmental and political problems. The U.S. should be supportive of Central American initiatives to sustain their own needs.
- The International Commission on Central American Recovery and Development (briefed attached), convened by Senator Terry Sanford under the auspices of Duke University. Unlike the NBCCA, the Sanford Commission was comprised of

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an international group of public, private and academic representatives. We cooperated fully with the Commission, providing information and briefings both in Washington and in the field. Their final report was issued in February and was generally supportive of U.S. policy in Central America. However, there are some recommendations which are problematic, such as an overemphasis on the Central American Common Market and a tendency to see the poor in Central America as objects to be benefitted by aid agencies rather than active participants in the development process. This being the most recent and highly visible study on Central America, it is receiving significant attention on the Hill and has been suggested in legislation as a blueprint for future U.S. policy in the region.

UNDP Special Plan for Central America. As discussed, the UNDP is currently in the analytical stage of developing a program responsive to the needs identified by the Central American Vice Presidents. Although we joined in a consensus resolution in the UN supporting the program, we made it clear that we would not contribute to a special fund or channel our economic assistance through the UNDP but would maintain our current assistance programs in the region. The UNDP mechanism is however, particularly attractive to those countries not having an active aid presence in the region. To date the only contribution to UNDP for the program has been the Italians who have committed \$115.0 million for a special refugee/displaced persons program.

GAO report on the Impact of U.S. Assistance to Central America During the 1980's. We have responded with comments on the draft report and are waiting for final publication. The draft report recognizes the fundamental soundness of the A.I.D. development strategy in Central America, while noting differences in performance and results in stabilization and adjustment programs among the countries.

(5061k)

TOTAL ASSISTANCE TO CENTRAL AMERICA 1984-90

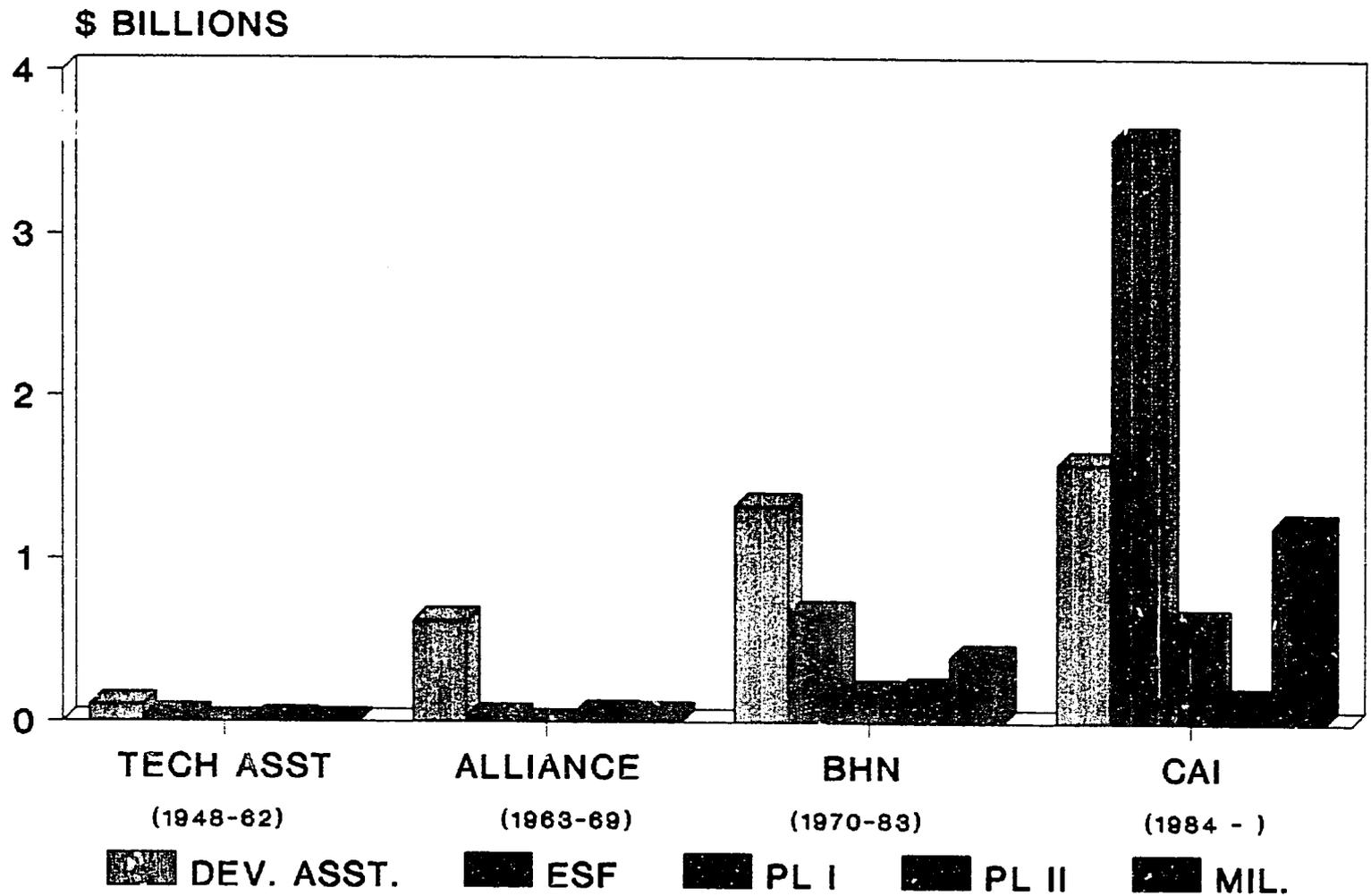
CENTRAL AMERICA INITIATIVE

Country	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
<b>Belize</b>							
DA	3.9	8.5	7	7.3	7.4	7	7.4
ESF	0	14	2.5	5.3	0	0	2
PL 480 I	0	0	0	0	0	0	0
PL 480 II	0	0	0	0	0	0	0
Military	0.5	0.6	0.6	0.6	0.1	0.6	0
TOTAL	4.4	23.1	10.1	13.2	7.5	7.6	9.4
<b>COSTA RICA</b>							
DA	15.5	25.9	13.2	17.1	11.75	7	12
ESF	130	169.6	126	142.3	90	90	57
PL 480 II	0	0.2	0.3	0	0.95	0	0
PL 480 I	22.5	21.4	20	16	0	15	15
Military	9.1	11.2	2.6	1.7	0.23	1.7	
TOTAL	177.1	228.3	162.1	177.1	102.93	113.7	84
<b>EL SALVADOR</b>							
DA	41.2	91.1	86.3	82.4	70.715	64.3	69
ESF	120.2	285	181.9	281.4	195	185	180
PL 480 I	49	49	44	36	41.5	35	35
PL 480 II	5.5	8.8	10.4	3.3	12.9	4.8	4.62
Military	196.6	136.3	121.8	111.5	86.5	96.5	
TOTAL	412.5	570.2	444.4	564.6	406.615	385.6	288.62
							87 esf includes local cost support ( Includes \$50 m. in FY 87 dis. asst.
<b>GUATEMALA</b>							
DA	4.5	63.2	37	34.9	30	33	36
ESF	0	12.5	52.8	114.8	80.1	80	87
PL 480 II	6.5	8.2	5.9	4.8	5.4	5	8.631
PL 480 I	6.7	20	18.1	23	18	18	18
Military	0	0.5	5.4	5.5	7.4	5.4	
TOTAL	17.7	104.4	119.2	183	140.9	141.4	149.631
<b>HONDURAS</b>							
DA	31	54.4	45.3	41.7	44.9	38	44
ESF	40	150.2	66.5	131.1	85	85	87
PL 480 I	15	15	15	12	12	12	12
PL 480 II	5.2	4.4	4.6	3	8.3	3.3	3.9
Military	77.4	67.4	61.2	61.2	41.2	61.2	
TOTAL	168.6	291.4	192.6	249	191.4	199.5	146.9
<b>NICARAGUA</b>							
DA	0	0	0	0	0	0	0
ESF	0	0	0	0	0	0	0
PL 480 I	0	0	0	0	0	0	0
PL 480 II	0	0	0	0	0	0	0
Military	0	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0	0

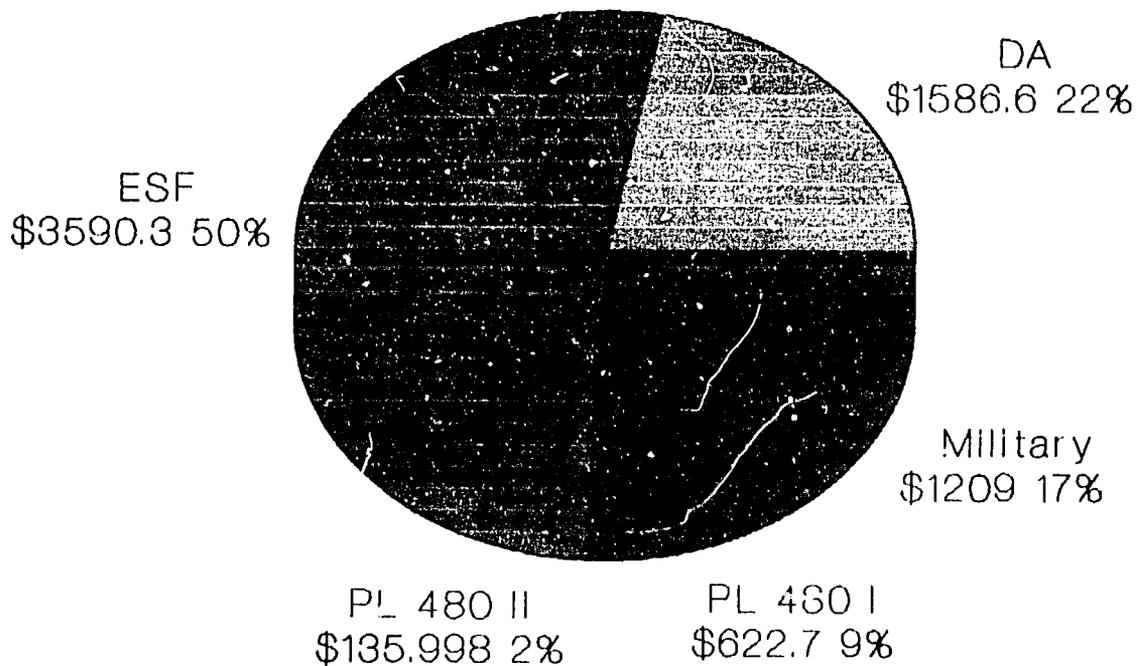
Country	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
<b>PANAMA</b>							
DA	10.7	24.3	20.1	8.4	1.1	0	0
ESF	0	50	13.2	0	0	0	0
PL 480 I	0	0	0	0	0	0	0
PL 480 II	1.3	0.1	0.1	0	0	0	0
Military	13.5	10.6	8.2	3.5	0	0.4	0
TOTAL	25.5	85	41.6	11.9	1.1	0.4	0
<b>ROCAP</b>							
DA	15.5	35.7	23.8	31.3	24.8	22	25
ESF	0	70.9	1.2	5	0	0	0
PL 480 I	0	0	0	0	0	0	0
PL 480 II	0	0	0	0	0	0	0
TOTAL	15.5	106.6	25	36.3	24.8	22	25
<b>CA REGIONAL</b>							
DA	0	27.6	29.4	17.4	24.6	24.6	26.6
ESF	0	27.1	42.2	4.3	4.9	7.5	12
PL 480 I	0	0	0	0	0	0	0
PL 480 II	0	0	0	0	0	0	0
TOTAL	0	54.7	71.6	21.7	29.5	32.1	38.6
<b>TOTAL</b>							
DA	122.3	330.7	262.1	240.5	215.265	195.9	220
ESF	290.2	779.3	486.3	684.2	455	447.5	425
PL 480 I	93.2	105.4	97.1	87	71.5	80	80
PL 480 II	18.5	21.7	21.3	11.1	27.55	13.1	17.151
Military	297.1	226.6	199.8	184	135.43	165.8	0
GRAND TOTAL	821.3	1463.7	1066.6	1206.8	904.745	902.3	742.151

4/27/89 (CAHIST)

# U.S. AID TO CENTRAL AMERICA



# TOTAL ASSISTANCE TO CENTRAL AMERICA CAI PERIOD 1984-1990



(\$Millions)

ROCAP  
6/1/89

I. Financial Data

	(\$000)			
	<u>FY 1988</u> <u>Actual</u>	<u>FY 1989</u> <u>CP</u>	<u>FY 1989</u> <u>OYB</u>	
A.I.D.				
DA	24.8	24.5	22.0	24.5
ESF	0.0	0.0	0.0	0.0
TOTAL	<u>24.8</u>	<u>24.5</u>	<u>22.0</u>	<u>24.5</u>
(Pipeline, End FY)	69.3	45.4		

II. Role of ROCAP

- Address common developmental constraints through regional institutions; e.g.:

The Central American Institute for Business Administration (INCAE) - Through training and curriculum development in business administration, management, etc.

The Tropical Agricultural Research and Training Center (CATIE) - Agricultural Higher Education, Watershed Management and other scientific and educational activities to promote improved agricultural production, and natural resources management.

The Central American Research Institute for Industry (ICAITI) - Energy and industrial quality control.

Interamerican Institute for Agricultural Cooperation (IICA) - Regional coffee rust control and the development of agricultural research networks.

The Nutrition Institute for Central America and Panama (INCAP) - Improving infant survival rates through the use of oral rehydration therapy, growth monitoring and improved nutrition. Development of a regional technical support network to improve management of food assistance programs.

The Central American Bank for Economic Integration (CABEI) - Stimulate growth of extra regional exports. Mobilize increased capital flows by attracting extra-regional membership and new subscriptions of capital to its equity base. Expand lending programs to lower income groups for housing and urban services.

Association of Private Businesses of Central America and Panama (FEDEPRICAP) - Strengthening the private sector and increasing their involvement in the study and resolution of constraints to export.

Latin American Agribusiness Development Corporation (LAAD) - Lending directed toward expanding private sector investment in agribusinesses and generating foreign exchange through exports.

- Regional Research/Analysis, e.g.:

Central America Environment/Natural Resources Management Strategy  
 Regional Transportation Study  
 Agriculture Sector Survey  
 Central America Common Market Study

- Provide Technical Support to USAIDs in region, e.g.:

Areas of shared expertise include: forestry, natural resources management and environment.

III. Objectives for FY 1988 Thru FY 1990

A. Summary of Accounts

		(\$000)		
	<u>FY 88</u>	<u>FY 89</u>	<u>FY 89</u>	<u>FY 90</u>
DA TOTAL	24,788	24,500	22,000	24,500
ARDN	16,222	14,511	13,311	14,100
HE/CS	938	102	100	2,900
EHR	825	2,009	1,689	500
SDA	6,803	7,269	6,900	7,000

B. Functional Account Objectives

- The Agriculture and Rural Development objectives: preserve and better manage the region's natural resources, increase the region's agricultural production, and promote exports. ROCAP has begun a major new initiative this year in natural resources management beginning with the development of a Environment/Natural Resources Strategy for Central America for implementation by all A.I.D. Missions in the region. In FY 89 ROCAP will begin a \$50.0 million, 6 year project designed to create the conditions for public and private institutions to generate, transfer, and apply the information and technology essential for the sustained use of natural resources. Another major initiatives in this area is the creation of a humid tropics agricultural college in Costa Rica (EARTH). Additional activities include: research and application of new agricultural technology, LAAD agribusiness lending program, training assistance to increase non-traditional agricultural exports and market them in the U.S., and training of Central American Peace Scholars in vocational agricultural education.

- ARDN                                    16,222                    15,120                    13,311                    14,100

- Health and Child Survival objective: reduce infant and child mortality through the development of improved national child survival plans including implementation of ORT programs and improvement of food assistance systems.

- HE/CS                                    938                        102                        100                        2,900



INTERNATIONAL COMMISSION FOR CENTRAL AMERICAN  
RECOVERY AND DEVELOPMENT  
(Sanford Commission)

Issue: Do you support the recommendations of the Sanford Commission?

Background: The International Commission for Central American Recovery and Development (ICCARD) was created at the initiative of Senator Terry Sanford (hence the name Sanford Commission) to carry out a comprehensive analysis of development prospects in Central America. The Commission includes forty-one members of varying backgrounds from fourteen countries in North America, Latin America and Europe. The stated goal of the Commission is to "foster international cooperation to promote peace and development in Central America." Their final report issued in February 1989 recommended:

Immediate Action Plan

- Focus on refugees and displaced persons, and those living in extreme poverty.
- Special provisions for children, pregnant and nursing women and the elderly.
- Generate productive employment.

Sustained Development

- Diversify and expand exports and revitalize and restructure Central American Common Market.
- Reinststate a common tariff structure gradually reducing protection of domestic industry.
- Reform tax systems, financial policies and revise agrarian policies.
- Reform and restore schools and health systems.

Democracy

- Continue withdrawl of the military from politics, and the develop mechanisms of civilian political control.
- Assure the independence and security of judges and lawyers.
- Creation of a Cultural and Educational Council to encourage democratic attitudes.
- Establishment of the Economic and Social Council as a consultative body to civil society.

## Regional Cooperation

- Revitalize and strengthening the CACM.
- Revitalize and revamp regional institutional structures.
- Increase coordination of fiscal and monetary policies, as well as interest and exchange rates.
- Establish Central American Parliament for regional political dialogue.
- Create a Central American Court of Justice.

## International Efforts

- Increase financial aid levels from current \$1.5 billion per year to \$2.0 billion per year for the next 5 years.
- The world community should base their relations with Central America upon compliance with the Esquipulas accords.
- No nation adhering to the accords should be denied financial assistance or trade benefits on the basis of other political criteria.
- Help finance revival of CACM and creation of other regional institutions.
- For at least a decade grant unilateral trade concessions.
- Reduce private debt, reschedule bilateral official debt and expand financial flows from multilateral lending institutions.
- U.S. should maintain current assistance levels and increase cooperation with multilateral efforts.
- Establish a Central American Development Coordinating Commission.

