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Bipartisan Commission (02/13/1984)

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*Last Updated: 07/19/2023*

# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE

**Withdrawer**

KDB 4/4/2016

**File Folder** CENTRAL AMERICAN COMMISSION - KISSINGER  
BIPARTISAN COMMISSION (2/13/84)

**FOIA**

F03-002/5

**Box Number** 27

SKINNER

498

ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
174706 MEMO	OLIVER NORTH AND C. MENGES TO R. MCFARLANE RE BRIEFINGS ON LEGISLATION TO IMPLEMENT NBCCA RECOMMENDATIONS	2	2/13/1984	B1
174707 MEMO	C. HILL TO R. MCFARLANE RE BRIEFINGS ON LEGISLATION TO IMPLEMENT NBCCA RECOMMENDATIONS	2	2/9/1984	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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NSC/S PROFILE

UNCLASSIFIED

ID 8401184

RECEIVED 09 FEB 84 16

TO MCFARLANE FROM HILL, C  
NORTH  
MENGENS

DOCDATE 08 FEB 84  
13 FEB 84  
13 FEB 84

KEYWORDS: CENTRAL AMERICA COMM OAS

AP

SUBJECT STATE RESPONSE / BRIEFING OAS AMBS / NATL BIPARTISAN COMMIS RPT ON 22  
FEB / POSSIBLE PRES DROP BY

ACTION: PREPARE MEMO FOR MCFARLANE DUE: 15 FEB 84 STATUS C FILES PA

FOR ACTION

FOR CONCURRENCE

FOR INFO

MENGENS

NORTH

RAYMOND

COMMENTS

REF# 8403866

LOG 8401011

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NSCIFID

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FILE

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Date

2/20/84

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1184 add on

2

THE WHITE HOUSE

WASHINGTON

SCHEDULE PROPOSAL

February 16, 1984

TO: FREDERICK J. RYAN, Director  
Presidential Appointments & Scheduling

FROM: Robert M. Kimmitt *RM*

REQUEST: That the President drop by for  
5-10 minutes.

PURPOSE: To indicate his interest in the  
Jackson Plan.

BACKGROUND: White House briefing of OAS and allied  
foreign ambassadors on the Bipartisan  
Commission report and the President's  
Central American initiative.

PREVIOUS  
PARTICIPATION: The President publicly announced the  
Jackson Plan on February 3, 1984.

DATE & TIME: February 22, 1984 between 10:30 AM and  
12:00 Noon.

LOCATION: Indian Treaty Room.

PARTICIPANTS: The President, Ambassador to the OAS  
Middendorf, Robert C. McFarlane, and  
additional list to be provided by State.

OUTLINE OF EVENTS: President to arrive, make a one minute  
statement and have a photo opportunity.

REMARKS REQUIRED: Talking points to be provided.

MEDIA COVERAGE: Photo opportunity.

RECOMMENDED BY: Department of State.

OPPOSED BY: None.

PROJECT OFFICERS: Constantine C. Menges/Oliver L. North

NSC/S PROFILE

~~CONFIDENTIAL~~  
UNCLASSIFIED

ID 8401184

UNCLASSIFIED UPON REMOVAL  
OF CLASSIFIED ENCLOSURE(S)

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TO MCFARLANE

FROM HILL, C

DOCDATE 08 FEB 84 3

KEYWORDS CENTRAL AMERICA COMM OAS

SUBJECT STATE RESPONSE / BRIEFING OAS AMBS / NATL BIPARTISAN COMMIS RPT DURING  
WEEK 12 FEB

ACTION: PREPARE MEMO FOR MCFARLANE DUE: 10 FEB 84 STATUS S FILES

FOR ACTION

FOR CONCURRENCE

FOR INFO

NORTH

RAYMOND

MENGES

COMMENTS

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	C 2/16	Kinnitt 8.6 memo		DN, ME, RIC, CT

DISPATCH 2/16 BTAA

W/ATTCH FILE PA (B)



**National Security Council  
The White House**

84 FEB 14 P 2: 31

84 FEB 16

P 2: 45

System #

I

Package #

1184

	SEQUENCE TO	HAS SEEN	DISPOSITION
Bill Martin			
Bob Kimmitt	1	K	
John Poindexter			
Wilma Hall			
Bud McFarlane			
Bob Kimmitt			
NSC Secretariat	2	FEB 16 1984 M/G	D/
Situation Room			Handcarry

I = Information    A = Action    R = Retain    D = Dispatch    N = No further Action

cc: VP    Meese    Baker    Deaver    Other

COMMENTS

Should be seen by: \_\_\_\_\_

(Date/Time)

*Since we are working the problem, I don't see that a meeting is necessary.*

RECEIVED

National Security Council  
The White House

*cu*  
*988*

84 FEB 14 P 2: 31

System # I  
Package # 1184

	SEQUENCE TO	HAS SEEN	DISPOSITION
Bill Martin	<u>1</u>	<u>Wm</u>	
Bob Kimmitt			
John Poindexter	<u>✓</u>	<u>J</u>	
Wilma Hall	<u>3</u>		
Bud McFarlane	<u>4</u>	<u>M</u>	<u>A</u>
Bob Kimmitt			
NSC Secretariat			
Situation Room			

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(Date/Time)

*Bud,*  
*Since we are working the*  
*problem, I don't see that a*  
*meeting is necessary. J*

THE WHITE HOUSE  
WASHINGTON

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RECOMMENDED BY: Department of State.

OPPOSED BY: None.

PROJECT OFFICERS: Constantine C. Menges/Oliver L. North



## MEMORANDUM

## NATIONAL SECURITY COUNCIL

ACTION

February 16, 1984

MEMORANDUM FOR ROBERT M. KIMMITT

FROM: CONSTANTINE C. MENGES *Con*  
OLIVER L. NORTH

SIGNED

SUBJECT: Schedule Proposal for Meeting with the President  
on February 22, 1984

The Department and the NSC have agreed that there should be a White House briefing of OAS Ambassadors on the National Bipartisan Commission report and the Jackson Plan to implement its recommendations (see Department of State memo at Tab II).

The Department of State has informed us that through informal channels it has learned that the President is willing to drop by during this briefing to be held in the Indian Treaty Room on February 22, 1984, between 10:30 AM and 12:00 noon. We agree that this would be useful.

RECOMMENDATION:

Request that you send the attached schedule proposal to Mr. Ryan (Tab I).

Approve K Disapprove \_\_\_\_\_

## Attachments:

Tab I Schedule proposal

Tab II State memorandum dated February 8, 1984



DEPARTMENT OF STATE

Washington, D.C. 20520

February 8, 1984

UNCLASSIFIED

MEMORANDUM FOR MR. ROBERT C. MCFARLANE  
THE WHITE HOUSE

SUBJECT: Briefing of Washington Diplomatic Community  
on Implementation of the Recommendations of  
the National Bipartisan Commission on Central  
America

The Department and the NSC staff have agreed upon a briefing of OAS ambassadors and observers on the National Bipartisan Commission's report and the Administration's plans to implement its recommendations.

I suggest that the briefing be expanded and that it be held in the Old Executive Office Building next week. The Department has informally ascertained that the President will be available and will consider a "drop by" at the briefing.

The Department recommends that the briefing be arranged as soon as possible after the proposed legislation is sent to the Congress, if possible the week of February 12.

The other actions contained in Admiral Poindexter's memo of February 4 will be the subject of a separate memo.

*Charles Hill*

Charles Hill  
Executive Secretary

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DEPARTMENT OF STATE

Washington, D.C. 20520

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1184

February 8, 1984

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Charles Hill  
Executive Secretary

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## THE WHITE HOUSE

WASHINGTON

February 4, 1984

*Ken*

MEMORANDUM FOR THE HONORABLE ~~KENNETH W. DAM~~  
Deputy Secretary of State

SUBJECT: Briefing our Legislation to Implement the Report  
of the National Bipartisan Commission on  
Central America

At the leadership meeting in the Cabinet Room on Friday, February 3, Senator Mathias urged that we conduct intensive briefings for the diplomatic community in an effort to build international support for our legislative initiative. I think it would be good to pursue this suggestion in a series of briefings next week.

It would be a good idea to undertake the following additional measures to ensure that those in the region clearly understand what is contained in the legislation as it implements the Bipartisan Commission report:

- A private sector effort from the U.S. to counterpart individuals and groups in the region. David Rockefeller has offered to help on this initiative.
- Our embassies in Central America should be provided with the details of our legislation and undertake an intensive program to build support in their respective countries.
- A high-level spokesman, familiar with the report and the legislation, should be dispatched to the region to explain in detail the benefits of the program we are proposing.