## Talking Points:

- The report is generally supportive of U.S. economic assistance efforts, and endorses the main economic policy initiatives we have pressed -- export promotion, exchange-rate adjustments, fiscal deficit reduction, privatization, and generally greater reliance on markets.
- It also calls for maintenance of current economic aid levels to the region.
- The report is generally consistent with the 1984 Kissinger Commission recommendations -- though much more optimistic about the Central Americans negotiating peace among themselves.
- We see two basic flaws in the report:
  - an overemphasis on Central American regional cooperation as both an economic and political panacea for the problems of the region; and

- a "welfare worldview" in the non-economic recommendations -- where the poor in Central America are seen more as objects to be benefitted by aid agencies and governments than as actors in the development process.

Although we do not consider the report as the basis for design of our future economic aid to the region it is a good updated document for discussion of Central America.

In addressing Central America, we need to:

- promote faster, sustainable economic growth and job creation, particularly through nontraditional exports outside the region, encouragement of private investment, and better macroeconomic and sectoral policies;
- focus on expanding opportunity in programs targeted for the poor;
- attack these issues where the fundamental responsibility lies -- bilaterally with individual national governments. Regional efforts can flow from bilateral successes; and
- intensify our efforts to support democratization in the region, through judicial reform, support for the electoral process, and strengthening legislative functions.

LAC/CEN:KFreeman:5/18/89:5046k

Clearance:

LAC/CEN:CCostello (draft)

LAC/CEN:JLovaas (draft)

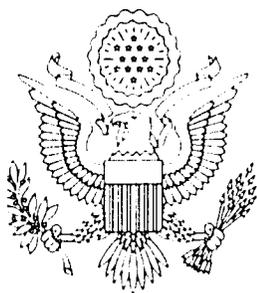
LAC/DP:WWheeler \_\_\_\_\_

AA/LAC:MKWood \_\_\_\_\_

AA/LAC:FSchieck \_\_\_\_\_

PPC/PB:NGallup \_\_\_\_\_

GC/LP:EHannold \_\_\_\_\_



Special Report No. 162

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**

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### **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 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**

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#### **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. SHULTZ  
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 1986<sup>1</sup>, 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. Inouye, 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

<sup>1</sup>Section 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.<sup>2</sup>)

### **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

<sup>2</sup>Reports 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

made up the Captaincy-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.

### 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.

**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 the 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 was similar to a September 1984 draft 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 1986<sup>1</sup>**

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

<sup>1</sup>Excludes 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 \$322 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

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\$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.

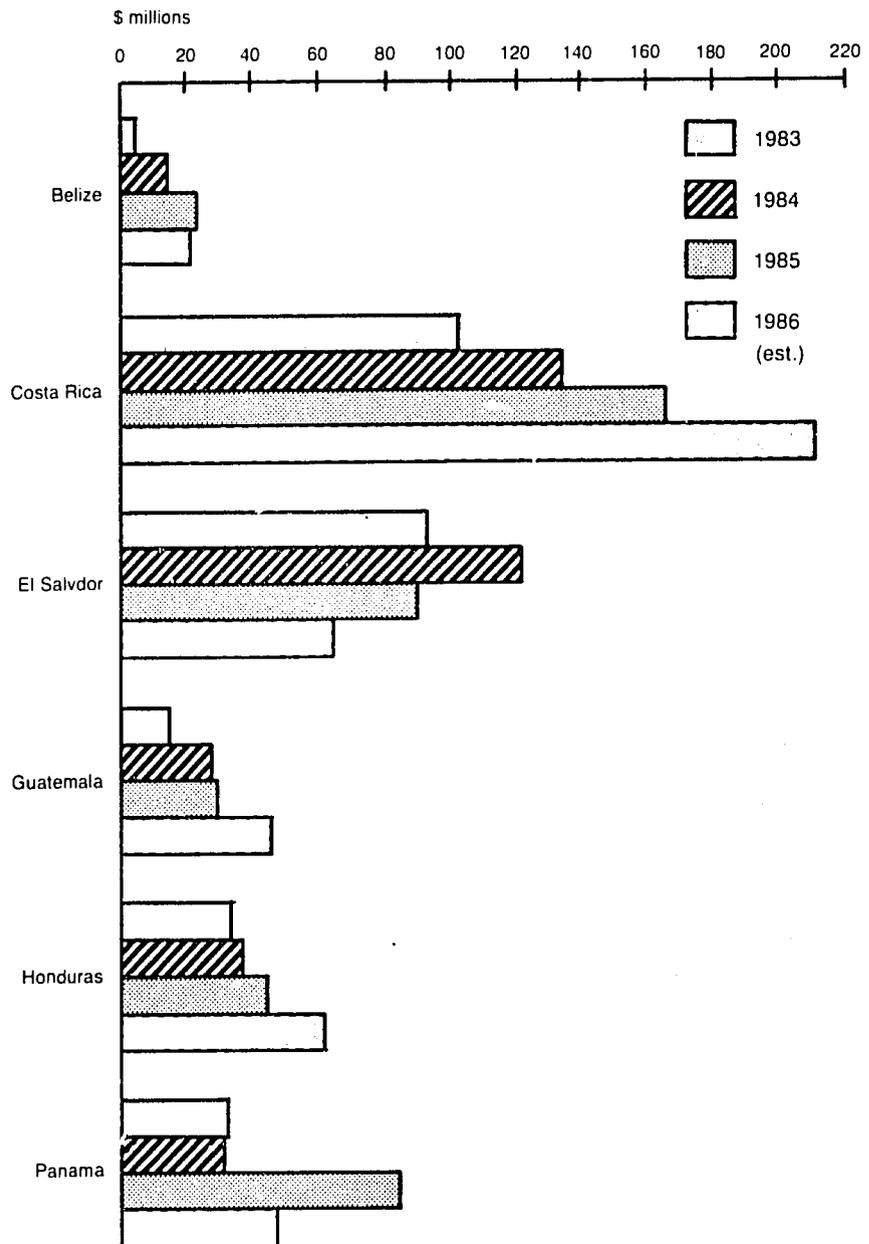
**Progress in exchange rate realignment has been substantial but remains incomplete.** This is not an issue in Belize, Costa Rica, or Panama. Guatemala adjusted its exchange rate for most transactions to a realistic level in early 1986 and has pledged to complete the process. El Salvador also undertook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

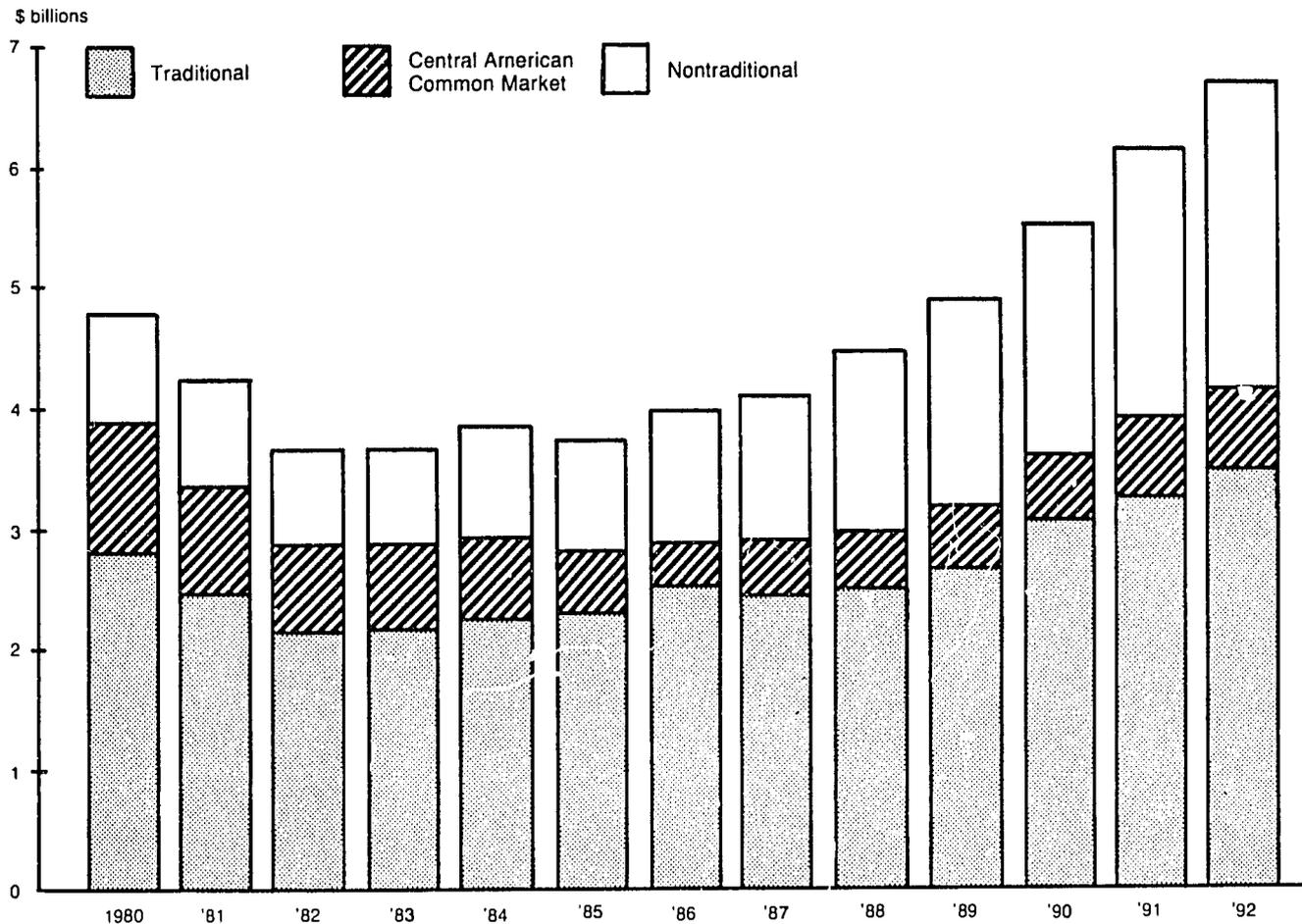
The most promising trend has been in Costa Rica, where the private investment/GDP ratio fell from 17% in 1980 to 11% in 1982 but then regained its 1980 level by 1985. This turnaround can be attributed primarily to the significant economic policy reforms undertaken by the Costa Rican Government during 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<sup>a</sup>**



<sup>a</sup>Data 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 non-traditional 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, internal 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
<b>Health</b>		
Infant Mortality Rate (per 1,000 births)	61.1	56.9 (1985)
<b>Education</b>		
Primary School Enrollments <sup>1</sup>	3,040,000	3,300,000
Percent of Population (Ages 7-12) <sup>1</sup>	90%	91%
Primary School Completion Rate <sup>1</sup>	72%	75%
Central American Peace Scholars	—	3,497
<b>Family Planning</b>		
Couples using Family Planning	1,150,000	1,400,000
Percent Coverage	37.5%	41.7%
<b>El Salvador Land Reform</b>		
Titles Issued to Phase I Cooperatives	41	196
Phase III Titles Issued	5,456	17,426

<sup>1</sup>Education 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

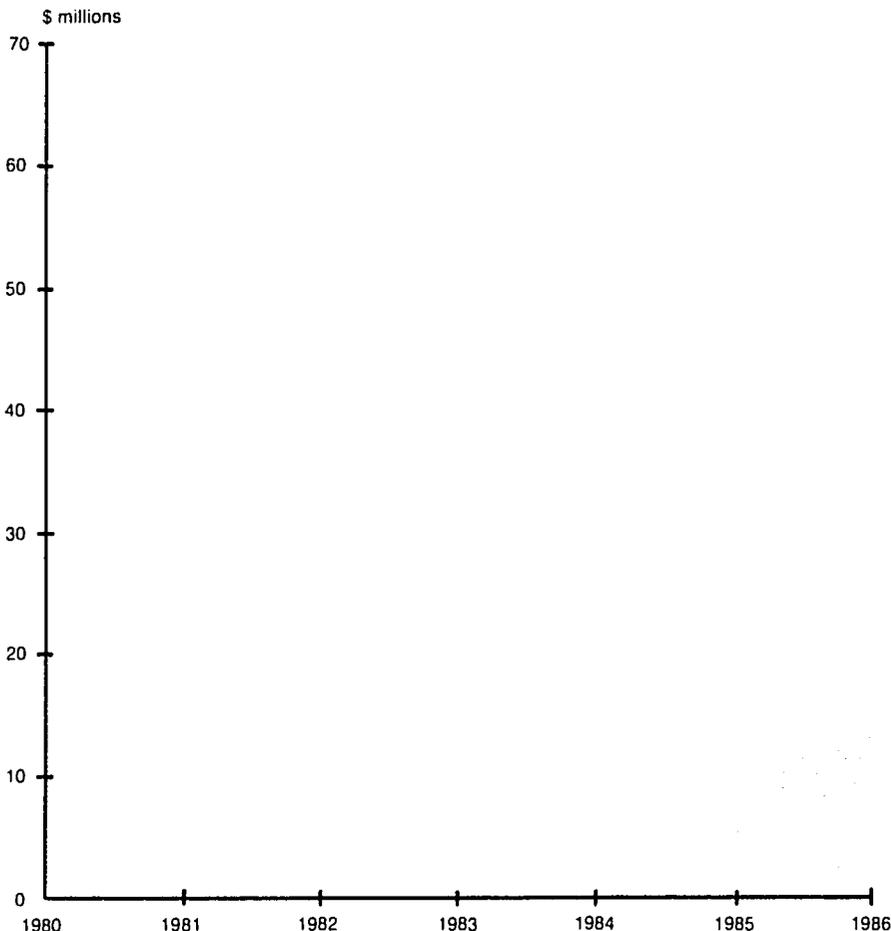
The CAI was based on certain economic and social recommendations contained in the NBCCA report. Much has been accomplished in the past 3 years.

- 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<sup>a</sup>



<sup>a</sup>Excludes bananas.

assistance, PL 480, Peace Corps, USIA, and the refugee program.<sup>3</sup> 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.

<sup>3</sup> 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.<sup>4</sup> 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-

<sup>4</sup>The 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
<b>Appropriated Funds</b>						
ESF	826,993	457,812	1,284,805	415,000	200,000	1,899,805
Development Assistance						
PL 480	299,933	254,952	554,885	231,062	100,000 <sup>a</sup>	885,947
Title I	130,100	89,500	219,600	89,000	0	308,600
Title II <sup>b</sup>	11,591	19,671	31,262	18,181	0	49,443
<b>Subtotal</b>	<b>1,268,617<sup>c</sup></b>	<b>821,935</b>	<b>2,090,552</b>	<b>753,243</b>	<b>300,000</b>	<b>3,143,795</b>
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 <sup>d</sup>	548	326	874	1,255	0	2,129
OPIC	4,544	3,330	7,874	3,300	0	11,174
<b>Subtotal<sup>e</sup></b>	<b>31,092</b>	<b>33,756</b>	<b>64,848</b>	<b>30,955</b>	<b>0</b>	<b>95,803</b>
<b>Total appropriated</b>	<b>1,299,709</b>	<b>855,691</b>	<b>2,155,400</b>	<b>784,198</b>	<b>300,000</b>	<b>3,239,598</b>
<b>Guarantees</b>						
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 <sup>f</sup>	0	141,700
OPIC	10,103	33,050	43,153	33,000 <sup>f</sup>	0	76,153
Eximbank	9,943	7,957	17,900	8,500 <sup>f</sup>	0	26,400
<b>Subtotal</b>	<b>84,746</b>	<b>292,076</b>	<b>376,822</b>	<b>292,100</b>	<b>0</b>	<b>668,922</b>
<b>TOTAL</b>	<b>1,384,455</b>	<b>1,147,767</b>	<b>2,532,222</b>	<b>1,076,298</b>	<b>300,000</b>	<b>3,908,520</b>

<sup>a</sup> FY 1987 supplemental includes \$100 million for El Salvador earthquake reconstruction.

<sup>b</sup> Includes Section 416 commodities \$5 million in FY 1986 and \$7.7 million in FY 1987.

<sup>c</sup> For FY 1984, includes supplemental plus \$25 million of PL 480 reallocations only.

<sup>d</sup> For further information on narcotics program see Appendix G.

<sup>e</sup> Excludes non-CAI related program costs.

<sup>f</sup> 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

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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 <sup>a</sup>	1986 <sup>b</sup>	1987	1984/87 Subtotal	1988	1989	1990	1991	1992	1988/92 Subtotal	TOTAL
<b>Economic Stabilization</b>											
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 <sup>c</sup>	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)							
<b>SUBTOTAL</b>	<b>858</b>	<b>520</b>	<b>643</b>	<b>2,020</b>	<b>495</b>	<b>336</b>	<b>275</b>	<b>160</b>	<b>95</b>	<b>1,361</b>	<b>3,381</b>
<b>Structural Change</b>											
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)							
<b>SUBTOTAL</b>	<b>192</b>	<b>125</b>	<b>108</b>	<b>425</b>	<b>143</b>	<b>278</b>	<b>282</b>	<b>208</b>	<b>178</b>	<b>1,089</b>	<b>1,514</b>
<b>Spreading Benefits</b>											
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)							
<b>SUBTOTAL</b>	<b>215</b>	<b>181</b>	<b>292</b>	<b>688</b>	<b>170</b>	<b>180</b>	<b>201</b>	<b>197</b>	<b>177</b>	<b>925</b>	<b>1,613</b>
<b>Democracy</b>											
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
<b>SUBTOTAL</b>	<b>35</b>	<b>31</b>	<b>41</b>	<b>106</b>	<b>48</b>	<b>54</b>	<b>59</b>	<b>64</b>	<b>60</b>	<b>285</b>	<b>391</b>
<b>TOTAL</b>											
Appropriated	1,300	856	1,084	3,240	856	848	817	629	510	3,660	6,900
Guarantees <sup>d</sup>	85	292	292	669	301	300	280	225	225	1,331	2,000
<b>Grand Total</b>	<b>1,385</b>	<b>1,148</b>	<b>1,376</b>	<b>3,909</b>	<b>1,157</b>	<b>1,148</b>	<b>1,097</b>	<b>854</b>	<b>735</b>	<b>4,991</b>	<b>8,900</b>

<sup>a</sup> Includes FY 1984 supplemental of \$370 million plus \$25 million of FY 1984 PL 480 reallocations.

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

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

<sup>d</sup> 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 USIA 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 ESF 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 1984-87<sup>a</sup>**

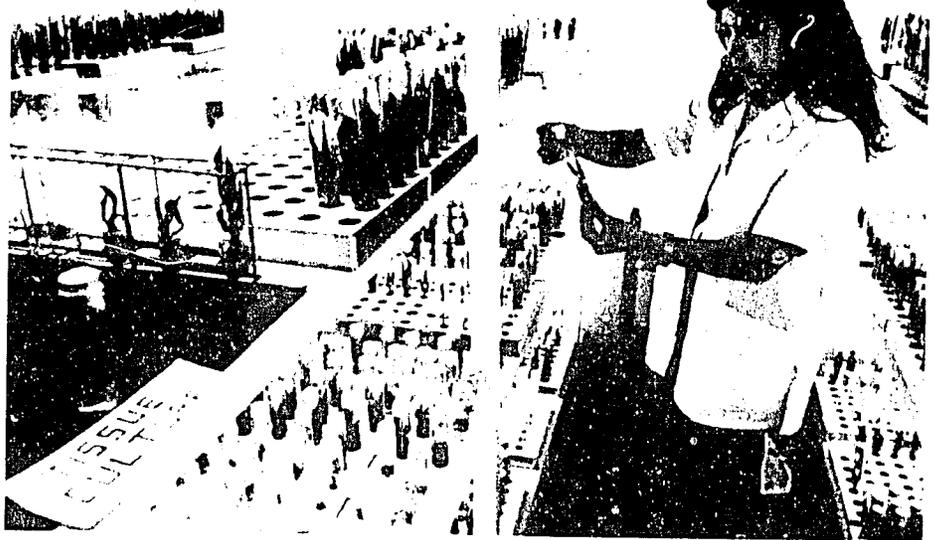
	1984 (supplemental)	1985 (actual)	1986 (actual)	1987 (est.)	1984-87 (est.)
Title I/III	25.0	105.1	89.5	89.0	308.6
Title II	—	11.6	14.6	10.5	36.7
Section 416	—	0.0	5.0	7.7	12.7
<b>TOTAL</b>	<b>25.0</b>	<b>116.7</b>	<b>109.1</b>	<b>107.2</b>	<b>358.0</b>

<sup>a</sup> 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**

<b>No.</b>	<b>Recommendation</b>	<b>No.</b>	<b>Recommendation</b>	<b>No.</b>	<b>Recommendation</b>
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 Report<sup>1</sup>

### 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

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

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 compel 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

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 CAI<sup>1</sup>

(\$ millions)

Purpose	Supplemental FY 1984	FY 1985	FY 1986-89	TOTAL
<b>Stabilization</b>				
ESF	272	541	1,644	2,457
PL 480	25	103	—	128
Guarantees	—	470	—	470
<b>Subtotal</b>	<b>297</b>	<b>1,114</b>	<b>1,644</b>	<b>3,055</b>
<b>Growth</b>				
ESF	10	80	789	879
Development Assistance	8	87	327	422
PL 480	—	—	410	410
Guarantees	—	90	1,240	1,330
Counterpart <sup>2</sup>	(100)	(220)	(520)	(840)
<b>Subtotal</b>	<b>118</b>	<b>477</b>	<b>3,286</b>	<b>3,881</b>
<b>Equity</b>				
Development Assistance	66	196	1,096	1,361
PL 480, II	—	17	70	87
Guarantees	—	40	160	200
Counterpart <sup>2</sup>	(100)	(220)	(880)	(1,200)
Peace Corps	2	18	94	114
State, Refugees	—	15	78	93
<b>Subtotal</b>	<b>168</b>	<b>506</b>	<b>2,381</b>	<b>3,055</b>
<b>Democracy</b>				
ESF	8	20	85	113
USIA	7	36	179	222
CADO	—	1	4	5
<b>Subtotal</b>	<b>15</b>	<b>57</b>	<b>268</b>	<b>340</b>
<b>Operating Expenses</b>				
	2	6	26	34
<b>TOTAL<sup>2</sup></b>	<b>400</b>	<b>1,720</b>	<b>6,205</b>	<b>8,325</b>

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

<sup>2</sup>Counterpart 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.

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## APPENDIX D

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### 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 580 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 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.

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## APPENDIX E

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### 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 pressures for bilateral accommodations in lieu of regional negotiations and has strengthened their will and capability to confront blackmail and subversion from Nicaragua.

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## APPENDIX F

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### 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.

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## APPENDIX G

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### 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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## EL SALVADOR

### Political and Economic Highlights

- For more than 50 years, a skewed social and economic structure favored a small elite which owned most of the fertile land and controlled the banking system, the government, and the military.
- By the late 1970's, the political system had deteriorated into a cycle of violence by left and right-wing terrorists, fueling the growth of a Marist insurgency.
- On October 15, 1979, General Carlos Humberto Romero was ousted as the last protector of the interests of the oligarchy by young military officers, who like the insurgents, wanted a "revolution" but one which changed the government so that it was capable of correcting social and economic injustices rather than one which completely eliminated the existing institutions.
- The military junta resolved into a New Christian Democratic Party-military junta shortly thereafter. It announced the expropriation of agricultural lands over 500 hectares (Phase I). Private banks were nationalized and coffee and cotton export trading restricted to parastatals.
- 750 people a month died from politically motivated killings during 1979.
- Guerilla attacks on economic targets surged. Right-wing death squad killings made world headlines, particularly the assassination of Archbishop Alfredo Romero. In December 1980, Three nuns and a female lay worker were murdered on the road to the airport (five former National Guardsmen were convicted in 1984). In January 1981, two American (AIFLD) labor leaders and the head of the Agrarian Reform Program were assassinated at the Sheraton hotel. (The Sheraton Murders) The 'gunmen' involved were convicted in 1986 and given maximum 30 year sentences.
- The economy went into a decline as the social order deteriorated which was then exacerbated by the world-wide recession.
- In 1982, Arena Party leader Roberto D'Aubuisson, widely believed to have been active in death-squad activities, was elected president of the newly created Constituent Assembly.

- In December 1983, then Vice-President Bush visited El Salvador to make U.S. position on human rights violations clear.
- In June 1984, Christian Democrat Candidate Jose Napoleon Duarte was inaugurated as the first freely elected president in 52 years.
- In June 1985 persons dressed as Salvadoran military personnel attacked several night clubs in San Salvador's Zona Rosa, killing, among others, four off-duty marines. (Zona Rosa murders)
- On October 10, 1986, an earthquake centered in San Salvador caused more damage in seven seconds than through insurgent actions over the past seven years.

### The Current Setting

- On June 1, Alfredo 'Fredy' Cristiani, leader of the opposition ARENA party was inaugurated in what appeared to be a repudiation of the corruption in the Christian Democrat Party and the dismal state of the economy. The party representing various leftist groups, and indirectly the insurgents, garnered only 3% of the vote.
- Because the right-wing element of ARENA, led by D'Aubuisson, is seen as condoning and perhaps carrying out human rights abuses, the consolidation of ARENA's control of the government through Cristiani's election elicited concern by human rights advocates worldwide.
- Cristiani and the moderates visited Washington recently and left a positive impression not only State/A.I.D., but also with the Congress, the IMF and the IBRD. The message then and in the subsequent inaugural speech was that they will fight to prevent and punish human rights abuses, they will rid the government of corruption, they will privatize or allow competition in banking and export marketing of coffee and cotton, they will rationalize the now negative interest rates and the overvalued exchange rate, they will permit the beneficiaries of the Agrarian Reform to hold clear title, and they will expand but target on a needs basis, government services for the poor.
- Cristiani appears to have won round one in the power distribution within the ARENA party by his appointment of a moderate as Minister of Defense.

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## A.I.D. Program Highlights

- Balance of payments support to check the economic decline by providing foreign exchange to the private sector. Constrained by other U.S. interests in the country and the decision of the GOES to sacrifice economic growth for social "stability", policy dialogue has had only a moderate effect but has provided a basis for turning the economy around. The U.S. is both the major, and almost the only donor because of the insurgency and the human rights abuse problems. Christiani has recently had some positive meetings with the IMF and the IBRD so A.I.D. may hopefully soon have company in both economic policy dialogue and balance-of-payments support.
- Projects to minimize the negative effects of the social reform program. The parastatal banking and marketing systems, the basically anti-private sector bias of the junta and Duarte's Christian Democrats, the depressed investment climate, two major droughts and an earthquake severely constrained the private sector's desire and ability to invest, particularly in non-traditional exports. More than \$211 million in credit and \$48 million in insurance have been made available to the private sector. \$48 million local currency equivalent was provided to rejuvenate industry in the Eastern Region.
- Projects to support the positive elements of the social reform program. From the outset, the U.S. has supported the Agrarian reform with technical assistance and financing for land titling, agricultural production credit (over \$100 million), training and extension activities. Recently the Mission has used policy dialogue to encourage the government to turn over management of the Phase I cooperatives to the farmers and to provide under- and unutilized Phase I cooperative lands to landless farmers. In the health area A.I.D. has provided essential commodities and improved the management of the health system, establishing a basis for intensified expansion into the rural areas. Since the beginning of hostilities, over 800 schools have been abandoned. A.I.D. has helped construct and rehabilitate almost a thousand rural classrooms.

- Projects to counter the effects and causes of the war. A.I.D. helps the government provide quick reconstruction of damage to vital infrastructure, such as the electricity grid, and of bridges and roads. Food relief, medical and dental care are provided through local currency funded, one-day Combined Civic Action operations in high conflict areas. The Municipalities in Action project helps strengthen local government through simple public works projects selected by the municipalities themselves. The Central American Peace Scholarship program sends economically disadvantaged students to the U.S. for schooling.
  
- Earthquake Relief and Recovery. A.I.D. moved quickly to provide \$50 million in immediate relief activities and is still involved in a \$100 million recovery program for repairing/ reconstructing schools, houses, and public buildings.

## Congressional Issues

A minority, but strong U.S. domestic opposition to U.S. support for a "dirty" war in a country rife with an unpleasant history of human rights violations is reflected in the U.S. Congress. The "opposition" on the Hill centers around the members and staffers of the Democratic Study Group and the Arms Control and Disarmament Caucus. The principal lobbyists against our aid are liberal religious groups such as Lutheran World Relief and Witness for Peace. Lacking sufficient votes to end military and economic aid to El Salvador, the Congressional "opposition" forces have festooned both authorization and appropriation legislation with language, inter alia, tying aid to GOES performance in human rights and limiting, to the extent possible, our funds being used in cooperation with the military. This year, through our strong lobbying efforts, strongly restrictive language proposed in the draft House Authorization bill was reduced to a more acceptable level. The Senate side, and particularly Senator Hatfield and Harkin, may well include a provision that 50% of ESF be projectized (currently 25% must be projectized). Their argument is that projectizing will make sure it gets to the poor and not to a corrupt government which refuses to punish human rights. Logical refutation of their position has not swayed them. The key issues behind the various legislative strictures are:

- Human Rights - Human Rights violations have dropped from 750 a month in 1979 to 19 a month in 1988. Most are now attributable to the left (such as the systematic killings of mayors) although an equal number of killings under suspicious circumstances could be attributed to either side. Recently, officers were indicted in the killings of civilians for the first time since the civil war began. This may have been due to Vice-President Quayle's strong human rights stance during his April visit to El Salvador. In spite of improvements, those who have been strongly opposed to our aid now see the spectre of D'Aubuisson controlling the ARENA party and a return to the horrors of the past. (Secretary Baker in his briefing of numerous committees has appealed that the Congress give Christiani a year's breathing room to demonstrate the reality of his intentions.)

- Corruption - Corruption is endemic in Central and South America. It becomes more interesting to Congress and more newsworthy when it involves A.I.D. programs. There have been only two major cases of corruption in our program in recent years. One, involving a Salvadoran religious PVO has been virtually ignored by the media and Congress; the other, involving the agency which conducts combined civic actions using A.I.D. associated local currency and Title II food became a cause celebre of the liberals and is still a focus even though it is now replete with concurrent audits, prior expenditure approval, etc. Our lobbying, combined with the GAO's strong opposition, has just narrowly averted House Authorization language requiring a concurrent GAO audit of our whole program.
  
- Program Beneficiaries and Program Impact - The forces of opposition often provide Congress with examples and statistics which purport to demonstrate that our program in El Salvador is reinforcing the wealthy and not helping the poor. A second theme is that we have nothing to show for the \$3 billion in military and economic aid which has been provided since the war began. These two themes underlie the push to projectize 50% of ESF in 1990. The most recent targets have been the infant mortality rate and low income housing under the earthquake program. In the first case, Congress adopted a rate of 90/1000, an increase in the rate since the war began. The figures are actually 65/1000 in 1985 and 50/1000 in 1988 from the only two reliable, nationwide surveys which exist. Now that most of the interested parties on the Hill have the accurate information and the sampling methodology backing it, this issue appears to be going away. In the second case, local religious groups were including two housing sites in their "tours" for visiting staffers to demonstrate how reconstructed housing was too expensive for the earthquake victims who had lived there before. This issue has also been resolved through the provision of accurate information but we are likely to continue to spend a lot of time on these queries until peace negotiations bear fruit and until, and if, Christiani's manages to convince the U.S. Congress that he is actively suppressing anti-human rights actions.

summary of U.S. Assistance: (\$ Millions)

	FY 1981 <u>Actual</u>	FY 1982 <u>Actual</u>	FY 1983 <u>Actual</u>	FY 1984 <u>Actual</u>	FY 1985 <u>1/</u> <u>Actual</u>	FY 1986 <u>Actual</u>	FY 1987 <u>2/</u> <u>Actual</u>	FY 1988 <u>3/</u> <u>Actual</u>	FY 1989 OYB	FY 1990 <u>Proposed</u>
DA	33.3	39.6	58.8	41.1	87.8	83.9	82.4	70.7	62.4	67.8
ESF	44.9	115.0	140.0	120.2	285.0	177.0	281.3	195.0 <u>4/</u>	206.6 <u>5/</u>	180.0
PL-480 Title I	26.3	19.9	39.0	49.0	49.0	44.0	30.1	41.5	40.0	35.0
PL-480 Title II	9.1	7.7	7.8	2.1	3.6	5.9	6.4	12.9	4.4	4.6
Section 416	-	-	-	-	-	-	4.1	7.9	-	-
Disaster - OFDA	-	-	-	-	-	-	53.0 <u>3/</u>	-	-	-
<b>TOTAL</b>	<b>113.6</b>	<b>182.2</b>	<b>245.6</b>	<b>212.4</b>	<b>425.4</b>	<b>310.8</b>	<b>457.3</b>	<b>328.0</b>	<b>313.4</b>	<b>287.4</b>

- 1/ Includes FY 1984 Supplemental  
2/ Includes FY 1987 Supplemental of \$129.5 inc. \$75m earthquake reconstruction  
3/ Apportioned as OFDA relief \$2.7m; emergency housing \$.3m and earthquake recovery \$50m  
4/ Includes 1,634 in reobligation of prior year funds  
5/ Includes 21,627 in FY 1988 ESF carryover

President: Fredy Cristiani  
Inauguration: June 1, 1989

EL SALVADOR  
6/02/89

<u>I. Financial Data</u> (\$ millions)	<u>FY 1988</u> <u>Actual</u>	<u>FY 1989</u> <u>CP</u>	<u>FY 1989</u> <u>OYB</u>	<u>FY 1990</u> <u>Proposed</u>
DA	70.7	67.7	62.4	67.8
ESF	195.0	185.0	185.0 1/	180.0
PL-480 I	41.5	35.0	40.0	35.0
PL-480 II	12.9	4.8	4.4	4.8
Section 416	7.9	7.9	0	0
Other	0	0	0	0
<b>TOTAL</b>	<b>328.0</b>	<b>300.4</b>	<b>291.8</b>	<b>287.6</b>
(DA Pipeline, End FY)	(206.0)	(394.1)		

1/ Does not include 21,627,000 in FY 1988 ESF carryover.

<u>Other Donors</u> (\$million)	<u>FY 1946-85</u>	<u>FY 1986</u>	<u>FY 1987</u>
IMF	.0	.0	.0
IBRD	215.1	.0	65.0 1/
IDB	613.2	23.0	183.0
UN	28.9	N/A	1.5
EEC	36.9	N/A	N/A
DAC Bilateral	177.2	N/A	N/A

1/ Earthquake Reconstruction Loan

II. Economic and Social Trends

	<u>1980-84 Average</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
GDP Growth (%)	-3.9	0.6	2.6	0.5
inflation rate - CPI (%)	13.7	31.9	26.5	20.0
Domestic Interest rates				
- maximum lending (%)	17.0	21.0	21.0	21.0
Gov. Expenditures (% of GDP)	25.2	17.4	15.5	13.8
Fiscal Deficit (% of GDP)	-9.0	-2.2	-3.0	-3.7
Trade Balance (\$ million)	-124.0	-180.0	-384.4	-417.0
Export Growth rate (%)	-7.8	8.6	-21.7	7.1
Interest on Foreign Debt (M-T/L T)				
-- percent of exports (G&NFS)	9.9	11.8	13.8	N/A
-- percent of GDP	2.4	2.4	2.1	N/A

EL SALVADOR

Social Indicators

	<u>1980-84 Average</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Primary School Enrollment (%)	80.9	81.8	93.0	93.8
Infant Mortality (per 1000)	75.0	50.0	50.0	50.0
Family Planning (% of target group)	41.0	45.0	49.0	N/A



## GUATEMALA

### Country Information Sheet

#### Geography:

Area: 108,889 sq. km. (42,000 sq. mi.); about the size of Tennessee;  
Capital: Guatemala City (pop. 1,800,000)  
Terrain: mountainous with fertile coastal plain;  
Climate: temperate, semi-tropical on the coasts.