Please let me have your thoughts on these possible actions.

*Joh*  
J. M. Poindexter  
Deputy Assistant to the President  
for National Security Affairs

NSC/S PROFILE

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FROM HILL, C

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WEEK 12 FEB

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FOR CONCURRENCE

FOR INFO

NORTH

RAYMOND

MENGES

COMMENTS

REF# 8403866

LOG 8401011

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( HW )

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C	2/16	Kinnitt 86d memo		DN, ME, RIC, CT

DISPATCH 2/16 BTA

W/ATTCH FILE PA (B)

# **Briefing Book: Central America Democracy, Peace and Development Initiative**

**February 1984**



BRIEFING MATERIAL  
ON THE CENTRAL AMERICA DEMOCRACY,  
PEACE AND DEVELOPMENT INITIATIVE

TABLE OF CONTENTS

1. Fact Sheet and President's Statement of February 3, 1984
2. Economic Assistance Overview
3. Military Assistance Overview
4. Tables

February 1984

16

The East Room  
The White House

February 3, 1984

In the coming days I will send legislation to the Congress based on a remarkable bipartisan consensus of the National Bipartisan Commission on Central America. I urge prompt Congressional action and support.

Last April, in an address to a Joint Session of the Congress, I spoke to the American people about what is at stake in Central America and asked for bipartisan cooperation in our efforts to help make a better life for the people of that region.

Shortly after that speech, the late Senator Henry Jackson called for the appointment of a bipartisan commission to chart a long-term course for democracy, economic improvement and peace in Central America. As Scoop Jackson so rightly observed, "whatever policy options might be available to us, ignoring threats to the stability of Central America and refusing to engage ourselves in the problems of the region are not among them."

It was against this background that I established the National Bipartisan Commission on Central America. Its mission was to recommend a long-term policy appropriate to the economic, social, political and military challenges to the region. The distinguished Americans who served on the Commission have performed a great service to all Americans -- all of us, from Point Barrow to Tierra del Fuego. Henry Kissinger and the Commission members and senior counselors have my appreciation for a tough job very well done.

Our proposed legislation -- the Central America Democracy, Peace and Development Initiative Act -- is based on the Commission's analysis and embodies its recommendations. And it's in the spirit of Senator Jackson who first proposed the idea of a bipartisan commission and served until his death as one of its senior counselors. He represented something very special in American politics. Scoop Jackson stood for national security and human rights, because he knew that one without the other is meaningless. He said what he believed and stuck to it -- with vision, integrity and grace.

The legislation does not offer a quick fix to the crisis in Central America. There is none. Our plan offers a comprehensive program to support democratic development, improve human rights and bring peace to this troubled region so close to home. The approach is right. It includes a mix of developmental, political, diplomatic and security initiatives, equitably and humanely pursued. We either do them all, or we jeopardize the chance for real progress in the region.

The plan responds to decades of inequity and indifference through its support of democracy, reform and human freedom. It responds to the economic challenges of the region. The legislation calls for \$400 million in supplementary economic assistance for Fiscal Year 1984, and during the next five years, economic assistance will amount to \$5.9 billion in appropriated funds and \$2 billion in insurance and guarantees.

(OVER)



To support the security of the region's threatened nations, the legislation will provide \$515 million over the next two years. At the same time, it will require semi-annual reports to the Congress assessing El Salvadoran policies for achieving political and economic development and conditions of security.

To support dialogue and negotiations, both among the countries of the region and within each country, the legislation provides guidance for cooperation with the Central American countries in establishing and then working with the Central American Development Organization.

Our plan is for the long haul. It won't be easy and it won't be cheap. But it can be done. And for strategic and moral reasons, it must be done.

I ask the Congress to study the Commission Report and to give our legislative proposal its urgent attention and bipartisan support. It is not an impossible dream. We have the resources to do it. This initiative serves the interest of the United States and of the Western Hemisphere. The beleaguered people in Central America want our help. Our enemies -- extremists of the left and the right -- would be delighted if we refused to give it. And if we don't help now we will surely pay dearly in the future.

With the support of the Congress, we will not let down all those in Central America who yearn for democracy and peace. And in so doing, we will not let ourselves down.

# # #

EMBARGOED UNTIL 10:40 AM EST

February 3, 1984

FACT SHEET

President's Proposed Central America  
Democracy, Peace and Development Initiative

OVERVIEW

- The recommendations of the National Bipartisan Commission on Central America come at a critical time in the development of democracy, the restoration of peace, and the improvement of living conditions in Central America.
- The twelve commissioners -- Democrats, independents, and Republicans -- concluded that "Central America is both vital and vulnerable, and that whatever other crises may arise to claim the nation's attention the United States cannot afford to turn away from that threatened region."
- The Commission and the Administration agree that the acute crisis in Central America endangers fundamental strategic and moral interests of the U.S.
- Accordingly, the President, through legislation and appropriate executive actions, will seek to implement all the Commission's recommendations.
- The program emphasis recommended by the Commission, and accepted by the Administration for implementation, is on economic aid and policy reform to get at root causes of poverty and political unrest.
- The crucial importance of social and economic factors is reflected in our proposed budget figures. In FY 1985 alone, the proposed levels for economic assistance are almost seven times the levels for military aid. The total FY 1984 Supplemental/FY 1985 program for the region is 75% economic, as opposed to 25% military assistance.
- As the Commission recommends, our policy must be and is guided by the principles of democratic self-determination, economic and social development that fairly benefits all, respect for human rights, and cooperation in meeting threats to the security of the region.
- We need bipartisan support in Congress for an increased commitment of resources to be provided predictably, beginning immediately and extending over the next five years, to support a balanced and mutually reinforcing mix of economic, political, diplomatic and security activities to be pursued simultaneously.

HIGHLIGHTS OF PROPOSED LEGISLATION

Economic Assistance

- Commission recommended \$400 million in supplemental economic assistance in FY 1984.
- Our request is likely to be for \$400 million.
- Additional emergency transfers are needed to reverse sharp declines in Gross Domestic Product (GDP), per capita income, and employment.
- During last several years, per capita GDP has fallen by 35% in El Salvador, 23% in Costa Rica, 14% in Guatemala, and 12% in Honduras.
- Economic deterioration is a source of social and political unrest.
- Supplemental request is primarily for emergency stabilization needed to set the base for a long-term comprehensive development plan.

MORE

-Commission recommended \$8 billion economic aid for next five years, FY 1985-1989.

--Our implementation plan currently calls for about \$6 billion in appropriated funds and \$2 billion in insurance and guarantees, principally for trade credits issued by the Export-Import Bank.

--For FY 1985, our request is likely to be about \$1.1 billion in appropriated funds and \$600 million in insurance and guarantees.

--Major beneficiaries of direct, bilateral aid in FY 1985 would be El Salvador (over \$300 m.), Costa Rica (over \$200 m.), Honduras (over \$100 m.), and Guatemala (about \$100 m.).

--Though El Salvador would be the largest single recipient, its share would not be disproportionate--two other countries will receive more on a per capita basis as now planned.

-Commission recommended a comprehensive approach to promote democratization, economic growth, human development and security. The Administration's plan for the first year (FY 1985) of a five year initiative currently includes the following:

--Providing balance of payments support to finance critical imports by the private sector.

--Undertaking a program in labor intensive infrastructure and housing projects.

--Spending for education (including literacy and teacher corps), training and scholarships.

--Devoting funds to development of agriculture, the backbone of Central America economies.

--Including special funding for the National Endowment for Democracy, earmarked for Central America.

--Providing Public Law 480 agricultural commodities, with local currency proceeds used to reinforce important programs in, for example, the education and health sectors.

#### Military Assistance

-The restoration of peace in Central America is essential to economic and humanitarian progress. Without enhanced security, economic assistance and diplomatic efforts would be undermined.

-The Commission specifically recommends significantly increased levels of military aid to El Salvador and warns against providing "too little to wage the war successfully."

-Current thinking on assistance is as follows:

--For El Salvador: \$179 million in FY 1984 supplemental assistance and \$133 million for 1985. Added to the \$64.8 million made available by the FY 1984 Continuing Resolution, the total FY 1984-85 program for El Salvador would be \$376 million.

--The El Salvador program would be concentrated in FY 1984 in order to break the military stalemate and provide an adequate security shield for democracy and economic growth.

--For the rest of Central America, we now plan to

CENTRAL AMERICA

PROGRAM SUMMARY (In thousands of dollars)								
Fiscal Year	Total	Agriculture, Rural Development and Nutrition	Population Planning	Health	Education and Human Resources Development	Selected Development Activities	Other Programs	
							ESF	Other
Loans	264,247	75,000	--	25,000	--	15,697	148,550	--
Grants	270,560	19,445	6,660	2,195	5,636	12,079	224,450	95
	534,807	94,445	6,660	27,195	5,636	27,776	373,000	95 <sup>a/</sup>
Total								
Loans	148,681	49,000	--	9,655	2,000	12,026	76,000	--
Grants	198,190	21,337	4,819	3,820	4,565	9,649	154,000	--
Suppl	363,500	10,000	5,000	18,000	10,000	30,000	290,500	--
Total	710,371	80,337	9,819	31,475	16,565	51,675	520,500	--
Loans	55,292	25,000	--	10,342	--	13,950	6,000	--
Grants	858,108	44,800	15,000	29,658	64,000	70,000	634,600	--
Total	913,400	69,800	15,000	40,000	64,000	84,000	640,600	--

a. Disaster Assistance Funds.

FY PROGRAM HIGHLIGHTS
<ul style="list-style-type: none"> <li>- A.I.D.'s Central American program concentrates on four fundamental elements: economic stabilization, creation of a basis for long-term growth, promotion of equity, and strengthened democratic institutions and respect for human rights.</li> <li>- In FY 1985, the request consists of: \$640.6 million of ESF, \$272.8 million of DA, \$120 million in P.L. 480 commodities, \$77 million of other agency programs and Operating Expenses, and \$600 million in guaranty authority to support private lending to the region.</li> <li>- In FY 1984, the supplemental request for Central America includes: \$290.5 million of ESF, \$73 million of DA, \$25 million of P.L. 480 commodities, and \$12 million in other agency programs and increased Operating Expenses.</li> </ul>

propose \$80 million in FY 84 supplemental military assistance and \$123 million for FY 1985. Honduras would be the major recipient.

Conditionality of Military Assistance to El Salvador

- The Commission recommends that military aid to El Salvador should be made "contingent" through legislation requiring periodic reports upon demonstrated progress in reaching certain enumerated objectives such as free elections and reduction of death squad activities.
- There is agreement within the Executive, the Congress and the Commission that human rights progress is essential in El Salvador to ensure a successful outcome of the war and the protection of U.S. security and moral interests, and that U.S. assistance should be conditioned on this progress as well as other priority objectives.
- We want to work closely with the Congress to ensure human rights progress while preserving the President's ability to pursue an effective foreign policy.

Central American Development Organization (CADO)

- In line with the Commission's recommendation, the legislation should provide guidance for the President to work with the Central American countries and other donors in establishing CADO.
- CADO should provide an effective forum for an open dialogue on and continuous review of Central American political, economic and social development.
- The legislation should require that the President take CADO's recommendations into account in determining the nature and levels of all bilateral economic assistance to countries in the region.

\* \* \*



## AN ECONOMIC ASSISTANCE PROGRAM FOR CENTRAL AMERICA

### INTRODUCTION

Central America is in crisis. As the National Bipartisan Commission on Central America has documented, the economic, political and social turmoil of the region poses a serious threat to U.S. national interests. Immediate action is essential. This request embodies an action program to attack the fundamental economic, social and political problems of the region identified by the Bipartisan Commission. A separate request has been prepared to address the military and security issues facing the United States in the region. This request proposes a four-pronged program of stabilization, growth, equity and democratization measures to address the underlying problems identified by the Bipartisan Commission. Because aid alone cannot produce development, the assistance proposed here would be conditioned on demonstrations by the governments of their commitment and ability to undertake fundamental economic and social reforms.

### THE REGION'S PROBLEMS

Economic and social development has been made most difficult by the presence of military conflict within the Central American region. Even were this conflict to disappear, however, the region would still face four severe, long-term, and potentially intractable problems: economic instability, poor economic growth, economic and social inequity, and weak political and legal systems. Each is described briefly below.

Economic Instability. All countries of the region are reeling from the economic and political shocks of the past several years. The combination of the 1979-1980 oil price increases and the commodity price declines between 1980 and 1983 opened up a gap of \$1.5 billion in the region's balance of payments, to which most governments responded by excessive borrowing rather than adjustment. The political turmoil resulting from the establishment of a Marxist government in Nicaragua and from internal strife in El Salvador exacerbated this economic problem, leading to cutoffs of commercial credit, capital flight, and a dropoff in foreign investment. The financial difficulties left the countries unable to make payments for their Central American trade, resulting in a collapse of the intraregional payments system and a sharp contraction of intraregional trade. In addition, regional governments face difficult fiscal situations resulting from reduced revenue due to lower production and trade and inadequate tax collection and to increased spending arising from an expansion of government programs and of military spending due to insurgency and threats from abroad.

Poor Growth Prospects. The economic problems facing Central America go beyond the relatively recent instability mentioned above. Sustained economic growth is the only mechanism over the long haul that can fundamentally change the reality of widespread poverty in the region, yet prospects are poor for the traditional agricultural sectors, such as coffee, sugar and bananas, which in the past have fueled growth spurts. Opportunities for import substitution

industries have been exhausted. Unless some dynamic growth can be generated by structural change that allows diversification of production and exports, productive employment opportunities for the region's rapidly growing labor force will not be available, and the region will be unable to overcome its economic backwardness.

Economic and Social Inequity. A third serious problem facing three of the countries -- Guatemala, El Salvador and Nicaragua -- is the limited capacity or willingness of government institutions to address the issues that are at the core of the development process. Unless the governments of these countries come to grips with basic equity, social justice and participation issues in a manner that addresses the concerns of all sectors of their societies, their political stability -- and therefore that of the entire region -- will continue to be threatened. Honduras, the poorest country in the region, has so far managed to avoid the divisive internal conflicts of the three countries mentioned above, but rapid improvement in the quality of life for all sectors of the population is an important requirement for preventing the emergence of such a situation.

Weak Political and Legal Institutions. Related to the lack of equity in some of the countries is the lack of strong legal systems, the existence of unrepresentative political systems and an overall lack of concern for basic human rights. Costa Rica demonstrates that democratic political systems are indeed possible in the region and that they can play a crucial role in maintaining political stability and promoting broad development goals. Representative systems cannot be built overnight, nor can they be imposed from outside. But outside assistance can support indigenous efforts in this area.

#### MULTIYEAR GOALS AND FUNDING REQUEST

The funding requested here includes two elements: authorization of \$8.3 billion in economic assistance and guarantees for Central America, to be available over the next six years; and a supplemental appropriation of \$400 million in FY 1984 and a request for a \$1,120 million appropriation in FY 1985, representing the first phase of implementation of this program. In the face of large federal deficits and urgent domestic priorities, such a request requires compelling justification. We believe that the report of the Bipartisan Commission provides this. The situation is so alarming, the Commission concluded, that "whatever the short-term costs of acting now, they are far less than the long-term costs of not acting now." If the proposed assistance can capture the imagination and energies of the people of Central America, we believe that it can support a dramatic turnaround in the development situation of the region and eliminate a potentially serious threat to U.S. national security.

Our major goals for the five-year program are the following:

- an end to the downward spiral in production by 1985;
- achievement of an economic growth rate of at least 6% per year in the

region within six years, producing more than 250,000 jobs annually through export-led growth;

- agricultural production increasing by 4% per year by 1989, generating 80,000 jobs per year and increasing both food availability and agroindustrial exports;
- substantially greater participation of all sectors of the Central American population in the benefits of economic growth, including:
  - an increase in primary school enrollments to 95% of the school-aged population by 1989 from the current 84%;
  - a reduction in the rate of primary-level grade repeaters by 50% in all countries, and an increase in the primary level completion rates from 40% to 80% in Guatemala, Honduras and El Salvador, and from 80% to 95% in Costa Rica, Panama and Belize by 1990;
  - a reduction in infant mortality from the current rate of 65 per thousand to 55 per thousand by 1989;
  - provision of modern family planning services to almost 600,000 couples, increasing contraceptive usage by 50% by 1989 and reducing birth rates by 1% each year;
  - an increase of 25% in the rate of construction of low-income housing; and
  - a 25% increase in the coverage of water and sewerage services by 1989.
- a strengthening of democratic institutions in countries where they already exist, and achieving substantial progress toward participatory democracy and legal systems that respect individual human rights in the others.

As proposed by the Bipartisan Commission, the assistance to Central America would be provided as part of a multiyear and collaborative approach in which our aid would be closely tied to commitments for economic and social reforms by the recipient governments. Our procedures for implementation will reflect a greater emphasis on more flexible instruments for assistance, greater collaboration with governments and private groups in the region, and streamlined administration. A Central American Development Organization (ADO), consisting of highly experienced and respected representatives of Central America and the United States, will monitor and assess country performance against both economic and political goals. This approach follows the conclusion by the Bipartisan Commission that an integrated program attacking the four major problems of the area -- economic instability, poor economic growth, poor equity performance, and weak political and legal systems -- is essential to resolution of the region's problems.