#### People:

Population: (1988 est.): 8,700,000; annual growth rate of 2.8%;  
Maya Indian (50%), Ladino (50%).  
Religion: Catholic (70%), Protestant Evangelical and other (30%).  
Languages: Spanish, 23 major Indian dialects.  
Education: 6 years. Literacy - 48% (29% Indian population)  
Health: infant mortality rate - 68/1000; life expectancy - 62 years (44 years for Indian population).

#### Government

##### Type:

Democratic, constitutional republic. Independence: 1821.  
Constitution: 1986.

##### Branches:

- Executive - President, popularly-elected 5-year term;
- Legislative - 100 member, popularly elected, unicameral Congress (5-year term coincidental with term of President);
- Judicial - nine-member Supreme Court; five-member Constitutional Court.

Administrative subdivisions:  
22 departments

## GUATEMALA

### Political and economic situation

Guatemala has completed three and one half years of democratic government after almost three decades of internal conflict and military rule. During this period the government of President Cerezo has made substantial progress in economic stabilization. Most Guatemalans are determined to make democracy work. However, the fragility of democratic institutions in Guatemala, as evidenced by the attempted coups in May 1989 and May 1988, continues to be a major concern. A major test will be the election in 1990 and the planned transition to a new democratically elected government in January 1991.

Traditionally, Guatemala's economy relied mainly on agricultural exports, particularly coffee, sugar, bananas, cotton and meat as the principal source of growth. By the late 1970s, however, manufacturing had grown to nearly 30% of exports and tourism had expanded to rank third after coffee and cotton as a foreign exchange earner. At the end of the 1970s social tensions became acute, and unsettled security conditions in the early 1980s discouraged tourism, private investment, and foreign financing, and Guatemala suffered a serious economic down-turn.

Performance of the economy since January 1986 under the elected civilian government of President Cerezo, despite ongoing criticism from the business community, has been good:

- The exchange rate has been stabilized and unified at Q2.70 per US \$1.00;
- The GDP growth rate has risen from 0.1% in 1986 to 3.5% in 1988, and growth rate of 4.5% is projected for 1989.
- Inflation has been reduced from a rate of above 40% to the 9.6 % in 1988;
- Non-traditional exports expanded by an healthy 34% in 1987 and 25% in 1988, while gross fixed capital formation increased by some 12.3%, with signs of further strengthening.
- Average real wages expanded by 3%. However, income distribution is still badly skewed. More jobs and basic services are needed for the poor majority.

In conclusion, assuming continuing political stability, Guatemala is well-positioned for rapid economic growth over the next few years. Macroeconomic policy has improved dramatically since 1985, and steady progress continues to be made.

## GUATEMALA

### A.I.D. program

-- A.I.D. programs in Guatemala support a Guatemalan development strategy that is broadly consistent with the four principal goals set forth in the National Bipartisan Commission on Central America (NBCCA) report: achieving economic stabilization, building a foundation for long-term growth, providing equity in the distribution of benefits, and fostering democratization.

-- The specific objectives of U.S. economic assistance (ESF, DA, and PL-480) are:

- strengthen Guatemala's democratic institutions;
- keep its economy stable;
- realize rapid and sustained economic growth; and
- achieve greater participation of all Guatemalans - primarily the historically disadvantaged - in the generation and benefits of that growth.

-- To stimulate economic growth, A.I.D. is providing technical assistance, training and other support to small farmers to raise their productivity and income, and market their products. A.I.D. is also helping small and medium, urban and rural enterprises improve their competitiveness and to move into non-traditional exports.

-- To help spread the benefits of growth, A.I.D. projects have contributed to improving the delivery of primary education; establishing bilingual education programs; expanding voluntary family planning, basic health care, and immunization and oral rehydration therapy for children below six years of age; and providing affordable housing for low-income families.

-- To strengthen democracy, A.I.D. supports various activities which focus on strengthening Guatemalan legislative, judicial and electoral institutions and processes. Also, long and short term scholarships in the United States are targeted at socially and economically disadvantaged indigenous men and women from rural areas.

In conclusion, while Guatemala still faces important development challenges, the progressive nature of today's leadership - public and private, the strength and the speed of economic recovery during the last three years, and the growing diversity and increasing amount of donor assistance, together increase the prospects for sustained progress.

## GUATEMALA

### Issues

#### A) Political/security.

The GOG acted aggressively during the early 1980s to eliminate an emerging guerilla threat. Since 1986, an elected democratic government has generally succeeded in maintaining a stable political environment. Nevertheless the insurgency continues at a reduced pace and traditional elites are still suspicious of the current government's efforts, and consequently the institutionalization of democratic processes remains slow and fragile.

#### B) Macroeconomic performance

As indicated above, the macroeconomic policy framework is growth-oriented, and no major distortions remain. However, major sectoral and institutional problems do remain. The main challenge at the macroeconomic level is to stimulate broad-based growth through higher levels of domestic savings and investment:

- Savings mobilization. Substantial increases in domestic savings are needed to generate sustainable investment levels. The tax and financial system is backward, and financial reforms are needed to stimulate savings.
- Public investment. Substantial increases in public investment in both physical and social infrastructure are needed. Rural roads, port infrastructure, education and basic health are key areas where substantially larger outlays are needed, and the efficiency and absorptive capacity of public sector institutions need to be improved.

#### C) Income distribution and access to services.

Income distribution and access to land, education, health and other basic services is highly skewed. Unlike the rest of Central America, Guatemala is composed fundamentally of two cultures: the indigenous Maya Indian population (approximately 50%) and the ladino.

The ongoing and planned assistance program for Guatemala focuses on realizing rapid and sustained economic growth, strengthening Guatemala's democratic institutions, and achieving greater participation of all Guatemalans in the generation and benefits of that growth. To spread the benefits of economic growth, A.I.D.'s program focuses on: (a) increasing the productivity, employment opportunities and income of the historically disadvantaged groups, and (b) providing basic education, health, and infrastructure services.

The current A.I.D. project portfolio is predominantly concentrated geographically in the Highlands and in activities aimed at meeting the human capital and economic needs of Guatemala's Indian population. Key activities are bilingual education, basic education, rural roads, potable water and sanitation systems, ORT and immunization, agricultural credit lines, diversification programs for the production, processing and marketing of non-traditional export crops.

D) Democracy and Human Rights

The GOG has made steady progress in ending official and private human rights abuses. Situation today bears little resemblance to that under military rule in the early 1980s.

However, perception of rising violence, mostly criminal, is once again front-page news. The police force has had trouble controlling this increase.

The entire U.S. assistance program has as a principal objective the strengthening of democracy in Guatemala in the firm belief that a democratically elected and freely functioning government represents the best guarantee for the protection of political and civil liberties and of access to economic opportunities for all citizens.

To foster democratization and broaden respect for human rights, A.I.D. is supporting various initiatives designed to strengthen Guatemala's judicial and legislative institutions and the electoral system. The Mission's program focuses on four interrelated and mutually reinforcing democracy activities:

- (1) Strengthening the administration of justice;
- (2) Support for the elections;
- (3) Strengthening the National Congress;
- (4) Democracy training.

GUATEMALA  
06/01/89

**I. Financial Data**

(\$ millions)

	<u>FY 1988</u> <u>Actual</u>	<u>FY 1989</u> <u>CP</u>	<u>FY 1989</u> <u>OYB</u>	<u>FY 1990</u> <u>Proposed</u>
<u>A.I.D.</u>				
DA	28.1	34.0	33.0	37.0
ESF	80.0	80.0	80.0	85.0
PL 480, Title I	18.0	18.0	18.0	18.0
PL 480, Title II	3.7	5.1	7.0	7.0
Section 416	5.1	0.0	0.0	0.0
Total	<u>134.9</u>	<u>137.1</u>	<u>138.0</u>	<u>147.0</u>
(Pipeline, End FY 88	137.9)			

<u>Other Donors*</u>	<u>FY 1980-84</u> <u>(committed)</u>	<u>FY 1985-89</u> <u>(committed)</u>	<u>FY 1990-94</u> <u>(estimated)</u>
<u>Multilateral:</u>			
IMF	218.0	101.0	N/A
IBRD	85.5	307.6	300.0
IDB	416.7	392.0	350.0
UNDP	6.9	9.5	9.0
WFP	10.9	60.6	75.0
Other	45.0	60.0	75.0
Subtotal	<u>783.0</u>	<u>930.7</u>	<u>809.0</u>
<u>Bilateral:</u>			
West Germany	20.0(est)	137.0	N/A
Italy	2.0(est)	221.9	N/A
France	2.0(est)	74.0(est)	N/A
Other (Japan, etc.)	20.0(est)	100.0(est)	N/A
Subtotal	<u>44.0</u>	<u>532.9</u>	<u>N/A</u>
<u>Grand Total:</u>	827.0	1,463.6	809.0

(\* Based on information provided by USAID/Guatemala  
on 2/7/89)

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GUATEMALA

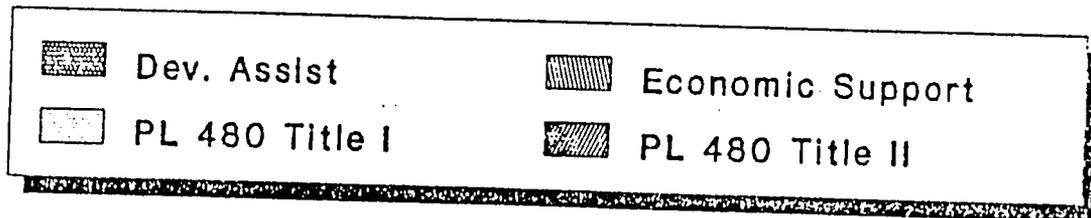
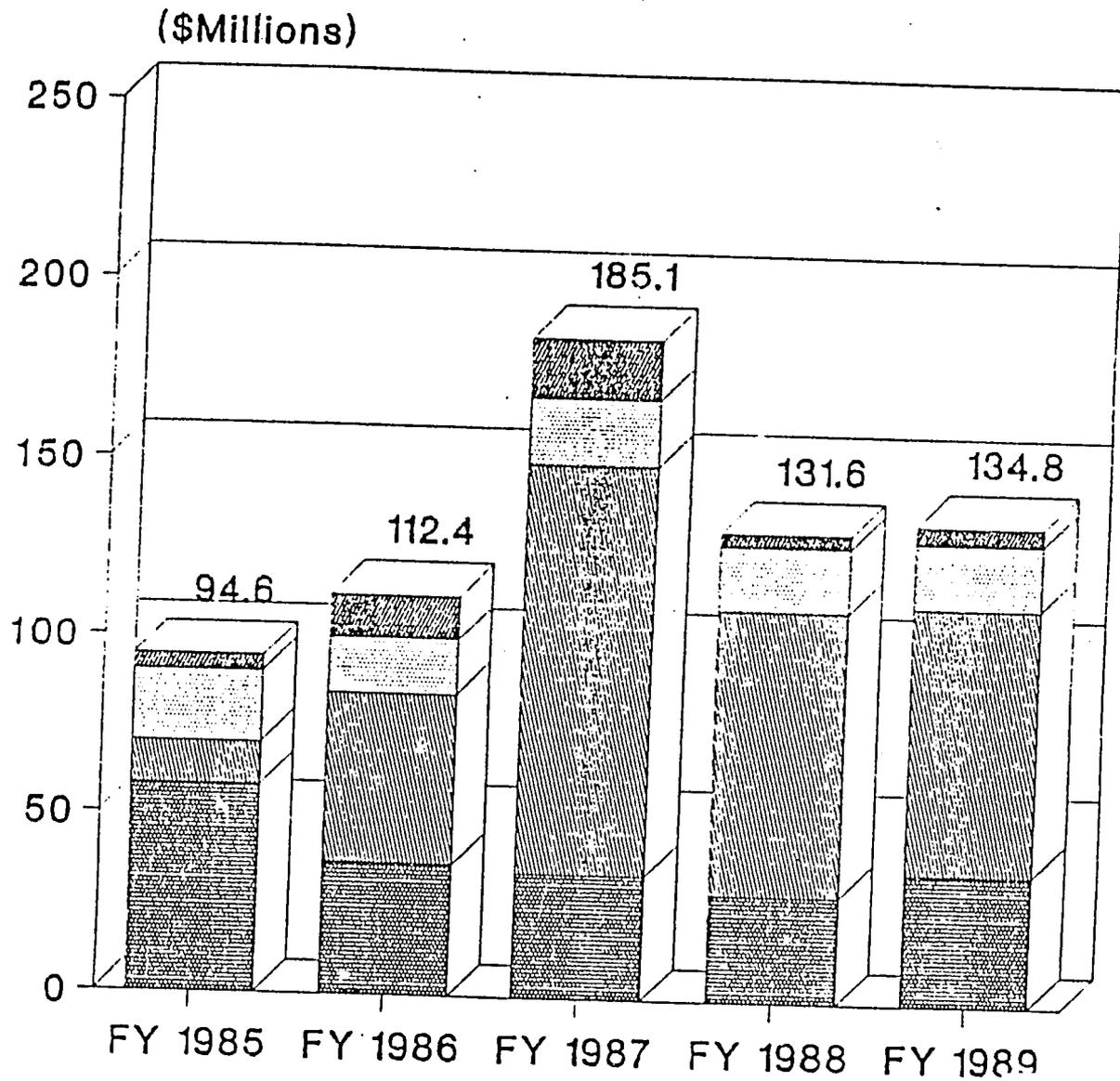
**II. Economic and Social Trends**

<u>Economic Indicators</u>	<u>1980-84</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
GDP Growth (%)	-0.3	0.1	3.1	3.5
Inflation rate - CPI (%)	6.8	32.7	10.9	9.6
Dom. Interest rates - lending (%)	N/A	14.0	14.0	16.0
GOG Expenditures (% of GDP)*	16.0	12.1	13.5	N/A
Fiscal Deficit (% of GDP)*	-4.1	-2.7	-2.3	-3.2
Trade Balance (\$ million)	-173.4	168.0	-355.2	-371.1
Export Growth rate (%)	-1.0	-6.2	-6.3	13.0
Interest on Foreign Debt (M-T/L-T)				
-- percent of exports (G&NFS)	5.0	18.3	16.4	N/A
-- percent of GDP	0.8	1.7	1.4	1.8
 <u>Social Indicators</u>	 <u>1980-84</u>	 <u>1986</u>	 <u>1987</u>	 <u>1988</u>
Primary School Enrollment (%)	73.8	76.0	76.5	77.0
Infant Mortality (per 1000)	67.0	66.4	65.8	65.0
Family Planning (% target group)	20.0	22.0	23.2	24.0

\*Figures are for the consolidated non-financial public sector.

# GUATEMALA PROGRAM SUMMARY

## Fiscal Years 1985 - 1989

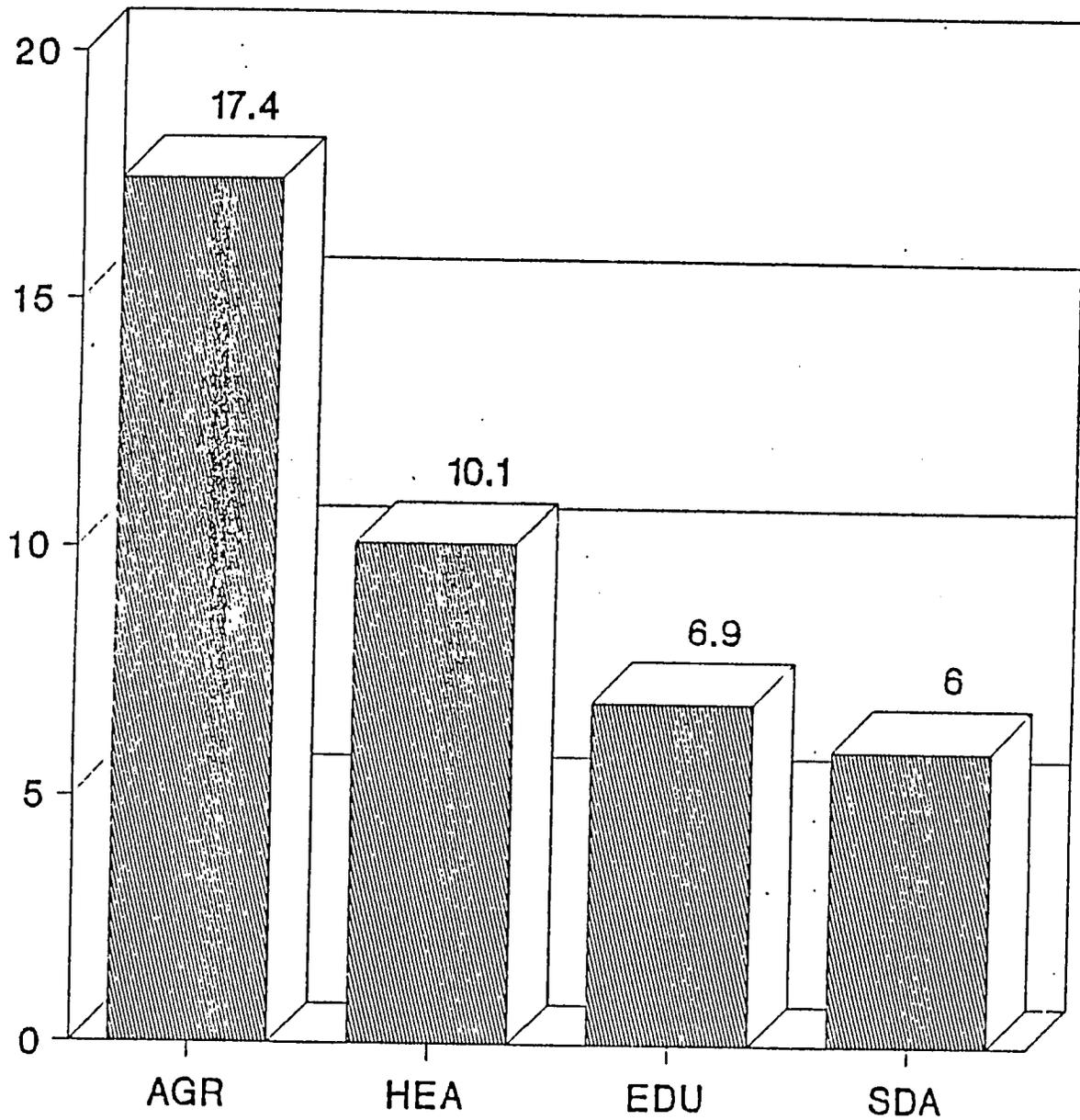


SOURCE: Congressional Presentation

# GUATEMALA PROGRAM SUMMARY

## DEVELOPMENT ASSISTANCE FY '85 - 89

Average per Year



 \$Millions

SOURCE: Congressional Presentation



MEXICO

PETÉN

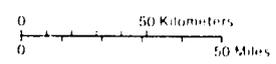
BELIZE

HONDURAS

EL SALVADOR

**Guatemala**

- International boundary
- Department boundary
- ★ National capital
- Department capital
- Railroad
- Road



Boundary representation is not necessarily authoritative

## COSTA RICA

### I. Political Situation

In November 1989 Costa Rica will celebrate its one hundredth year as a constitutional democracy. Except for intermittent strife and the brief civil war of 1948, Costa Rica has consistently demonstrated a remarkable degree of democratic stability and political participation that stands in sharp contrast to that of its neighbors in the Central American isthmus.