We propose that the full amount necessary for this entire program be authorized in FY 1984 to provide our friends with the assurance necessary to take difficult actions to meet the crisis. The supplemental appropriation\* we are requesting in FY 1984 includes:

\*This is in addition to the following being amounts financed for Central America under the FY 1984 Continuing Resolution: \$230 million in ESF; \$117 million in DA; and \$83 million under P.L. 480.

- \$290 million of Economic Support Funds (ESF);
- 373 million in Development Assistance (DA);
- 325 million in P.L. 480 commodities; and
- \$12 million in other agency programs and increased operating expenses.

In FY 1985, we are seeking appropriation of:

- \$641 million of ESF;
- 3273 million in DA;
- \$120 million in P.L. 480 commodities;
- 377 million for other programs and operating expenses; and
- \$600 million in guaranty authority to support private lending to the region.

In each case, we request that the ESF and DA appropriation be made available until expended to allow more effective application of conditionality to these programs.

#### PROGRAM STRATEGY

Our Central American program strategy concentrates on four fundamental elements: economic stabilization, creation of a basis for long-term growth, promotion of equity, and strengthened democratic institutions and respect for human rights.

##### A. Stabilization

The immediate priority will be to achieve economic stabilization by eliminating unfinanced balance of payments and fiscal gaps. While all Central American countries have reduced import levels, increased assistance will be needed if further declines in imports -- and therefore in incomes -- are to be avoided. We propose to provide large-scale balance-of-payments assistance, conditioned on steps by governments to increase exports and conserve on imports for consumption to restore external balance, and to correct fiscal imbalances through increased taxes and spending controls. To assure this we will seek to operate within the framework of International Monetary Fund (IMF) stabilization programs. If an IMF program is not feasible in particular circumstances, we shall establish our own performance targets for macroeconomic variables.

Both the time period required for economic stabilization and the level of resources required will depend significantly upon external events. At present, we expect this phase to require three to five years and \$3.1 billion in U.S. Government assistance. This will include \$2.5 billion in appropriated ESF, \$0.1 billion in P.L. 480 commodities, and \$0.5 billion in private trade credits guaranteed by the U.S. Government. The bulk of the funds will be provided bilaterally, but a portion will be channeled through Central American regional institutions to promote restoration of intraregional trade. The assistance will enable the region to increase imports of needed raw materials and capital goods to increase production and employment over the near term.

However, local-currency generations from this dollar assistance will be used in most cases to support other A.I.D. economic assistance goals, e.g., production credit, labor-intensive construction of economic infrastructure and the most pressing basic human needs in health, education and housing.

#### B. Laying the Basis for Long-Term Growth

The second element of our strategy -- distinct from the first, but pursued concurrently with it -- is to lay the basis for self-sustaining growth that will provide productive employment for the people of the region. Rapid growth in productive job opportunities is the key to promotion of self-sustaining economic growth and to steadily rising incomes. Our program for growth promotion through productive employment stresses four elements: reform of government economic policies, promotion of industry and agriculture, and creation of economic infrastructure.

We believe that our approach can restore relatively rapid economic growth to the region (6% real growth per year) within five years. We propose funding of \$3.9 billion for this purpose, including \$1.7 billion in appropriated funds (\$0.9 billion ESF, \$0.4 billion DA, and \$0.4 billion P.L. 480), \$0.8 billion in local currency counterpart generations from economic stabilization assistance, and up to \$1.3 billion in guarantees and insurance. The latter will include trade credits provided through A.I.D. and the Export-Import Bank and increased insurance coverage by the Overseas Private Investment Corporation.

1. Policy reform. Increased employment opportunities are essential to achievement of long-term growth and equity goals. In the past, import-substitution policies have often discriminated against labor-using activities by making machinery artificially cheap. Such practices include interest rates that are negative in real terms, overvalued exchange rates, and very high tariff walls that encourage production of capital-intensive commodities. Eliminating such approaches would encourage more labor-intensive production methods and stimulate increased exports of both traditional and new products.

The experience in the developing countries over the past two decades suggests that this policy approach offers the best prospect for creating the large-scale employment needed by the region's rapidly growing labor force while permitting steady growth in productivity and per capita incomes. In turn, this rapid growth in incomes and exports should permit an equally rapid growth in the imports of raw materials and other products needed to provide the productive employment that can support a higher living standard for the people of the region.

2. Industrial Employment. If the people of the region are to have the employment opportunities needed to increase their incomes substantially the industrial sector will need to play a major role. Over the medium term only the export market is likely to provide the market potential needed to spur rapid industrial growth. Exports of nontraditional products from the region have in fact been growing rapidly over the past two decades (with annual



growth of manufactured exports to the United States averaging about 30% per year), but they are still a small share of total production or exports. The implementation of the Caribbean Basin Initiative (CBI), providing duty-free access to the U.S. market over the next 12 years, should provide a favorable environment for such an export strategy.

U.S. assistance will directly assist in financing this effort through such activities as providing credit for imports of machinery for industry and technical assistance in investment promotion, product development and export marketing, and improved production methods. Increased activity by the International Executive Service Corps will be one vehicle for this. We expect the private sector to be willing to undertake much of the necessary financing itself where policies provide the proper incentives, while our assistance will be aimed at encouraging such policies.

3. Agricultural Production. Half of the region's labor force still works in agriculture. Experience indicates that small farmers are the most productive users of land resources, yet they lack adequate access in several of the countries of the region to credit, modern technology and marketing services that would unleash this capacity. We believe that agricultural production can be increasing by 4% per year by the end of the five-year period. This would increase food availability internally and generate exports of nontraditional agricultural and agroindustrial products, besides providing about 80,000 new jobs per year. Our program includes credit for small farmers and dissemination of improved technology both directly and through promotion of private and public mechanisms, including cooperatives. Our policy dialogue will focus on price and marketing reforms to provide better incentives to farmers.

4. Economic Infrastructure. Our strategy also proposes substantial funding for economic infrastructure. In the relatively less-developed countries of the region, provision of basic economic infrastructure -- roads, communications, urban services -- can be important in facilitating increased production of manufactured and agroindustrial products. Moreover, financing of such infrastructure is likely to increase economic activity and, by using labor-intensive techniques, increase employment relatively quickly. Of course, the multilateral banks will continue to be the main source of financing for infrastructure projects.

### C. Equity and Broad Participation in Development

The third element of the strategy -- to be pursued in those countries where the restoration of satisfactory economic growth is not an adequate answer to the development problem -- is a longer term development program aimed at improving the quality of life of less advantaged groups. Access to employment and other sources of productivity growth, such as modern agricultural technology and improved inputs, have already been mentioned above because they provide a means of achieving equity goals in a manner that also stimulates rapid economic growth.

Altogether, we propose a total of \$3.1 billion in assistance in direct support for our equity goals. This figure included \$1.7 billion in dollar funds appropriated for this purpose (including \$1.4 billion in DA, \$0.1 billion in P.L. 480 Title II commodities, and \$0.2 billion in programs administered by the Peace Corps and the State Department), \$0.2 billion in Housing Guaranty funds, and \$1.2 billion in local currency counterpart funds from ESF and P.L. 480 assistance provided for balance-of-payments support. In addition, the \$3.9 billion provided to support long-term growth could be included in this category because it supports the productive jobs and increased incomes that are the most powerful vehicle in the long term for meeting basic needs.

The principal direct equity-oriented measures being supported include the following:

1. Education. Illiteracy is still a serious problem in most of the countries of the region, and limited access to primary education, particularly in rural areas, is creating a new generation of illiterates. We propose a major program of support for educational activities in the region, including primary education, substantial expansion of skills training and vocational education, and higher education in the United States. At the primary level, we propose to expand access to the system to nearly 100% of the school-aged population and to increase the relevance and quality of the education to reduce grade repetition and dropouts. Major program elements will include school construction, teacher training, and production and distribution of textbooks and educational materials. The efforts in the literacy field will include both support for indigenous public education institutions and for use of Peace Corps volunteers to supplement their efforts.

We also propose to provide 10,000 scholarships over the next five years for study in the United States. We have found that those Latin American government officials who are most effective in promoting development in the region and in promoting democratic values are quite often the product of past U.S. Government-financed participant training. Moreover, scholarships to communist-bloc countries are apparently available in much greater number than those for U.S. study. In some countries, this had led to cadres of bloc-trained professionals in government ministries. Our scholarship assistance will address this challenge, in addition to augmenting the number of high-level professionals necessary for the accelerated development effort and to increasing the understanding by Central Americans of U. S. values. The scholarship program will be administered by A.I.D. and the United States Information Agency (U.S.I.A.).

2. Health and Nutrition. We will support increased action to improve health conditions, particularly in rural areas, where government programs are clearly inadequate at present. Increased efforts to control malaria and other vector-borne diseases, dissemination of oral rehydration therapy, and training of nurses and other health workers will be major elements of our program. We will address nutrition issues through an expansion of our technical assistance and education efforts, as well as through an expansion of our food aid programs. The Peace Corps will cooperate in implementing our health and nutrition programs, and U.S.I.A. will help in translating and disseminating educational materials.

3. Family Planning. Despite a significant reduction in birth rates in Central America over the past decade, the rate of population growth in Central America remains around 3% per year. Such high growth rates strain countries' capacities to provide adequate nutrition, education, health care, and employment opportunities for their populations. In addition, increased population pressures on limited natural resources have resulted in serious soil erosion and other environmental degradation in many areas. Access to contraceptives and to accurate family planning information is essential if poorer people are to have the opportunity to limit family size. Studies have shown that lack of information is an obstacle to increased contraceptive use, and that young children in large poor families in the region tend also to suffer from malnutrition. We will continue our programs in this area, with particular emphasis on working with private institutions.

4. Access to Land. Improved access to land may be the most rapid way to provide opportunity to poor groups in some of the countries of the region. Colonization of new lands can provide part of the solution, but some form of land reform may be a necessary element of a program in this sector. This would be the case particularly in Guatemala where access to land in the central highlands, where the bulk of the Indian population lives, is a severe constraint to improved living standards. Our program will support efforts to increase land availability for poor rural families through support for colonization, through legal reforms needed to increase security of land titles, and through long-term financing for land purchase.

5. Shelter. Much of the population of the isthmus lives in substandard housing which lacks water, sewerage and electricity services. Although remedying this problem will require both decades and massive financial resources, we can make progress through support for institutional improvements in housing finance mechanisms and by innovative programs such as "sites and services" projects that can mobilize the labor resources of beneficiary families at low cost. Our Housing Guaranty program will be used to channel private funds toward the solution of the severe shortage of low- and moderate-income housing while it generates substantial employment.

6. Refugees and Displaced Persons. The tragedy of forced dislocation due to political violence has exacerbated the poverty of many Central Americans. In some cases this has led to the spillover of migrants to other countries, including the United States. In El Salvador and Guatemala it has resulted in the internal dislocation of hundreds of thousands of people now living in deprived circumstances. We propose to expand our program of assistance for displaced persons to meet their cash income, health, nutritional, and educational needs in the near term and to assist in relocation or return to their homes as conditions permit. The State Department will be responsible for administering the refugee program, while A.I.D. will assist the displaced persons.

#### D. Democratic Institutions and Human Rights

The ultimate purpose of economic development is increased human welfare. If we succeed in generating economic growth in the region without broadening the

respect for basic human values we not only will fail to achieve our purpose but will be sowing the seeds of a future crisis when internal conflict becomes violent revolution. It is important to realize, however, that we cannot determine the path chosen by the people of the region. But we can provide our moral and financial support to those countries which choose democratic processes and which respect human rights. As a key element in providing the economic assistance under this program, we propose to take into account the situation in each country that responds to commitments regarding free elections, independence of the judiciary system, and respect for individual rights.

We also plan specific activities in several areas to support this element of our strategy. First, we will support strengthening of the administration of justice through technical assistance, training and material support for the courts, criminal investigative agencies, public prosecutors and defenders, justice ministries, law schools and bar associations. Second, we will provide assistance to improve the administration of elections. Finally, as discussed in the section dealing with education, broader understanding of democratic values will be pursued through scholarships and educational materials on democracy and democratic institutions provided by the U.S.I.A.

Since funding for each of the countries in the region will be affected by performance with respect to democracy and respect for human rights, the entire \$8.3 billion we propose for the region will support our objectives in this area. In specific projects, we propose \$340 million in funding for democracy and human rights initiatives.

#### IMPLEMENTATION CONSIDERATIONS

New Approaches. The emphasis on working closely with host governments to assure that appropriate policies are adopted, both in the economic sphere and with respect to political and human rights, requires that our assistance program include two departures from past practices.

First, we intend to encourage the establishment of an organization representing the public and private (including business and labor) sectors of participating Central American countries to serve as a forum for a frank and open dialogue on Central American political, economic and social development. CADO would not, as we envision it, be a separate bureaucracy but would meet periodically and contain a minimum number of staff necessary to achieve the purposes set out below. CADO would be structured so as to have labor representation, with the expectation that the experience with the Tripartite model of the International Labor Organization will be heavily drawn on. While the specific makeup and functions of CADO will need to be developed in consultation with the Central Americans, our current view is that it should:

- establish goals and targets for economic, political and social development;
- recommend country performance criteria;
- evaluate external assistance needs, and recommend resource mobilization actions;



- measure country performance against goals and targets, and recommend corrective action where countries fall short; and
- be influential in affecting the level and structure of U.S. bilateral assistance for Central America.

Second, we believe that greater flexibility is needed with respect to use of the funds than has existed in the past. The requirement that all funds appropriated in each fiscal year be obligated in the same year can require us to make difficult choices between approving programs where a recipient government has not yet taken needed steps or of losing the funds entirely. The earmarking of funds by country has reduced our ability to encourage governments to take necessary policy reforms. We therefore request that the Congress provide two-year appropriations for this program and that appropriations not be made with country-level earmarkings.

Third, we seek to increase the role played in the development process by private voluntary organizations to the maximum extent feasible. In implementing the CBI we have developed closer relationships with these organizations than previously and have provided substantial funding to them. We intend to continue this effort.

Absorptive Capacity. The large-scale program proposed raises a question of the capacity of the region to absorb such an increase. We have concluded that such capacity does indeed exist. First, the annual level of resources provided under the program, at about 5% of the total product of the region, is lower than that provided by donors in a number of other cases. Second, the countries of the region are now operating at very low levels of production, and considerable excess capacity exists in the private sector. As our aid helps restore production, we will be providing the institution-building help and technical assistance that will prevent the emergence of bottlenecks in the future. Third, most of our resources will flow through private-sector agencies rather than governments.

Support Costs. The implementation of the proposed Central American program will require an increase in support costs for A.I.D. This includes additional direct-hire employees, plus increased operating expenses associated with the program. We propose additional funding of \$2.5 million in FY 1984 and \$6 million in FY 1985 to support this program.

#### COUNTRY STRATEGIES

Descriptions of the proposed program for each of the Central American countries are being provided separately. Briefly described below are the major elements of those country strategies.

Belize. For its per capita income level, Belize has high levels of education and health standards and a democratic political system. The economy has a good economic growth record and is relatively well-managed. The major obstacle is lack of infrastructure, which is made more serious by the fact that the country's small population base limits the economic returns to such investment. Our strategy emphasizes stabilization assistance over the near

term and support for investment in export-related agriculture and industry over the longer term. The Government of Belize will need to control the size of the public sector and to improve its efficiency. The main challenge, however, will be to generate private-sector entrepreneurship and finances to develop the country's considerable natural resource base. We propose supplemental funding of \$10 million for Belize for FY 1984 and a total request of \$10 million for FY 1985.

Costa Rica. The country has democratic institutions and high quality of life in relation to its per capita income. It grew rapidly until the late 1970s when the combination of failure to adjust to the oil price increase, rapid growth of the public sector and extremely rapid growth of foreign debt created an untenable economic situation. The major challenges facing Costa Rica at present are how to shrink the size of the public sector and how to extricate itself from its oppressive external debt. The latter can be expected to be a major limiting factor in economic growth possibilities for at least the remainder of the decade.

Our assistance strategy emphasizes government policies aimed at promoting production for export to world markets. This will require the government to maintain adequate incentives for exporters, particularly through the exchange rate. In addition, shrinking the size of the public sector through divestment and increased efficiency are high priorities. We propose supplemental funding of \$75 million in FY 1984 and total assistance of \$208 million in FY 1985.

El Salvador. The development prospects in El Salvador are heavily dependent upon progress being made against the insurgency. Assuming that the guerrilla threat will gradually decline over the next several years, El Salvador should be able to reverse some of the dramatic economic decline relatively quickly. Nevertheless, reconstruction of economic infrastructure and establishment of basic services for the reformed agricultural sector will take a number of years. Given the relative abundance of low-cost labor in the country and its relative success in generating industrial exports until the rise of the insurgency, the country should be able to generate rapid growth in manufacturing exports.