Several unique historical and geographic circumstances contributed to the emergence of this strong democratic tradition in Costa Rica. As a buffer zone between the Mayan and the Inca empires, Costa Rica had a relatively small and dispersed indigenous population, largely devoted to gathering, hunting and fishing. Because they found no easily accessible deposits of gold or silver, the Spanish conquistadores largely ignored Costa Rica in spite of the name they gave her. Consequently, Costa Rica was settled by impoverished Spanish farmers seeking independence and land. With no ample supply of slave labor and rough, mountainous terrain, the plantation agriculture system failed to take firm root in Costa Rica amid the steady proliferation of small-scale landowners.

Because of these historical and societal antecedents, Costa Rica emerged into the twentieth century as a strongly egalitarian society. The military, never a coherent dominating social or political force, was abolished by the 1949 constitution. While some inequities remain for Blacks and women, the general tendency towards egalitarianism of the society and the social welfare emphasis of the government preclude the emergence of severe class conflicts that could act to undermine Costa Rica's democratic institutions. It must be added that although the internal pressures that Costa Rica presently faces are manageable for the foreseeable future, the Nicaraguan revolution, instability in Panama, and drug corruption could diminish public confidence in the long-term stability of Costa Rica's democratic system.

General elections are scheduled to be held in Costa Rica in February 1990. Carlos Manuel Castillo, an experienced technocrat, is the candidate for the incumbent National Liberation Party (PLN). He is being vigorously opposed by Rafael Angel Calderon, the nominee of the center-right opposition Social Christian Unity Party (PUSC), who was defeated by now-President Arias in 1986. Both are considered moderates who favor close relations with the U.S. and who would assume a less activist stance in regional affairs. At this point the race is very tight (Costa Rica's constitution bars President Arias from seeking re-election).

## II. Economic Situation:

From its democratic revolution in 1948 until the end of the 1970s, Costa Rica appeared to be a model developing country. Real Gross Domestic Product (GDP) grew at better than 5% a year, reflecting strong prices for traditional exports (coffee, bananas and sugar) and the success of the Central American Common Market (CACM). The poor, which constituted about 35% of Costa Rica's population, shared in this income growth. Life expectancy soared from about 55 years in 1950 to over 70 in 1979. Infant mortality dropped from 89 to 19 per thousand. Adult illiteracy was halved, dropping below 10%. Population growth rates during the same period dropped from 3.7% to 2.6% per year. Moreover, all these achievements took place within the context of a vibrant participatory democracy.

This economic and social growth masked underlying structural problems. The expansion of CACM trade was based on a protectionist import-substitution model. Unrealistic interest and exchange rates encouraged capital-intensive investment and discouraged exports outside the CACM. By the mid-to-late 1970s, CACM growth slowed, the limited import substitution possibilities were exhausted, and regional political and economic problems interfered with trade. The country began to resort to heavy external borrowing to maintain economic growth and social programs at the same time that the burgeoning state sector impeded the economy's productivity.

Beginning around 1979, the terms of trade turned steadily against Costa Rica. Coffee prices fell sharply from their 1977 high and the price of petroleum imports doubled. Political unrest in neighboring Nicaragua and El Salvador and falling incomes elsewhere in Central America reduced investor confidence. Trying to stave off a painful adjustment, the GOCR resorted to heavier international borrowing, running up one of the highest per capita debts in the world. Runaway international interest rates at the end of the 1970s further exacerbated the debt service burden.

By 1981, foreign exchange reserves were exhausted, and the attempt to maintain real income collapsed with a de facto moratorium on servicing foreign debt. Per capita GDP declined by 16% from 1980 to 1983. Inflation exceeded 100% by mid-1982. Real wages plummeted in 1981 and 1982 and even after some recovery in 1983, they were at only 79% of the 1980 level. By 1982, unemployment and underemployment rates had doubled to 9% and 14%, respectively.

Based on Costa Rica's spectacular performance through the mid-1970s, AID had been considering the closure of its Mission in Costa Rica. Program levels in 1978-1981 were minimal (\$10 million in loans, plus P.L. 480 Title II). But as the dimensions of Costa Rica's economic crisis became apparent, AID assistance was increased to almost \$50 million in 1982 and over \$200 million in 1983, mainly in ESF balance-of-payments support.

### III. U.S. Economic Assistance

For Costa Rica, implementation of the Central American Initiative (CAI) has meant continuity in terms of high assistance levels, most of which have been grants for ESF balance-of-payments. These cash transfers provide dollars which the Central Bank sells to local businesses to pay for imports. Since 1983 U.S. economic assistance to Costa Rica has totalled over \$1.0 billion in ESF, Development Assistance and P.L. 480 Title I-II, making Costa Rica one of the highest per capita recipients of U.S. aid. The bulk of these resources have been used to implement the Mission's strategy which is cast within the framework of the four main thrusts of the National Bipartisan Commission on Central America (NBCCA) recommendations. Specific objective emphases and achievements are as follows:

#### A. Short-term Economic Stabilization

USAID's strategy is to support economic stabilization by:

- a) providing balance-of-payments support in the form of ESF cash transfers and P.L. 480 Title I assistance;
- b) conditioning this support on continued progress on macroeconomic policy reform measures and selective sector-level adjustments where identifiable constraints have a negative impact on development; and, c) helping Costa Rica move towards a diversified, export-oriented production base and markets.

The Mission's approach is closely coordinated with other major contributors to Costa Rica's economic stabilization and reform program. Last month, the IMF approved an innovative standby arrangement (\$50 million) which provides up to an additional \$42 million for buyback financing and interest guarantees to support a Costa Rica commercial bank debt reduction plan. The IBRD providing is also providing a \$100 million structural Adjustment Loan (SAL), which will be supplemented by \$100 million in co-financing from the Government of Japan, to support the continued structural transformation of Costa Rica's economy.

#### B. Spreading the Benefits of Growth

AID's private sector strengthening, non-traditional export promotion (NTE) and socio-economic development programs have had a substantial direct impact on Costa Rica's poor population. Each year Costa Rica must create about 28,000 new jobs to keep pace with the growth of the labor force. During the last three years more than a quarter of that annual requirement has been contributed by new direct jobs created in companies attracted to Costa Rica by the AID-funded foreign investment promotion

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program or financed by AID credit lines, shelter and agriculture programs. Most of these jobs go to persons from low-income groups.

Despite the focus on private sectors projects and growth, AID has also devoted substantial resources to traditional activities which deal directly with the lower-income population in order to cushion partially the negative impact of the economic restructuring on these groups. Over 40% of USAID/Costa Rica's current portfolio is devoted to housing, family planning, PVO support, education and integrated rural development in the impoverished and isolated northern zone.

### C. Strengthening Democratic Institutions

With its strong tradition of democracy and social justice, Costa Rica is important to the U.S. goal of helping to establish stable and prosperous democratic nations in Latin America. As a result, AID has assisted democratic initiatives by training potential leaders through the Central American Peace Scholarship Program (CAPS), financing the administration of justice project; supporting institutions which provide regional models (e.g. a human rights institute); supporting a legislative information service and promoting community development in concert with the Peace Corps and PVOs.

## IV. Results, and Future Directions

The Costa Rican economy has had an impressive performance since 1983 due in large measure to structural reforms which diversified exports, reduced the public sector deficit, privatized inefficient state enterprises and gradually streamlined the economy. Since 1984, annual economic growth has averaged nearly 5%. Non-traditional exports are growing at 20-30% per annum and last year exceeded coffee as Costa Rica's principal foreign exchange earner. At 5.6%, Costa Rica's unemployment rate is among the lowest in Latin America. To build on these positive developments, Costa Rica needs to continue to promote exports to provide the foreign exchange needed for sustained economic growth, to complete negotiation of a debt reduction package which would permit greater investment and reduce inflation which is eroding real income (25% in 1988).

The present AID policy dialogue package includes emphasis on export development, financial strengthening and rationalizing public sector operations. In addition, AID has a portfolio of 16 projects with a total authorized level of \$266.2 million to assist Costa Rica with national resource, watershed management and energy programs which are vital to continued growth. In FY 1990 AID is requesting \$57 million in ESF, \$11 million in DA and

\$15 million in P.L. 480 Title I for Costa Rica (House and Senate markups include a \$90 million earmark for Costa Rica). The figures represent a decline from \$90 million in ESF in 1989 and reflect the steady progress Costa Rica has made in moving toward sustained growth. It is anticipated that non-project ESF assistance will end after FY 1992 and that AID will move gradually towards an Advanced Developing Country relationship with Costa Rica.

## V. Other Concerns

### A. External Debt

At \$4.2 billion, Costa Rica has one of the highest external debts on a per capita basis in the world. An estimated \$1.5 billion is owed to commercial banks, mainly U.S. European and Canadian, and Costa Rica is behind by some \$300 million in the payment of interest arrears. The Government of Costa Rican and the commercial banks have been discussing a commercial debt reduction package for the past two years without much progress (the GOCR claims the banks won't come to an agreement because of fear of setting an unfavorable precedent for dealing with larger debtors such as Mexico, Venezuela, Brazil). Under Costa Rica's current debt reduction proposal, the GOCR hopes to raise up to \$160 million for debt buyback, plus offer debtors a menu of options including exit bonds and debt-for-equity swaps. At the request of the GOCR, the U.S. has urged other governments to support the buyback. Use of ESF for debt buyback is also under active consideration.

### B. Investment Disputes

There are ten outstanding investment expropriation disputes involving property owned by U.S. citizens. At the urging of the USG, a GOCR commission made settlement offers in recent months to three claimants and appeared determined to resolve the outstanding cases. Recently, there has been concerns that the GOCR may be reversing its position on these cases. Last year Senator Helms attempted to condition ESF assistance to Costa Rica on the resolution of one of the pending cases. If the GOCR does not make substantial progress in resolving these disputes, we will again face substantial pressure to withhold a portion of ESF resources from Costa Rica in FY 1990.

TOTAL ASSISTANCE TO COSTA RICA 1984-90

CENTRAL AMERICA INITIATIVE

Country	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
DA	15.5	25.9	13.2	17.1	11.75	7	12
ESF	130	169.6	126	142.3	90	90	57
PL 480 II	0	0.2	0.3	0	0.95	0	0
PL 480 I	22.5	21.4	20	16	0	15	15
TOTAL	168	217.1	159.5	175.4	102.7	112	84

(5063k)

President: Oscar Arias  
Next Election: 1990

COSTA RICA  
(4/1/89)

<u>I. Financial data</u> (\$million)	<u>FY 1988</u> <u>Actual</u>	<u>FY 1989</u> <u>CP</u>	<u>FY 1989</u> <u>OYB</u>	<u>FY 1990</u> <u>Proposed</u>
<u>AID</u>				
DA	11.9	12.0	8.5	11.0
ESF	90.0	70.0	90.0	57.0
PL-480, Title I	15.0	15.0	15.0	15.0
Section 416 <sup>1/</sup>	5.6	5.7	0.0	0.0
Disaster Assistance	0.0	0.0	0.0	0.0
Total	<u>122.5</u>	<u>102.7</u>	<u>113.5</u>	<u>83.0</u>
(Pipeline, End FY)	(170.4)	(58.6)		

<sup>1/</sup> includes both regular and sugar quota 416

<u>Other Donors</u> (\$million)	<u>FY 1946-85</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
IMF (SDR)	N/A	-29.0 lapsed	-27.2	N/A	N/A
IBRD/IFC	496.6	40.0 lapsed	60.0	N/A	100.0
IDB	696.2	190.0	150.0	N/A	N/A
UN	15.7			N/A	N/A
DAC Bilateral	716.0			N/A	100.0

II. Economic and Social Trends

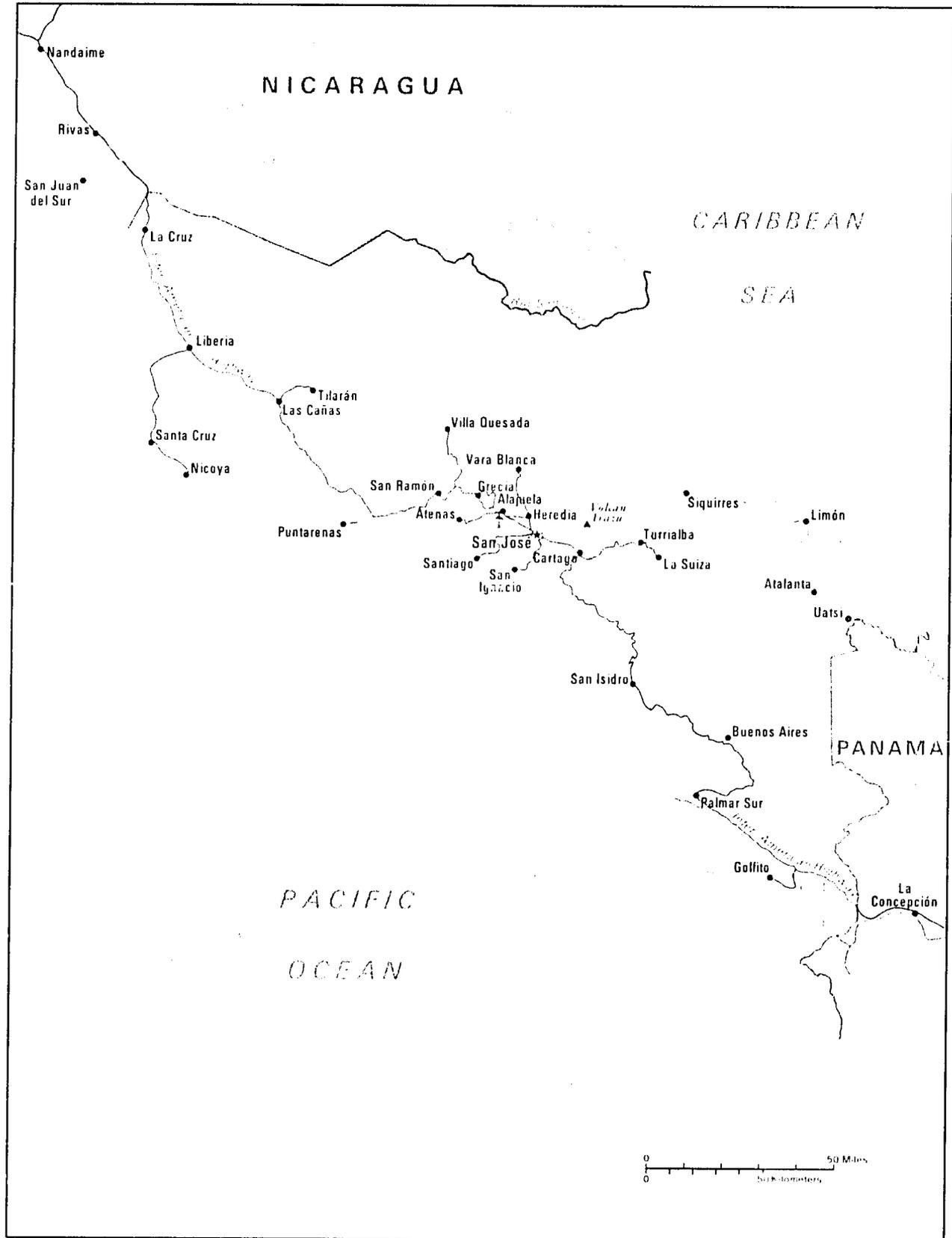
<u>Economic Indicators</u>	<u>1980-84</u> <u>Average</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
GDP Growth (%)	0.4	5.4	3.9	3.4
Inflation rate - CPI (%)	38.0	11.8	16.8	15.3
Domestic Interest rates - lending (%)	18.0	24.0	24.0	N/A
Government Expenditures (% of GDP)	30.7	28.3	28.5	N/A
Fiscal Deficit (% of GDP)	-8.2	-1.7	-0.2	3.5
Trade Balance (\$ million)	-197.8	-77.4	-271.4	-243
Export Growth rate (%)	1.6	15.6	2.6	10.2
Interest on Foreign Debt (M-T/L-T)				
-- percent of exports (G&NFS)	24.4	19.9	19.5	N/A
-- percent of GDP	9.9	6.4	6.4	N/A

COSTA RICA

Social Indicators

Primary School Enrollment (%)	101.4	103.2	102.9
Infant Mortality (per 1000)	19.0	16.0	17.0
Family Planning (% of target group)	65.0	67.0	68.0

# Costa Rica



562465 1 76 (541391)  
Lambert Conformal Projection  
Standard parallels, 9°20' and 14°40'  
Scale 1:2 400 000  
Boundary representation  
not necessarily authoritative

— Railroad  
—— Road  
✈ Airport

## Panama

### Geographic/Political Situation

Panama, from the Indian word meaning "an abundance of fish," occupies the southeastern tip of the isthmus forming the land bridge between North and South America. Mostly mountainous and hilly, Panama's two ranges form the backbone of the isthmus. First explored by Europeans in 1501 and visited by Columbus a year later, the narrow area surrounding the present Panama Canal became a vital link in the Spanish colonial empire, facilitating the movement of gold and silver from the southern colonies to Spain. Panama was ruled by imperial governors from 1538 to 1821 when it won independence from Spain and joined Colombia. In 1903, after Colombia rejected a treaty permitting the U.S. to build a canal, Panama, with U.S. encouragement, proclaimed its independence, allowing the U.S. to: 1) complete the existing 51 mile lock canal; and, 2) exercise sovereignty in the U.S.-administered Canal Zone which continued (until entry into force of the new Panama Canal Treaties on October 1, 1979).