Actions to increase the effective exchange rate for exporters and to resolve the uncertainty in the agricultural sector (by completion of the land reform and making required payments to former landholders) are the two most important steps that need to be addressed by the government at present. Over the longer term, expanding economic opportunity, meeting basic needs, increasing respect for human rights, and encouraging broad political participation are major challenges. We propose additional assistance of \$134 million for FY 1984 and a total program of \$341 million for FY 1985.

Guatemala. Over the past two decades, Guatemala has experienced a combination of satisfactory economic growth, limited political development, and poor performance on meeting basic needs, particularly for the indigenous groups of the central highlands. With a tradition of conservative economic management, the country's stabilization and debt problems are less severe than any of the other countries of the region except Belize, but its political and social problems may be the most intractable in the region.



Our strategy for the country proposes high levels of assistance aimed at addressing the basic social issues and providing substantial economic infrastructure, but conditioned upon a demonstration of commitment by the Guatemalan government to a resolution of the social and political conflicts within that society. Assuming such a commitment, we propose a supplemental request of \$20 million for FY 1984 and total assistance of \$96 million for FY 1985.

Honduras. Despite a considerable natural resource base, Honduras is the poorest country in the region. The primary problems are the low level of human resources and the weakness of government institutions. Political institutions are relatively well-developed, however, and the country has not experienced the social and political divisions that characterize El Salvador and Guatemala. Our strategy includes substantial support for stabilization efforts in the near term; heavy investment in economic infrastructure, particularly in the agricultural sector, and long-term institution-building, particularly in education. The government will need to increase substantially its capacity to make decisions and to implement projects if Honduras is to effectively utilize increased resources. We propose an increase in the assistance level of \$84.5 million in FY 1984 and a total funding level of \$139 million for FY 1985.

Nicaragua. During the 1960s and 1970s, Nicaragua's economic performance and its progress in spreading basic health and education were both about average for the region. A failure to establish political alternatives to the Somoza family, however, led to a polarization of society and to the Sandinista takeover in 1979. The current government has emphasized government programs in education and health. It has also dramatically increased the role of government in the economy through both direct ownership and through replacement of market forces by government decisions in many areas, particularly prices and foreign trade. As a consequence, severe economic distortions have been created that make sustained economic growth unlikely without massive external assistance. Because of both the economic and political factors, we have not programmed any assistance to Nicaragua. Should government policies dramatically change, however, assistance to rebuild the country's economy might be justified.

Panama. Panama has a history of relatively rapid economic growth combined with a broad spread of the benefits of growth. Its most serious economic problem, urban unemployment, is due in significant part to government policies that limit the flexibility of the private sector. The very large presence of the U.S. Government in Panama through the Canal and U.S. military installations has probably contributed to the unemployment problem by creating a high-wage economy in the midst of a developing country. The current government has undertaken major policy adjustments aimed at restoring private-sector incentives and confidence. Our assistance would strengthen the capacity of the government to carry out such reforms. It would be based on continued progress in this area, including elimination of inappropriate pricing policies in agriculture and reform of labor legislation. We propose increased assistance of \$34.2 million in FY 1984 and a request of \$40 million in FY 1985.

Central American Regional Programs. In addition to bilateral programs in each of the countries of the region, we propose to emphasize regional approaches in several areas. First, we are encouraging regionwide discussion of goals and performance. CADO will provide the mechanism for this. Under the umbrella of CADO, we will support operation of a strong consultative group of the Central American governments and all major donors to the region to provide a forum for discussion of economic policy issues.

A second area of regional activity will be support for the strengthening of regional institutions. As recommended by the Bipartisan Commission, we will consider providing further financial support to the Central American Bank for Economic Integration, which supports investment projects in the region. We propose to carry out our activities to support democratization and respect for human rights on a regionwide basis. We are also examining the feasibility of a regional venture capital company to spur the capitalization of dynamic indigenous firms. We also intend to provide trade credit guarantees on a regional basis.

Third, we seek to reverse the decline of the Central American Common Market (CACM). Restoration of trade can lead to a spurt in regional growth. Moreover, because of the very small size of the individual countries, increased regional specialization may increase the region's capacity to produce for world markets. With limited U.S. resources trade can probably be re-established without any direct support being provided to Nicaragua. Over the longer term our strategy would seek to promote the reduction in the external tariffs applied by the CACM countries to increase competitiveness in world markets. We propose funding of \$30.8 million for FY 1984 and \$199 million for FY 1985 to support programs of a regional nature.

Attached are two tables presenting the total resources being requested for the proposed program.

Table I

FINANCIAL SUMMARY

ECONOMIC ASSISTANCE TO CENTRAL AMERICA  
(millions of dollars)

<u>PURPOSE</u>	<u>Supplemental FY 1984</u>	<u>FY 1985</u>	<u>FY 1986- FY 1989</u>	<u>TOTAL</u>
<u>Stabilization</u>				
ESF	272	541	1,644	2,457
P.L. 480	25	103	--	128
Guarantees	--	470	--	470
Sub-total	297	1,114	1,644	3,055
<u>Growth</u>				
ESF	10	80	789	879
DA	8	87	327	422
P.L. 480	--	--	410	410
Guarantees	--	90	1,240	1,330
Counterpart*	(100)	(220)	(520)	(840)
Sub-total	118	477	3,286	3,881
<u>Equity</u>				
DA	66	196	1,096	1,361
P.L. 480, II	--	17	70	87
Guarantees	--	40	160	200
Counterpart*	(100)	(220)	(880)	(1,200)
Peace Corps	2	18	94	114
State, Refugees	--	15	78	93
Sub-total	168	506	2,381	3,055
<u>Democracy</u>				
ESF	8	20	85	113
U. S. I. A.	7	36	179	222
CADO	--	1	4	5
Sub-total	15	57	268	340
<u>Operating Expenses</u>	2	6	26	34
 TOTAL*	 400	 1,720	 6,205	 8,325

\*Counterpart figures are local currency generations from ESF or P.L. 480 balance-of-payments financing for A.I.D.-supported activities in the region. Since they are programmed for development purposes, they are included in sector sub-totals but not in the overall total.

Table II

BREAKDOWN BY TYPE OF FUNDING

ECONOMIC ASSISTANCE TO CENTRAL AMERICA  
(millions of dollars)

	Appropriated Funds					Guarantees	Counterpart	Total
	<u>Total</u>	<u>ESF</u>	<u>DA</u>	<u>PL-480</u>	<u>Other</u>			
Stabilization	2,585	2,457	--	128	--	470	--	3,055
Long-Term Growth	1,711	879	422	410	--	1,330	(840)*	3,881*
Equity	1,655	--	1,361	87	207	200	(1,200)*	3,055*
Democracy	340	113	--	--	227	--	--	340
Operating Expenses	<u>34</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>34</u>	<u>--</u>	<u>--</u>	<u>34</u>
TOTAL	6,325	3,449	1,783	625	468	2,000	(2,040)*	8,325

\*These figures include local currency counterpart generations from the dollars provided for economic stabilization. For this reason, they are not additive to the total funding requirements.

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A MILITARY ASSISTANCE PROGRAM  
FOR CENTRAL AMERICA

THE CRISIS IN CENTRAL AMERICA

Central America faces interlocking crises. They have been described by the National Bipartisan Commission on Central America; the implementing legislation proposes to untangle them and provide the resources for solutions.

None of these crises can be solved independently of the others. In terms of policy responses, however, they can be considered under three headings

- First, those problems stemming from indigenous causes. The roots of Central America's troubles lie in social inequity, unrepresentative politics, weak legal institutions, disrespect for human rights, and the other problems of societies in urgent need of reform.
- Second, those problems resulting from the international economic shocks of the past several years.
- Third, the challenges produced by externally-supported guerrilla insurgency. This, as the Bipartisan Commission says, "differs as much from indigenous revolts as it does from conventional wars."

The military assistance proposals described here address primarily the third of these interrelated challenges; the first two require separate and larger amounts of economic assistance. It must be stressed, however, that none of the proposals for Central America stand on their own. Social and economic problems cannot be solved by military means. But neither can any society, faced with a concerted effort to destroy its economy and its institutions, hope to prosper through social and economic programs unprotected by an adequate security force.

U.S. INTERESTS

The predominant interests of the United States in Central America involve security and human rights. Our economic interests are also of long standing but are not substantial. Our security interests have loomed large for American leaders

and public since the building of the Panama Canal early in this century. The Bipartisan Commission concluded that Central America "critically involves our security interests" because it is a near neighbor. As the Cuban experience demonstrates, a foothold by the Soviet Union in the Western Hemisphere would become an armed camp and a springboard for subversion of neighboring states. In a strategically vital region, a regime controlled by elements hostile to the democratic system must be of deep concern -- not only to that regime's neighbors, but also to the United States.

"What gives the current situation its special urgency" -- writes the Bipartisan Commission -- "is the threat posed by the Sandinista regime in Nicaragua which is supported by massive Cuban military strength, backed by Soviet and other East Bloc weapons, guidance, and diplomacy, and integrated into the Cuban network of intelligence and subversion." The use of Nicaragua as a conduit for Cuban and Soviet arms and training is the factor that critically involves our own security interests. At the moment, the externally-backed insurgency is most threatening in El Salvador, but there is also an active guerrilla war in Guatemala. The Sandinista regime has sent Cuban-trained guerrillas into Honduras and sponsored terrorism in Costa Rica.

Many of the Nicaraguans who overthrew Somoza wished to establish democratic institutions. In 1979, the Sandinistas pledged to the OAS that they would establish a democratic, pluralistic, and non-aligned regime. The United States took a leading role in international efforts to assist Nicaragua.

But Marxist-Leninists had a monopoly of the military power in the new regime. The Carter Administration suspended its aid only when it became clear that the Sandinistas were channeling Cuban and Soviet assistance to the guerrillas in El Salvador.

Nicaragua's comandantes have publicly stated their intent to consolidate Marxism-Leninism. They have built a military establishment four times as large as Somoza's, disproportionate to those of neighboring states, and far beyond their legitimate defensive needs. There are at least 2,000 Cuban military advisers in Nicaragua, as well as several hundred from the Soviet Union, Eastern Europe, Libya, and the PLO. An estimated 15,000 tons of Soviet Bloc military equipment reached the Sandinista army in 1983. This is the factor which has internationalized the conflict.



## OVERALL PROGRAM STRATEGY

Our response has some elements common to our military assistance programs in all six countries. These include (1) a strong emphasis on training; (2) insistence on counter-insurgency operations that respect human rights; (3) stress on small-unit organization and tactics; (4) the need for greater force mobility; and (5) the requirement for low-cost, low-technology arms and equipment.

### Training

We regard training as the key to our military assistance strategy in the region. We recognize the need for more leadership training, particularly at the junior officer, cadet, and NCO levels. At the same time, there is a continuing need for technical training, as in the case of pilots, mechanics, and technicians. Large-scale training of entire units is required for some countries. The training is carried out at military installations in the U.S., at the Panama Canal Area Military Schools, at the Regional Military Training Center (RMTC) in Honduras, and by U.S. Mobile Training Teams (MTTs) in-country.

### Human Rights

Our training emphasizes the importance of humane counter-insurgency tactics and respect for human rights. As the Bipartisan Commission points out, however, "The present level of U.S. assistance to El Salvador is far too low to allow the armed forces of El Salvador to use these modern methods of counter-insurgency effectively." We have trained troops in the use of tactics which are sound and humane, but which they lack the resources to implement correctly.

### Small-unit Organization and Tactics

In our training programs, particularly for countries faced with active guerrilla movements, we stress the need for small-unit organization and tactics as the most effective way to counter insurgency. Historically, the armed forces in the region have been grounded in the use of large-scale units more suitable for conventional than guerrilla warfare. We emphasize the need for highly-trained small units which can take the battle to the guerrillas rather than remaining in a defensive or static posture.

### Force Mobility

There is an obvious premium on the need for force mobility to carry out a military strategy emphasizing small-unit organization and tactics. Taking the military initiative to seek out and engage guerrillas requires helicopters, fixed-wing aircraft, and vehicles, as well as the communications equipment needed for the effective use of intelligence and the exercise of command and control of dispersed forces.

### Low-cost, Low Technology Arms and Equipment

We recognize that highly sophisticated, expensive arms and equipment are inappropriate for countering guerrillas and terrorists in unconventional warfare, and that we cannot burden the budgets of the Central American countries (or our own military assistance programs) with materiel which is too costly to acquire, maintain, and operate. We therefore eschew such materiel in favor of low-cost, low-technology arms and equipment. By so doing we also restrain any tendency towards intra-regional arms competition in sophisticated items -- while at the same time giving due weight to the conventional military threat posed by the Nicaraguan arms buildup.

### FY 84 SUPPLEMENTAL/FY 85 REQUEST

Our proposed FY 84 Supplemental and FY 85 Military Assistance programs for Central America contain enough additional resources to break the existing stalemate between governments troops and guerrillas in El Salvador. The programs are, however, modest by global standards and in comparison to our economic aid.

Grant assistance is clearly necessary in view of the region-wide economic difficulties and the economic damage wrought by guerrillas. We should not add to the debt burdens of these countries by concentrating on cash purchases or high-interest loans. Therefore the entire FY 84 Supplemental and FY 85 programs are proposed on a concessional basis -- primarily as Military Assistance Program (MAP) and International Military Education and Training (IMET) grants, and secondarily as low-interest direct Foreign Military Sales (FMS) loans.

The FY 84 Supplemental military assistance request for Central America totals \$259.05 million and consists entirely of MAP grants. The FY 85 request for the region totals \$255.9 million, and consists of \$222 million in MAP grants, \$30 million in concessional FMS credit, and \$3.9 million in grant IMET funds. It is proposed that these funds be authorized to be available until expended.

#### COUNTRY PROGRAMS

The common elements of military assistance for Central America, described above, obviously apply in varying degrees to each of the six countries for which assistance is proposed, depending on the unique situation in each country. Briefly described below are the main elements of the country strategy and programs. Additional justifications and descriptions of the programs will appear in the FY 85 Security Assistance Congressional Presentation Document (CPD).

##### Belize

Democratic Belize remains a peaceful, stable corner of Central America. Geographically, it is closer to Cuba than any other country in the region. It seeks to develop its Defense Force gradually in recognition of the eventual withdrawal of the British military garrison. We propose to continue our program at FY 84 Continuing Resolution levels, in the areas of vehicles, personal equipment, medical supplies, small arms and ammunition, and training. We propose an FY 85 program of \$.6 million.

##### Costa Rica

We strongly support Costa Rica's dedication to the preservation of its democratic traditions and the maintenance of its territorial integrity. Costa Rica has no standing armed forces per se, so the Public Security Forces, comprised of the Rural Guard and the Civil Guard, are responsible for national defense. These forces are now ill-equipped to control the country's borders or deal with acts of terrorism. Funds are required for the acquisition of small, fixed wing observation aircraft, helicopters, communications equipment, vehicles, patrol boats, light weapons, spare parts, and ammunition. We propose an FY 84 Supplemental program of \$7.85 million and an FY 85 program of \$10 million.

## El Salvador

Our support for democracy, progress in human rights, and economic development must be buttressed by the security shield which our military assistance provides. The emerging democracy in El Salvador needs more help from us to break the stalemate with the guerrillas. While the military stalemate continues, economic recovery and social programs are severely handicapped and the armed opposition, hoping for military victory, has little incentive to participate in the democratic process. U.S. security assistance is needed to bring about conditions in which the economic well-being of the people can be improved and peace can be achieved through broader participation in strengthened democratic processes.

The Bipartisan Commission concluded that there is "no logical argument for giving some aid but not enough. The worst possible policy for El Salvador is to provide just enough aid to keep the war going, but too little to wage it successfully."

We concur with the Bipartisan Commission. There are requirements which must be met if the Salvadoran armed forces are to seize the initiative through the National Campaign Plan: increased air and ground mobility, increased training, higher force levels, greater stocks of equipment and supplies, and improved conditions for the Salvadoran troops (including the provision of a medevac capability). Our proposed assistance is consistent with these requirements. The main elements are helicopters (including medevac), fixed wing aircraft, vehicles, patrol boats, engineer equipment, radar, communications equipment, hospital equipment, artillery, light infantry weapons, spare parts, and ammunition. We propose an FY 84 Supplemental program of \$178.7 million and an FY 85 program of \$132.5 million.

## Guatemala

Our primary objective in Guatemala is to foster the return to a democratic government which will respect human rights, deal effectively with the insurgency, and be responsive to the economic and social needs of the people. Limited military assistance, the implementation of which would be conditioned upon progress in returning to democratic processes and improved human rights performance, would enable us to build a better relationship with the Guatemalan military and increase its

sensitivity to the control of human rights abuses. This is especially pertinent in the area of training; there has been no IMET program for (and hence reduced contact with) the Guatemalan military since FY 77. Besides training, our assistance is proposed in the areas of engineer equipment, communications equipment, patrol boats, and spare parts for vehicles, helicopters, and fixed wing aircraft. We propose an FY 85 program of \$10.3 million.