A constitutional system of government in which a commercially-oriented oligarchy predominated through irregularities and fraud prevailed in Panama from independence in 1903 to 1968 when the newly elected government of Arnulfo Arias was ousted by the National Guard. Although the military dominated the political system for all practical purposes, elements of a constitutional government were restored in 1972 under a system which gave extraordinary executive powers to General Omar Torrijo for a period of six years. Elections, followed by resignation or ouster of the executive, and new elections have characterized Panamanian politics since 1978. The military, despite constitutional limitations on their political activities as an institution, continue to dominate national politics.

Since mid-1987 local Panamanian political events have seriously disrupted U.S.-Panamanian relations. Following the indictment of General Noriega, Commander of the Panama Defense Forces (PDF), in February 1988 on drug-related charges, the U.S. suspended economic and military assistance to Panama and cancelled its sugar quota for 1988. In addition, the U.S. also suspended Panama's eligibility for CBI benefits as well as the Generalized System of Preferences, and is holding in escrow USG payments to Panama specified under the 1977 treaties. Also, U.S. businesses and individuals may not make certain tax and trade related payments to the Panamanian government as a consequence of a U.S. executive order.

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## II. Economic Situation

Panama's 2.2 million people, until recently, enjoyed levels of health and nutrition comparable to many industrialized economies. Its' economy continues to draw heavily on transit services, international commerce and finance, reflecting its historical role as a point of transfer between the two oceans. As a consequence, the areas adjacent to the canal have developed economically to a much greater extent than the rest of the country, and in the terminal cities of Panama City and Colon, a modern urban commercial sector has developed, generating about 69 percent of GDP.

Agriculture is the second ranking contributor to GDP(16.9 percent in 1984), furnishing almost 70 percent of merchandise exports and employs around 30 percent of the labor force. Panama has important natural resources including areas of high quality soils, extensive pastures and abundant rainfall. Use of ocean resources are increasing, and fresh water fish are abundant.

The manufacturing sector represents only 9.0 percent of GDP, and is oriented primarily to the domestic market. Food processing represents the largest component of the sector, although clothing, beverages, tobacco, chemicals and construction materials are also important. During the 1960s Panama's real GDP grew at an average annual rate of 8 percent, one of the highest rates in the world. The benefits of growth remained concentrated in a relatively small segment of the population, and the social and economic infrastructure outside the metropolitan corridor remained relatively unchanged.

During the 1970s real growth was lower (seven percent), but was still significant. It dropped sharply in the 1980s because of decreasing rates of savings and an increase in the share of export earnings devoted to debt repayment.

Panama's economy is currently in a deep recession, with GDP in 1988 estimated to have dropped 10-15 percent overall (\$500 to \$750 million). Some economists predict a much larger decline (up to 30 percent) in construction, manufacturing, tourism, retail sales and the public sector. With this drop, Panama's economy has fallen to 1984-1985 GDP levels. Economic mismanagement and continuing repression are the principal causes for this collapse; U.S. sanctions have played a much smaller, but visible role. With the Panamanian government being in default to all lenders, having a public sector debt of \$3.9 billion, facing unemployment rates of around 20 percent, and lacking resources to implement a capital development program, the prospects for short-to-medium term recovery of Panama's economy are virtually non-existent.



### III. U.S. Economic Assistance

U.S. bilateral economic assistance to Panama was suspended in late FY 1987 as a consequence of the worsening of U.S.-Panamanian relations. In a note dated December 1, 1987, the government expelled the A.I.D. mission from Panama, resulting in the effective cancellation of all bilateral activities involving the Noriega regime. Subsequently, U.S. assistance to Panama has been constrained by four sanctions imposed by current U.S. legislation. Under the orderly wind up authority provided in Section 617 of the FAA, the Embassy's Development Affairs Office (DEVAFO) has continued to provide funding for the following activities:

- a) Central American Peace Scholarships (CAPS) (525-1000) provides four-year scholarships for 253 Panamanians to receive undergraduate degree training in the U.S. and another 60 to receive pre-departure English language and remedial training in Panama (an additional \$4.2 million and congressional authorization are required to provide scholarships for the remaining 60 students).
- b) Private Sector Scholarship Program (COSPAE) (525-0258) is financing three students who are expected to complete their training in December 1989.
- c) Panajuru Local Scholarships Program (525-0281) provides scholarships for 118 low-income rural youths to complete three years of secondary-level training at private Catholic high schools in Panama.
- d) Panajuru-Zamorano (525-0285) provides scholarships to 18 low-income rural high school graduates to attend the regional Pan-American Agricultural School in Honduras.
- e) Agricultural Technology Transfer (participants) (525-0227) funds 14 students in graduate level agricultural training in the U.S. and third countries.
- f) Agricultural Policy Formulation (participants) provides funding for six graduate level agricultural participants in the U.S.
- g) Central American Scholarship Program (CASP) (597-0001) provides 65 associate degree scholarships for low-income Panamanians to attend U.S. community colleges.
- h) Drug Abuse Awareness (525-0292) is a grant to a Panamanian PVO to sponsor seminars, workshops and other events to bring the problem of drug abuse to the attention of the Panamanian people.

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In addition to the above, Panama also continues to participate in regional projects such as PAHO's Vector Borne Diseases project and ROCAP's Regional Coffee Pest Control project since termination of the Panama component of these activities would seriously jeopardize or diminish the benefits to the other participating countries.

The U.S. Embassy in Panama considers these activities to be essential to U.S. interests in fostering the growth of democratic institutions in Panama. As a consequence, following the departure of the Development Affairs Officer on June 3, 1989 as part of the phase-down of U.S. presence in Panama to 45 essential personnel, the senior FSN has been assigned responsibility for management of AID-financed training and PVO activities. He will receive supervisory directions from the Embassy Economic Counselor and administrative/financial management support from USAID/Costa Rica.

AID's contingency plan for Panama envisions assistance for economic stabilization, humanitarian assistance, democratic strengthening, and private sector support in the post-Noriega period. We also anticipate urging other donors to participate in what is likely to be a major long-term economic recovery effort.

Drafted:LAC/CEN:GDanielsIII:mbc:06/07/89:W1036h

PANAMA  
5/3/88

I. Financial Data

	(\$ millions)		
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
	<u>Actual</u>	<u>OYB</u>	<u>CP</u>
A.I.D.			
DA	8.3	2.2	0
ESF	0	0	0
PL 480, Title I	0	0	
PL 480, Title II	0	0	
Section 416			
Disaster Assistance			
Total	8.3	2.2	
(Pipeline, End FY)	(48.8)	(10.0)est	

Other Donors

	<u>FY 46-86</u>	<u>FY 86</u>
IMF <sup>1/</sup>	258.1 <sup>2/</sup>	34.7
IBRD	641.6	88.5
IDB	648.2	48.7
UN		
EEC		
DAC Bilateral		
Other multilateral		
Other bilateral	137.2 <sup>3/</sup>	n/a
Total	1,685.1	171.9

<sup>1/</sup> Gross, i.e., total purchases excluding repurchases.

<sup>2/</sup> 1983-1985.

<sup>3/</sup> 1978-1983.

II. Economic and Social Trends

<u>Economic Indicators</u>	<u>1980-85 Average</u>	<u>1986</u>	<u>1987</u>
GDP Growth (%)	3.5	2.8	0.3
Inflation rate - CPI (%)	5.0	0.0	1.0
Domestic Interest rates - lending (%)			
Government Expenditures (% of GDP)			
Fiscal Deficit (% of GDP)	-5.8	-1.6	n.a.
Trade Balance (\$ million)	-683.6	n.a.	-509.0
Export Growth rate (%)	1.0	6.1	n.a.
Interest on Foreign Debt:			
-- percent of exports (G&NFS)			
-- percent of GDP			
<u>Social Indicators</u>			
Primary School Enrollment (%)	105.4	101.0	n.a.
Infant Mortality (per 1000)	25.0	n.a.	n.a.
Family Planning (% of target group)	62.3	65	n.a.

TOTAL ASSISTANCE TO PANAMA 1980-90

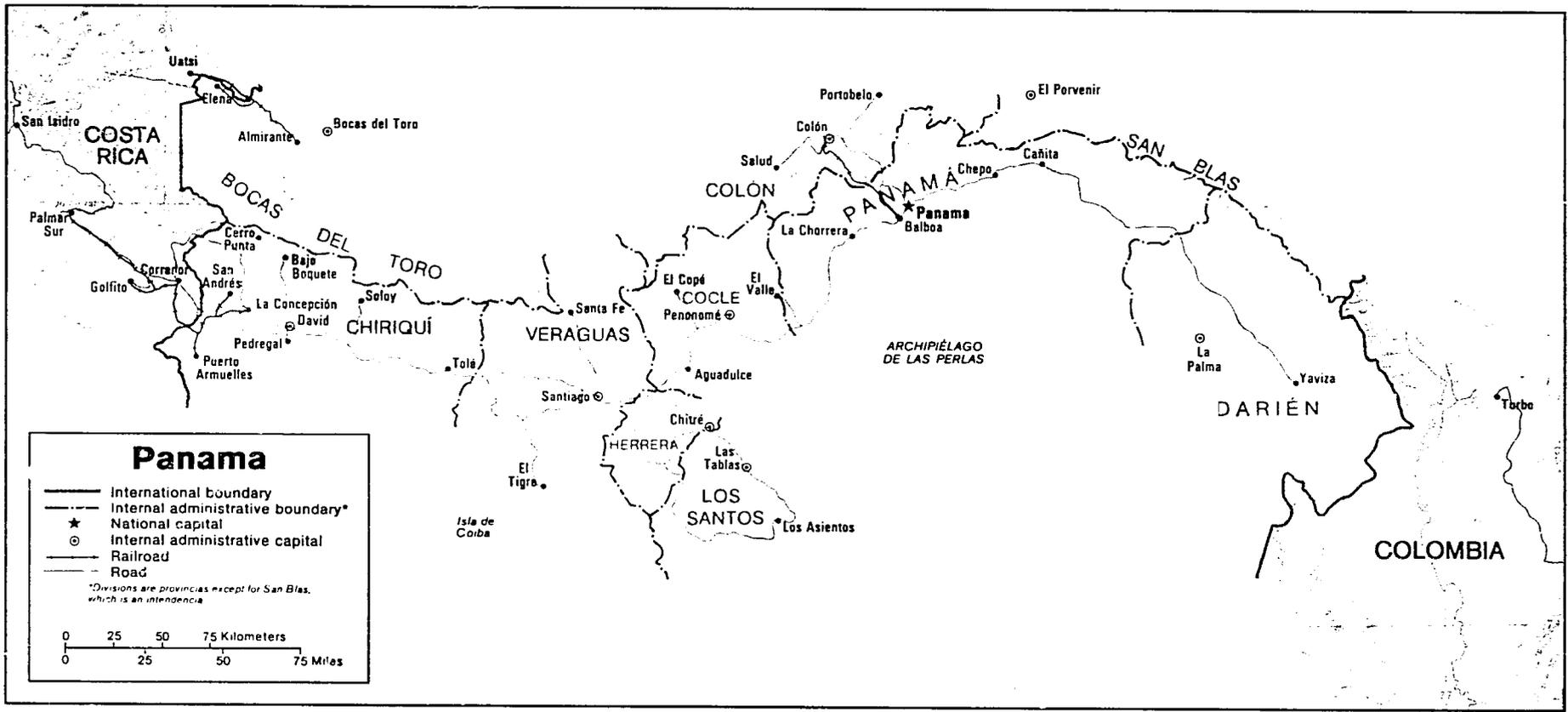
CENTRAL AMERICA INITIATIVE

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Country	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
DA	10.7	24.3	20.1	8.4	1.1	0	0
ESF	0	50	13.2	0	0	0	0
PL 480 I	0	0	0	0	0	0	0
PL 480 II	1.3	0.1	0.1	0	0	0	0
TOTAL	12.0	74.4	33.4	8.4	1.1	0.0	0

(5065k)

81



AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

JUN 2 1989

INFORMATION MEMORANDUM FOR Mark Edelman

FROM: A-AA/LAC, Frederick Schieck

SUBJECT: Briefing on Honduras and Meeting with  
Mr. John Sanbrailo, Director, USAID/Honduras

DATE: June 2, 1989

TIME: 10 A.M.

PLACE: Your Office

DURATION: Approximately 45 minutes

PARTICIPANTS: Frederick Schieck, A-AA/LAC  
John Sanbrailo, Director, USAID/Honduras  
Charles Costello, Director, LAC/CEN  
Louis Macary, LAC/CEN/Honduras Desk Officer

The following information is being provided as background on the A.I.D. Honduras program and in connection with your meeting with Director Sanbrailo.

General Background

Honduras has been a key ally of the U.S. in Central America and has shared U.S. policy goals to strengthen democracy, promote development and resist communist aggression in the region. Despite the region's civil strife and years of threats and aggressions, periodic subversion from the Sandinista regime and presence of over 37,000 registered refugees in its territory, Honduras has made some very positive political and social achievements. (See Attachments 2 and 3 on socio-economic performance and Attachment 4 on the political scene.)

A.I.D. Program

A.I.D. is the largest donor in Honduras in what is our second largest A.I.D. program in the hemisphere. The FY 89 total program level amounts to \$144 million and is indicative of the overall large levels for the past several years. (Attachment 5 indicates historic A.I.D. assistance.) The FY 89 \$144 million is comprised of \$38 million DA grant funds, \$85 million ESF grant (of which \$70 million is for cash transfer for balance of payments assistance), \$18 Million P.L. 480 Title I and \$3 million Title II.

The ongoing A.I.D. program (See Attachment 6) is involved in all sectors of Honduras, with major emphasis on agricultural development, primary education, family planning, health and child survival, and private sector development through a large program encompassing privatization and investment and export promotion.

Assistance is provided to advance the four goals of the Central American Initiative recommended by the National Bipartisan Commission on Central America (Kissinger Report). (See Attachment 7).

Although much remains to be done, Honduras has utilized A.I.D. economic assistance to make significant advances in the last few years by reducing infant mortality, vaccinating children, increasing life expectancy, expanding education, and issuing land titles. The bulk of ESF assistance has been in the form of cash transfer for balance of payments support which has been provided in the context of a program to improve Honduras' macroeconomic performance. Disbursements of this ESF are linked to fiscal and monetary criteria.

#### Economic Situation

In addition to contributing to the social progress of the last five years, A.I.D.'s ESF program has played a major role in stabilizing the economy which was in ruins during the first half of this decade. In the last three years Honduras averaged a positive annual growth rate of 3.1% as opposed to an annual average of 0.6% over the 1980-84 period. Nevertheless, Honduras is still the poorest country in Central America and the second poorest, after Haiti, in the hemisphere. Per capita income is about \$800. An inadequate macroeconomic policy framework is currently a major impediment to sustained, rapid economic growth. The overvalued lempira has constrained increased agricultural production and inhibited overall export growth. The large fiscal deficit has been another major macroeconomic problem. The deficit over the last several years has been reduced from 12% of GDP to a still too high 5.5% in 1988. However, little has been done to curb current expenditures, even though significant cuts have been made in capital expenditures with adverse consequences for long-run economic growth. Financing the large fiscal deficit has reduced credit to the private sector, inhibiting investment and growth.

Faced by election year considerations, the Government of President Jose Azcona has resisted expansion of certain key macroeconomic policy reforms, particularly those relating to the fiscal deficit and a overvalued exchange rate. Honduras' present debt status further complicates the economic situation. On April 1, 1989 Honduras went into non-accrual status with the World Bank. The country's arrears to the World Bank now total about \$65 million. It also is currently in arrears to the IMF for \$10

million and the IDB for approximately \$22 million. Honduras' debt service arrears to official creditors totalled more than \$165 million on May 31, 1989.

This year will be a critical one in which Honduras will require substantial external assistance to service its growing debt and to avoid a financial crisis. Protracted negotiations between the IMF and the GOH broke down on May 12 when IMF reps departed Honduras without internal GOH consensus on macroeconomic reform measures deemed necessary for further financial support from the IMF, the IBRD and major bilateral donors, including the USG (with its FY 89 ESF balance of payments assistance) and the Government of Japan.

### Issues

There currently is only one major issue with respect to the A.I.D. Program in Honduras: the FY 89 ESF cash transfer program. A.I.D.'s \$70 million FY 89 ESF balance of payments program conditionality is essentially the same as the major reform measures being recommended by the IMF. Despite both State and A.I.D. repeated emphasis to GOH officials at the highest levels in Washington and Tegucigalpa to the contrary, high ranking GOH officials believe they still may be able to influence the USG to disburse our \$70 million ESF before next November's scheduled presidential elections without significant conditionality. Indeed, Mr. Carlos Flores, the ruling Liberal Party presidential candidate, will be in Washington next week in this regard. There is solid State/A.I.D. consensus that FY 89 ESF cash transfer assistance will be withheld until the GOH has adapted a sound Economic Program of reform measures for 1989 that can be supported by the major donors.

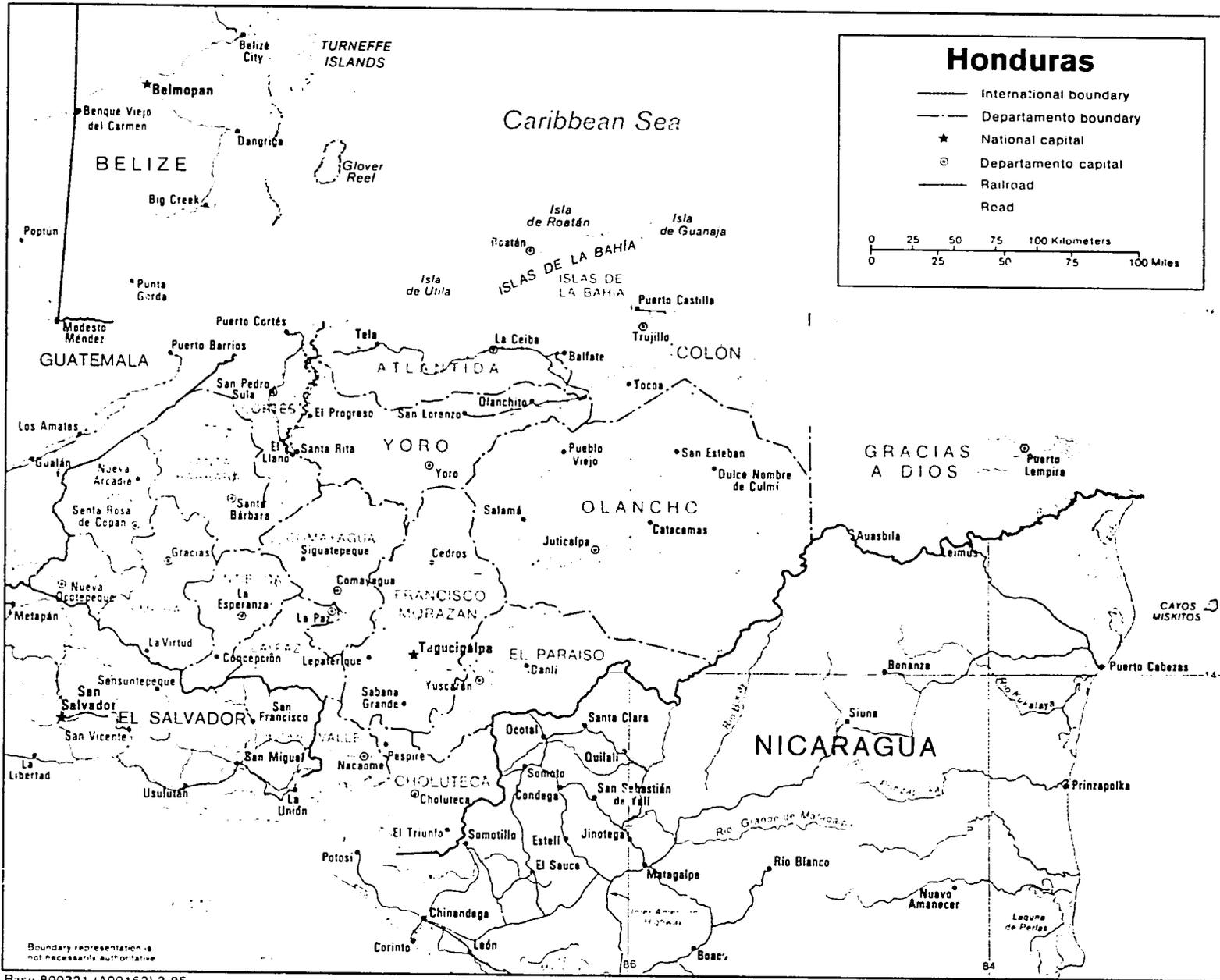
### Clearances:

LAC/CEN:CCostello CFZ

### Attachments:

1. Map
2. Honduras Data Sheet
3. Social and Economic Achievements
4. The Political Scene
5. Historic Levels of Economic Assistance
6. Summaries of Active Projects
7. Goals and Objectives of U.S. Economic Assistance
8. Chart: Breakdown of USG Assistance (1984-90)

Drafted:LAC/CEN:LMacary:mbc:06/01/89:W2539e



Attachment 1

President: Jose Azcona  
Next Election: November 1989

HONDURAS  
4/1/89

I. <u>Financial Data</u> (\$ million)	<u>FY 1988</u> <u>Actual</u>	<u>FY 1989</u> <u>CP</u>	<u>FY 1989</u> <u>OYB</u>	<u>FY 1990</u> <u>Proposed</u>
<u>A.I.D.</u>				
DA	44.9	40.0	38.0	43.2
ESF	85.0	87.0	85.0	87.0
PL 480 Title I/III	12.0	12.0	18.0	12.0
PL 480 Title II	2.9	3.1	3.3	3.8
Section 415	0.0	0.0	0.0	0.0
Total	144.8	142.1	144.3	146.0
(Pipeline, End FY)	(114.1)			

<u>Other Donors</u> (\$ million)	<u>FY 1946-85</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
IMF	146.0 (77-85)	0.0	0.0	0.0
IBRD	510.2	44.6	4.6	0.0*
IDB	648.8	73.0	100.0	57.9
UNICEF	N/A	2.0	2.0	N/A
UNDP	28.4	0.0	0.0	N/A
EEC	84.5	0.0	0.0	N/A
DAC Bilateral	150.0(est)	30.0	30.0	N/A
PAHO	N/A	2.0	2.0	N/A

\* SAL signed and first tranche \$25 million disbursed in first quarter FY 89.

II. Economic and Social Trends

<u>Economic Indicators</u>	<u>1980-84</u> <u>Average</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
GDP Growth (%)	0.6	2.7	4.2	3.8
Inflation rate - CPI (%)	9.9	4.4	2.5	8.1 (pre.est)
Domestic Interest rates - lending (%)		17.0	17.0	17.0
Government Expenditures (% of GDP)	29.5	27.5	29.1	30.7
Fiscal Deficit (% of GDP)	-10.4	-6.5	-6.2	-5.4 (pre.est)
Trade Balance (\$ million)	-152.8	-56.2	-106.4	N/A
Export Growth rate (%)	0.4	12.9	-3.2	7.5
Interest on Foreign Debt (M T/L T)				
percent of exports (G&NFS)	20.3	10.7	11.7	10.5
percent of GDP	2.9	2.9	2.9	2.3
<u>Social Indicators:</u>				
Primary School Enrollment (%)	83.0 (1980)	89.0	92.0	N/A
Infant Mortality (per 1000)	90.0 (1981)	n.a.	60.0	60.0
Family Planning (% of target group)	29.0	36.0	40.6	42.0

HONDURAS - ACHIEVEMENTS

Question: What has A.I.D. assistance to Honduras achieved? What progress has been made on essential economic policy reforms?

Answer: -- Since embarking on the Central America Initiative in 1985:

Infant mortality has dropped from 88 deaths per 1,000 live births in the early '80s to 60 per 1,000 in 1988. (Our target is a further reduction to 50 per 1,000 by 1992.)

Making possible the dramatic decline in infant mortality were expansion of immunization coverage and improvements in management of infant diarrheal disease. Almost 90% of Honduran children have received immunizations against all of the major childhood diseases, with 91% now vaccinated against measles, one of the main killers of children in Honduras. Nearly one-fifth of all mothers use oral rehydration salts routinely, and 95% of rural health clinics stocked ORS in 1988.

Life expectancy increased from 61 to 63 years. (Our target is 67 years by 1992.)

The proportion of primary students completing the sixth grade increased from 50% in 1984 to 58% in 1987. (Our target is 72% by 1992).

Over 2,000 Hondurans have come to the States for long- and short-term training, with an additional 2,800 to be trained from 1989 through 1992.

-- Progress on Economic Reforms:

Real economic growth has been positive each year since 1985, and the rate exceeded population growth in 1987 and 1988.

Inflation is still in single digits, but consumer prices rose by more than 8% in 1988.

Eight parastatals have been successfully privatized since A.I.D. began working in this area in 1986.

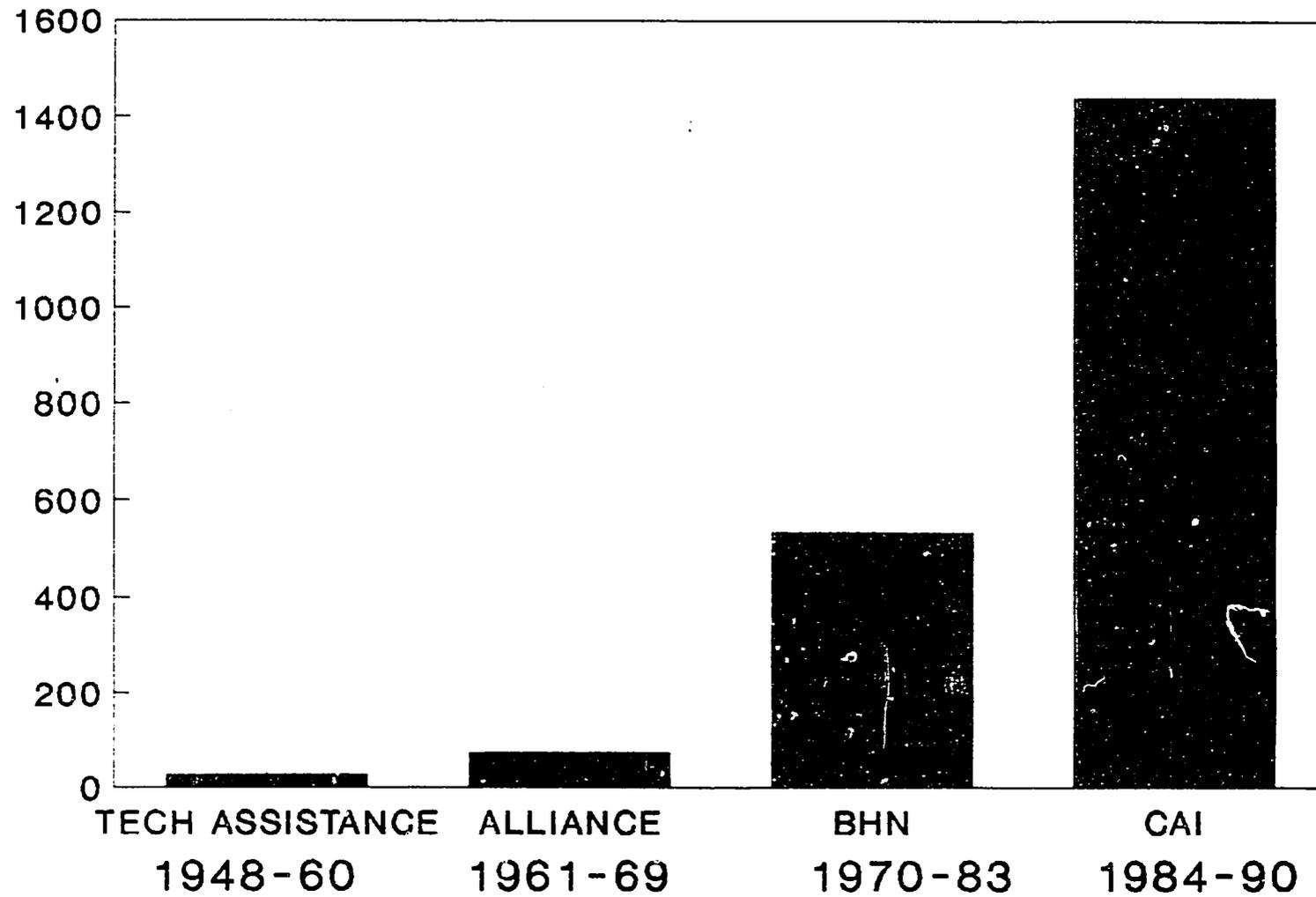
Important steps have been taken toward liberalizing the exchange rate, culminating to date in a market-determined exchange rate for about 40% of exports.

THE HONDURAN POLITICAL SCENE

President Jose Azcona Hoyo's inauguration in January 1986, following the free and fair 1985 election, marked the first time in nearly fifty years that one democratically-elected President succeeded another in Honduras. Early in the Azcona presidency, the two main parties, the majority Liberals and the opposition Nationalists, entered into a National Unity Pact (PUN) under which executive and judicial posts were shared. The Nationalists were given five of nine seats on the Supreme Court and a share of cabinet and ambassadorial appointments. Presidential elections are scheduled for November 1989. Mr. Rafael Callejas is the opposition Nationalist Party candidate and Mr. Carlos Flores is the ruling Liberal Party candidate. Mr. Callejas is currently leading in the polls.

(2540e)

# HISTORIC ASSISTANCE TO HONDURAS (\$MILLIONS)



PROJECT DESCRIPTION SUMMARIES OF ACTIVE PROJECTS IN 1988  
(\$000 Authorized)

SHORT TERM ECONOMIC STABILIZATION:

1. Stabilization and Economic Recovery II (\$80,000 G): The purpose of the FY 1987 program is to support the GOH's fiscal, monetary and structural reform programs needed to restore short-term stability and promote self-sustainable economic growth. The levels of income and employment in Honduras are being raised to levels which otherwise would not be attainable.
2. Economic Support Fund (\$20,000 G): Same as above. Disbursement held pending solution of Ramirez case.
3. Privatization of State-Owned Enterprises (\$4,000 G): To support GOH initiatives to plan and implement the privatization of state-owned enterprises.
4. Policy Planning and Implementation (\$12,000 G): To strengthen the Honduran capacity to formulate and implement economic policies and administrative reforms. This project also has a cooperative agreement with COHEP which is the private sector component.
5. Strategic Planning and Technical Support (\$4,000 G): To enhance Honduran capabilities to identify priority development problems, and to design approaches, strategies, and plans to address these problems in the context to the Jackson Plan Objective and provide technical support services to priority development area.
6. PL-480 Title I Program (\$12,000 L in FY 86): Under the PL 480 Title I program, U.S. agricultural commodities (wheat in recent years) are sold to Honduras on concessional terms. The local currency equivalent of the amount of dollars lent by the U.S. Government are used for mutually agreed development purposes, including credit to rural cooperatives through the National Agricultural Development Bank (BANADESA), other activities to enhance agricultural production, and support to various institutions implementing A.I.D. projects. Seventy six million five hundred thousand dollars in agricultural commodities have been made available since 1981, including \$7.5 million on a grant basis (Title III).

BASIC STRUCTURAL REFORM AND RAPID AND SUSTAINED ECONOMIC GROWTH:

1. Rural Technologies (\$9,000 G): The purpose of this project is three-fold: a) to increase effective utilization of labor and land on small farms through the use of improved light capital farm implements and systems to increase the income of the small farmer; b) to increase small-scale rural industrial production and employment through the introduction of improved production and management systems and the establishment of new enterprises; and c) to increase utilization by the rural poor of low-cost appropriated technologies or products designed to improve the quality of life.
2. Rural Trails and Access Roads (\$730 G - \$20,970 L): The project is financing construction or upgrading of approximately 1,510 kms. of rural access roads and trails. About half of these roads are located in the western

part of Honduras. The reconstruction of a bridge over the Rio Higuito has been financed under the project as well as the repair and rehabilitation of 44 selected units of road maintenance equipment. The project is being carried out by the Ministry of Communications, Public Works and Transportation (SECOPT) which supervises construction of the access roads by private contractors.

3. Natural Resources Management (\$3,900 G - \$12,252 L): To strengthen institutional mechanism through which the GOH manages the country's natural resources, and to undertake an action program in the Choluteca Watershed to increase farmers income and to conserve the natural resources of soil and water through the introduction of modified agriculture and forestry practices.

4. Small Farmer Coffee Improvement (\$4,250 G - \$16,000 L): To mitigate the impact of coffee rust on small producers by assisting them to increase yields and raise levels of real income. This project will assist IHCAFE to implement its coffee farm technification program for small farmers.

5. Export Development and Services (\$7,500 G - \$16,000 L): Develops private sector capability to provide efficient export promotion and services for Honduran exporters. Several new private sector organizations (FIDE and FEPROEXAAH) will serve as links between Honduras exporters and sources of technical assistance for production, processing, and marketing. Credit for working capital and investment will be provided through dollars and lempiras rediscount lines to commercial banks.

6. Small Farmer Livestock Improvement (\$3,000 G - \$10,000 L): Increase the number and the productivity of small- and medium-sized individual and group farm livestock operations. This will result in an increase in the size of the national herd and the domestic production of livestock products.

7. Rural Roads II (\$1,315 G - \$18,685 L): Institutionalize a capacity for rural road maintenance and rehabilitation within the proper GOH entities. It is estimated that 1,000 kms. of roads will be constructed.

8. Agricultural Research Foundation (\$20,000 G): To assist in the establishment of a private, independent agricultural research institution designed to overcome the constraints associated world-wide with public sector research efforts. Research will be concentrated on nontraditional commodity systems.

9. Small-Scale Livestock Development (\$700 G): The project is contributing to increased food production and improved socio-economic conditions in rural areas by establishing small-scale swine operations run by cooperative women's groups. The groups receive training and technical assistance, and credit is made available for the establishment of the operations. There are currently seven groups in production with a total of 105 women involved.

10. Small Farmer Organization Strengthening (\$7,500 G - \$8,500 L): To establish a viable mechanism for delivering the productive inputs (credit, technology, market services, management skills) to the growers in order to increase agricultural productivity and diversify the production base.

11. Irrigation Development (\$8,000 G - \$14,500 L): To improve farmer productivity and production by providing irrigation technology and on-farm technical assistance related to improved agricultural practices.

12. Mosquitia Relief Development (\$2,600 G): Repair and maintain the means of transportation in the Mosquitia area in order that humanitarian relief activities to the refugee population of Misquitos may be effected.

#### WIDER SHARING OF THE BENEFITS OF GROWTH

1. Health Sector I (\$15,262 G - \$15,652 L): This project is designed to assist the Ministry of Health (MOH) in the development and improvement of human and institutional resources thereby enabling it to adequately plan and execute its program of extending the primary health care system throughout the country, particularly in rural areas. There are seventeen sub-components embracing health technologies, logistics and maintenance, management and planning, and human resources development.

2. Rural Water and Sanitation System (\$1,200 G - \$19,500 L): The purpose of this project is to expand access to and use of safe water systems and human waste disposal systems in nine departments of Honduras. Approximately 500,000 rural inhabitants will benefit from the various project components which include the following activities: (1) construction of approximately 430 new rural aqueduct systems and rehabilitation of 50 systems; (2) installation and repair of about 2,400 wells; (3) construction of six rural sewer systems; (4) installation of approximately 48,000 water seal latrines and 38,000 pit latrines; (5) improvement of systems maintenance operations through the provision of training and; (6) provision of community health education.

3. Community Health Self Motivation CEPROD (OPG) (\$400 G): Focuses on institutionalizing improved community based health practices among groups in the informal sector of Tegucigalpa.

4. Mosquitia Relief Development (\$4,900 G): Implement an educational program for children and adults linked to supplementary food distribution and community development for the people living in the Mosquitia. The program will be radio based and the language Miskito. Also the program will develop the health care system in order to provide the Mosquitia area with humanitarian relief activities through the provision of human, physical and financial resources.

5. FUHRIL Institutional Strengthening (OPG) (\$150 G): Directed toward creating income producing activities for handicapped people in Honduras.

6. PL 480 Title II (\$2,964 G in FY 88): PL 480 Title II programs provide supplementary food to groups of malnourished people both in rural and marginal urban areas. Food is made available to needy people through feeding programs such as Maternal Child Health Feeding, School, Other Child Feeding, and Food for Work carried out by both CARE and CRS (Catholic Relief Services). These voluntary organizations have operating agreements with the Ministries of Education and Health. This program reaches approximately 125,000 needy people on a continuing basis with special attention given to the drought prone southern region of Honduras.

7. Primary Education Efficiency (\$22,000 G - \$5,500 L): To improve the efficiency, cost effectiveness and quality of primary education, and also to provide support for AVANCE's Educational Media program in order to have a private sector institution assist in improving the quality and efficiency of primary education while attaining financial self-sufficiency.
8. Private Sector Population Program (OPG) - (\$9,810 G): The purpose of this Project is to expand coverage of family planning services in Honduras through the private sector. This expansion is based on an increased demand for family planning to limit the size of families - an increased demand currently not adequately met by the existing family planning service delivery system. This purpose will be achieved by expanding the service delivery capacity of ASHONPLAFA through decentralizing its operations and establishing regional family planning centers. Five semiautonomous regional centers will be established, each providing family planning services (all methods including voluntary surgery and previously unavailable IUDs), education, promotion and training.
9. Shelter Sector (\$1,600 G and \$35,000 HG): To improve the institutional capacity of the private sector and of municipal governments to provide and enhance the availability of housing and basic infrastructure services for low-income families. A Housing Guaranty loan supported by technical assistance will provide financing to improve the living conditions of over 30,000 families through provision of water, sewerage, electricity, and other neighborhood upgrading investments; 2,648 individual home improvement loans; and construction of 5,300 new shelters. The technical assistance component of the program will contribute not only to the sound and timely implementation of the program, but also to help the GOH to develop the general policy framework and goals to be achieved for improved sectoral performance. The technical assistance will focus on assisting the GOH to develop successful financial policies and effective institutions to meet the shelter and urban development needs of low income families; advise the GOH on the advantages and disadvantages of existing shelter and infrastructure financial policies and implementation options available to it; advise the GOH on the establishment and support for national shelter and development financial and implementing entities; advise intermediate financial institutions on appropriate financial policies and operations for lending to low-income families; and assist infrastructure agencies and municipal governments to develop financial mechanisms appropriate to permit repayment of loans to finance basic services for the urban population of Honduras.
10. Small Business Development (\$800 G): The project purpose is to increase production and employment in small- and medium-scale enterprises. The project will develop a source of accessible financial and technical assistance for Honduras' small- and medium-scale entrepreneurs. Under the project, a small businesses finance company, the Financiera Industrial y Agropecuaria (FIA) provides loans to small- and medium-sized businesses which normally lack access to commercial bank credit. The National Association of Industrialists (ANDI) coordinates existing small business service organizations, strengthening them through budgetary support, personnel training, financing of dollar costs of technical assistance, and in establishing monitoring and evaluation systems.

11. GEMAH Institutional Strengthening (OPG) (\$1,080 G): To increase the capability of the Association of Honduran Managers and Entrepreneurs (GEMAH) to provide high quality management training services essential to its members and to Honduran managers in general.

12. Advisory Council for Human Resources (CADERH) (OPG) (\$6,325 G): To create a viable institution which will provide mechanisms for responding to private sector training needs and priorities. The project goal is to generate increased employment opportunities (approximately 15,000 person-years of employment) through improving the quality and relevance of vocational education.

13. FUNADEH - PADF (OPG) (\$132 G): A grant made to the PanAmerican Development Foundation to provide technical assistance, training, data collection and evaluation support to FUNADEH, and to purchase equipment. FUNADEH, the National Honduran Development Foundation, is the recipient of a local currency OPG equivalent to \$868,000 to develop a program of credit and management assistance to small-scale enterprises in the San Pedro Sula area over a period of three years. End of program results will be measured on three levels: institutional development of FUNADEH, impact on direct beneficiaries, and impact on the larger private sector of opening channels of communication between large enterprises and small-scale entrepreneurs.

#### STRENGTHENING DEMOCRATIC INSTITUTIONS

1. Honduras Peace Scholarships (\$20,100 G): To increase the number of U.S. trained public and private sector individuals at the planning, implementation, technical, managerial and administrative levels, and, to increase the number of U.S. trained individuals from the socially and economically disadvantaged classes.

2. Strengthening Democratic Institutions (\$7,500 G): The purpose of the project is to improve the capability of key democratic institutions (the Judiciary, the Congress and the National Elections Tribunal/National Registry), improve local political leadership, and increase the knowledge and participation of the Honduran populace in the democratic process.

3. Small Farmer Titling and Services (\$3,125 G - \$10,000 L): This Project has established a functioning mechanism for granting fee simple property titles for small and medium farmers throughout seven departments of the country. The Project accomplishes its goal by demonstrating the viability of a combined, inter-institutional and private sector effort that is focused on the titling process which includes establishment of legal claims to public lands, verification of claims, their subsequent registration, plus processing, issuing, and registering all eligible titles to those lands. Throughout the five years life of this Project approximately 40,000 rural families will obtain the fee simple titles to the lands they live on and farm. The titling process is now in place and will continue to be so for future COH efforts to grant titles in other departments.

4. FOPRIDEH Institutional Strengthening (\$500 G): The purpose of the project is to strengthen a private nonprofit "umbrella" organization (FOPRIDEH) to enable it to 1) finance economic development activities implemented by private development organizations (OPDs); and 2) provide technical assistance, training, and representation to all Honduran OPDs.

HONDURAS

GOALS AND OBJECTIVES OF U.S. ECONOMIC ASSISTANCE

Short-term Economic Stabilization:

- Stabilize financial structures;
- Substantially improve macroeconomic performance 1985-90.

Structural Reforms Leading to Rapid and Sustained Growth:

- Increase agricultural production by \$360 million from 1985 to 1990;
- Promote \$370 million in export earnings from 1985 to 1990.

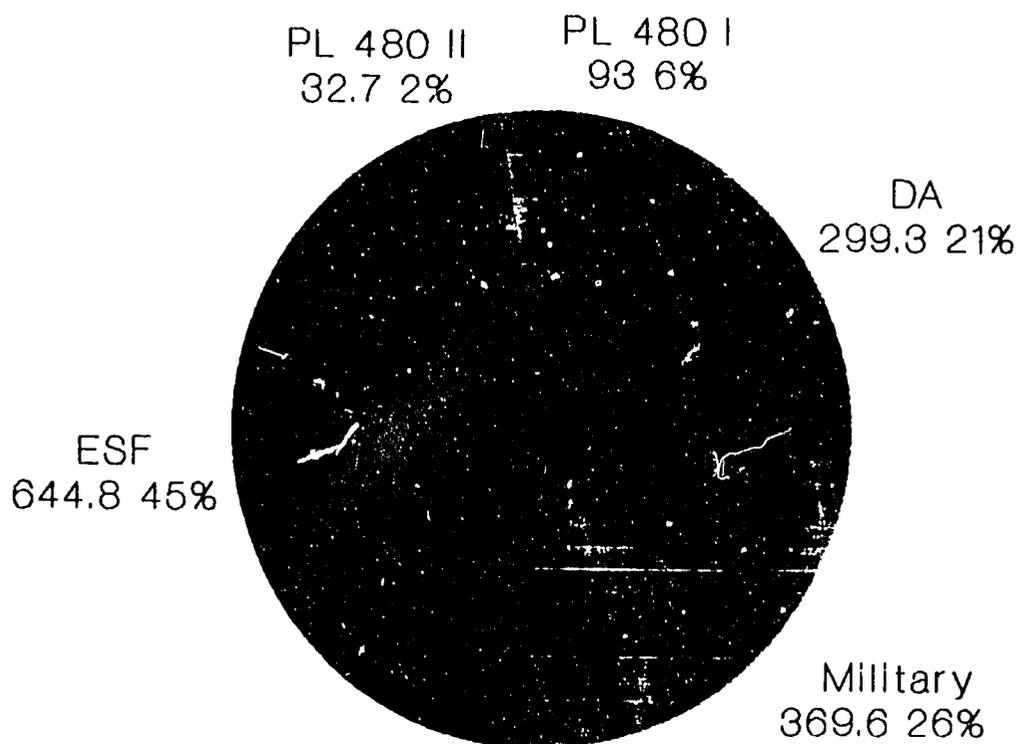
Wider Sharing of the Benefits of Growth:

- Improve health and health services during the 1985-90 period, e.g., increase life expectancy from 61 to 65 years, reduce infant mortality from 70 to 60 per thousand, increase access to responsible parenthood services;
- Improve educational opportunities: increase the proportion of primary school students completing the sixth grade from 45% in 1985 to 70% in 1996 while reducing costs per graduate from \$612 to \$550;
- Maintain and/or generate 400,000 person-years of productive employment from 1985 to 1990;
- Improve housing by constructing 6,435 new homes and improving 19,649 existing homes from 1985 to 1990.

Strengthen Democratic Institutions

- Increase participant training: 2,100 Hondurans have educational opportunities in the U.S. democratic environment from 1985-1990 (in addition to regular technical training in development projects);
- Assist in the strengthening of the legislative, judicial, electoral, and other democratic processes affecting the rights of citizens.

# TOTAL U.S. ASSISTANCE TO HONDURAS CAI PERIOD 1984-90



(\$Million)

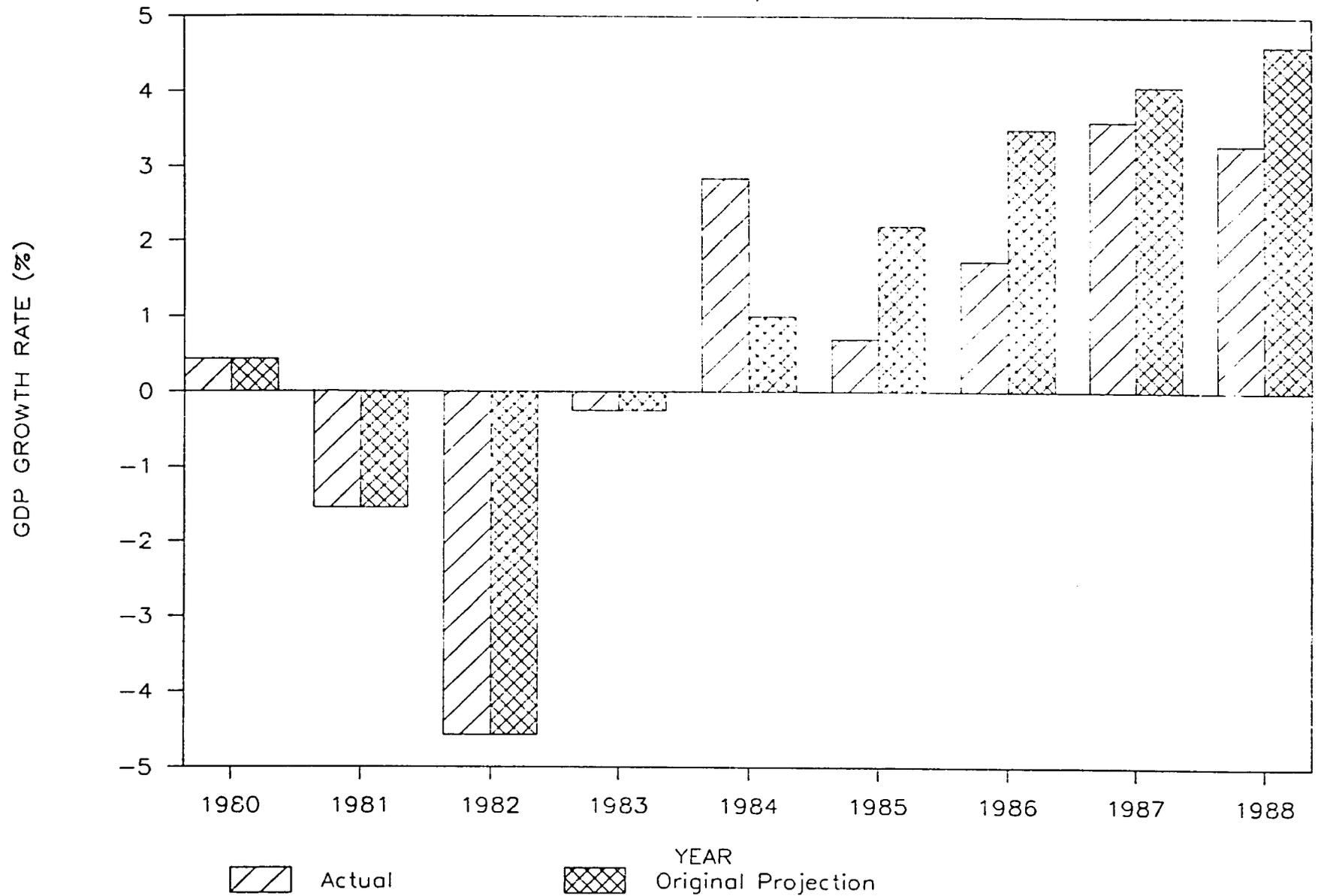
## Average Annual Real GDP Growth

<u>Country</u>	<u>1980-83</u>	<u>1984-88</u>	<u>Change</u>
Costa Rica	-1.6%	+4.5%	+6.1%
El Salvador	-5.5%	+1.7%	+7.2%
Guatemala	-0.5%	+1.4%	+1.9%
Honduras	0.0%	+3.1%	+3.1%
Nicaragua	+5.0%	-3.2%	-8.2%

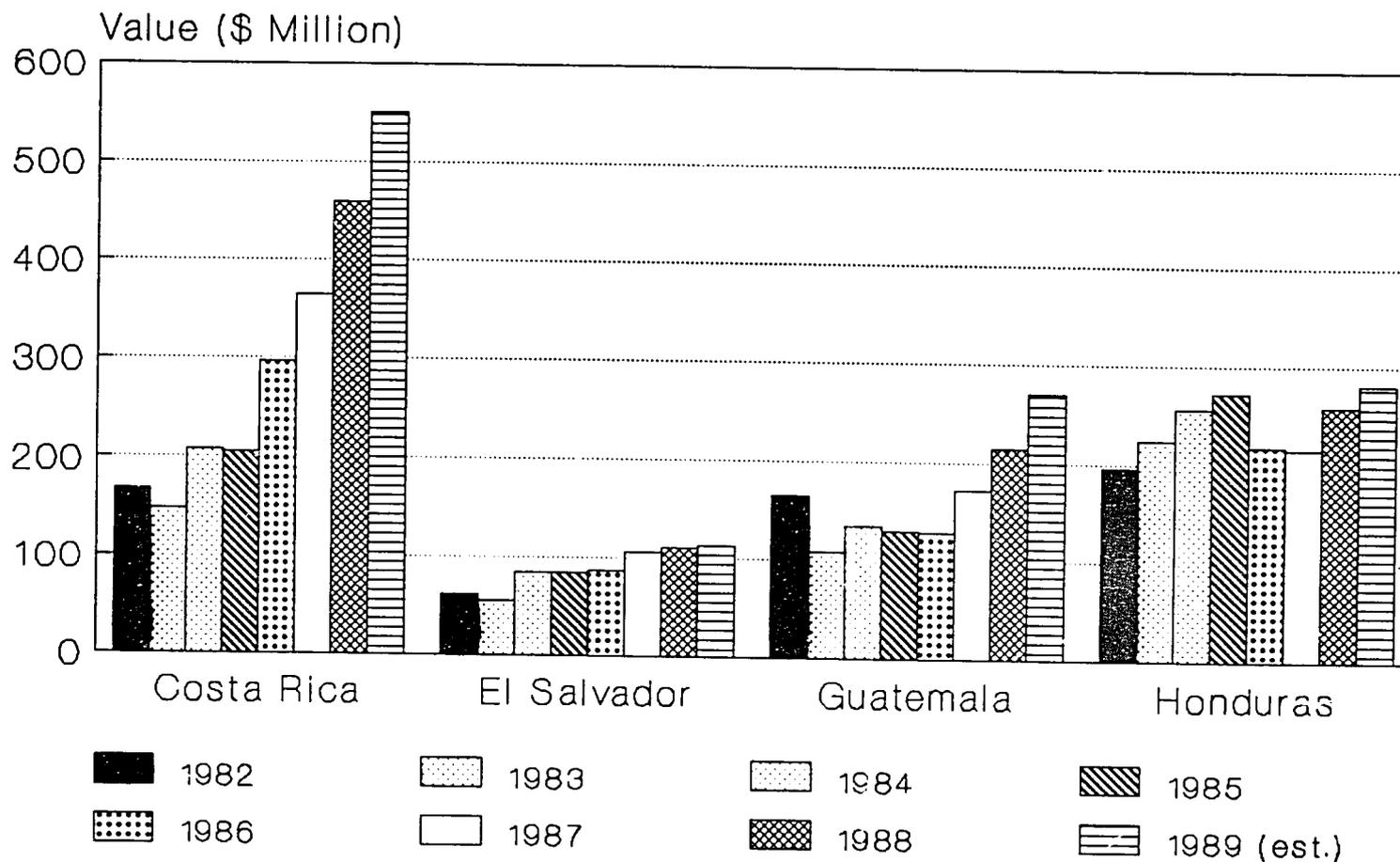
Source: IMF; and A.I.D. estimates for 1988

# CENTRAL AMERICA: REAL GDP GROWTH

WEIGHTED AVERAGE, 1978-87



# TOTAL NONTRADITIONAL EXPORTS CENTRAL AMERICAN COUNTRIES



Excludes CACM and Five Traditional Goods