#### Honduras

Honduras, which returned to democratic government early in 1982, plays a key role in resisting the spread of Soviet/Cuban/Nicaraguan influence in Central America. It would be extremely difficult to defend U.S. interests in the region without Honduran cooperation. Honduras is threatened by the unprecedented Nicaraguan military buildup and externally-supported subversion. The Bipartisan Commission recommended increased military assistance to build a credible deterrent. Our proposed assistance would fund training, helicopters, fixed wing transport and reconnaissance aircraft, naval equipment and patrol boats, vehicles, medical equipment, radar, communications equipment, artillery, small arms ammunition, and spare parts. Some of these items would be used in equipping two new infantry battalions. We propose an FY 84 Supplemental program of \$37.5 million and an FY 85 program of \$62.5 million.

#### Panama

The complex of U.S. national security and foreign policy interests -- centered around the Panama Canal and our military forces nearby -- is unique in the region and highly important in global terms. Increased U.S. military assistance would enable Panama to contribute more effectively to the combined defense of the Canal. Such assistance would also serve as a tangible indication of support for the scheduled May 1984 return to elected government. Our assistance to the newly reorganized Panama Defense Force would be in the areas of training, engineering equipment for civic action projects, communications and coastal surveillance equipment, one helicopter, one patrol boat, and maintenance equipment. Some of these items would be used in equipping new infantry battalions. We propose an FY 84 Supplemental program of \$10 million and an FY 85 program of \$20 million.

Regional Military Training Center (RMTC)

The RMTC was established in Honduras in 1983 on a temporary, austere basis. It has proven to be extremely valuable as a low-cost way to provide large-scale training to Honduran and Salvadoran troops in a realistic environment. As noted previously in this presentation, training is the most important element in our military assistance programs in Central America. RMTC training concentrates on the more aggressive, highly mobile tactics needed for dealing effectively with insurgent forces. Improvements are now needed for administrative and operational efficiency. Besides construction costs, funds are needed for operation and maintenance, training materiel and supplies, and other training costs. We propose an FY 84 Supplemental program of \$25 million and an FY 85 program of \$20 million.

Attachment: Military Assistance to Central America: FY 1983-85

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4.

ECONOMIC ASSISTANCE TO CENTRAL AMERICA: FY 1983-85  
(Millions of Dollars)

	<u>FY83 Actual</u>	<u>FY84 Continuing Resolution</u>	<u>FY84 Supplemental Request</u>	<u>FY84 Total</u>	<u>FY 85 Request</u>
Belize					
DA	6.7	4.0	-	4.0	6.0
ESF	10.0	-	10.0	10.0	4.0
PL480	-	-	-	-	-
Total	<u>16.7</u>	<u>4.0</u>	<u>10.0</u>	<u>14.0</u>	<u>10.0</u>
Costa Rica					
DA	27.2	15.1	8.0	23.1	20.0
ESF	157.0	70.0	60.0	130.0	160.0
PL480	27.7	20.0	7.0	27.0	28.0
Total	<u>211.9</u>	<u>105.1</u>	<u>75.0</u>	<u>180.1</u>	<u>208.0</u>
El Salvador					
DA	58.8	41.3	30.0	71.3	80.0
ESF	140.0	120.0	90.0	210.0	210.0
PL480	46.7	37.3	14.0	51.3	51.1
Total	<u>245.5</u>	<u>198.6</u>	<u>134.0</u>	<u>332.6</u>	<u>341.1</u>
Guatemala					
DA	12.2	1.6	20.0	21.6	40.0
ESF	10.0	-	-	-	35.0
PL480	5.3	12.0	-	12.0	21.4
Total	<u>27.5</u>	<u>13.6</u>	<u>20.0</u>	<u>33.6</u>	<u>96.4</u>
Honduras					
DA	31.2	31.8	8.0	39.8	45.0
ESF	56.0	40.0	72.5	112.5	75.0
PL480	15.5	12.6	4.0	16.6	19.0
Total	<u>102.7</u>	<u>84.4</u>	<u>84.5</u>	<u>168.9</u>	<u>139.0</u>
Panama					
DA	6.2	11.0	4.2	15.2	19.8
ESF	-	-	30.0	30.0	20.0
PL480	1.0	1.3	-	1.3	0.5
Total	<u>7.2</u>	<u>12.3</u>	<u>34.2</u>	<u>46.5</u>	<u>40.3</u>
Regional Programs					
DA	19.4	12.1	2.8	14.9	62.0
ESF	-	-	28.0	28.0	136.6
Total	<u>19.4</u>	<u>12.1</u>	<u>30.8</u>	<u>42.9</u>	<u>198.6</u>
Sub-Totals					
DA	161.7	116.9	73.0	189.9	272.8
ESF	373.0	230.0	290.5	520.5	640.6
PL480	96.2	83.2	25.0	108.2	120.0
Misc. <sup>1</sup>	-	-	11.5	11.5	86.6
<u>GRAND TOTAL</u>	<u>630.9</u>	<u>430.1</u>	<u>400.0</u>	<u>830.1</u>	<u>1120.0<sup>2</sup></u>

1/ Miscellaneous total includes:

	<u>FY84 Supplemental Total</u>	<u>FY84 Request</u>	<u>FY 85 Request</u>
Other Agencies,	9.0	9.0	70.6
Peace Corps	(2.0)	(2.0)	(18.2)
USIA	(7.0)	(7.0)	(36.4)
State/Refugees	-	-	(15.0)
State/ICC	-	-	(1.0)
AID Supplementary OE	2.5	2.5	6.0
HIG Reserve	-	-	10.0

2/ Grand Total for requested funds in FY 1985 does not include the following non-appropriated guarantees:

Housing Investment (HIG)	40.0
Trade	
Ex-Im Bank	150.0
AID	300.0
Expanded OPIC Insurance	20.0
CCC	<u>90.0</u>
<u>TOTAL</u>	<u>600.0</u>

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**MILITARY ASSISTANCE TO CENTRAL AMERICA: FY 1983-85**  
(Millions of Dollars)

	<u>FY83 Actual</u>	<u>FY84 Continuing Resolution</u>	<u>FY84 Supplemental Request</u>	<u>FY84 Total</u>	<u>FY85 Request</u>
<b>Belize</b>					
MAP	-	.5	-	.5	.5
IMET	.075	.1	-	.1	.1
Total	.075	.6	-	.6	.6
<b>Costa Rica</b>					
MAP	2.5	2.0	7.85	9.85	9.8
IMET	.125	.15	-	.15	.2
Total	2.625	2.15	7.85	10.0	10.0
<b>El Salvador</b>					
MAP	33.5	45.0	178.7	223.7	116.0
FMSCR-T	46.5	18.5	-	18.5	-
FMSCR-C	-	-	-	-	15.0
IMET	1.3	1.3	-	1.3	1.5
Total	81.3	64.8	178.7	243.5	132.5
<b>Guatemala</b>					
FMSCR-C	-	-	-	-	10.0
IMET	-	-	-	-	.3
Total	-	-	-	-	10.3
<b>Honduras</b>					
MAP	27.5	40.0	37.5	77.5	61.3
FMSCR-T	9.0	-	-	-	-
IMET	.8	1.0	-	1.0	1.2
Total	37.3	41.0	37.5	78.5	62.5
<b>Panama</b>					
MAP	-	-	10.0	10.0	14.4
FMSCR-T	5.0	5.0	-	5.0	-
FMSCR-C	-	-	-	-	5.0
IMET	.45	.5	-	.5	.6
Total	5.45	5.5	10.0	15.5	20.0
<b>RMTTC</b>					
MAP	-	-	25.0	25.0	20.0
<b>Grand Total</b>					
MAP	63.5	87.5	259.05	346.55	222.0
FMSCR-T	60.5	23.5	-	23.5	-
FMSCR-C	-	-	-	-	30.0
IMET	2.75	3.05	-	3.05	3.9
Total	126.75	114.05	259.05	373.1	255.9

ECONOMIC AND MILITARY ASSISTANCE TO CENTRAL AMERICA: FY 1983-85  
(Millions of Dollars)

	<u>FY83 Actual</u>	<u>FY84 Continuing Resolution</u>	<u>FY84 Supplemental Request</u>	<u>FY84 Total</u>	<u>FY 85 Request</u>
Belize					
Economic	16.7	4.0	10.0	14.0	10.0
Military	.075	0.6	-	0.6	0.6
Total	<u>16.775</u>	<u>4.6</u>	<u>10.0</u>	<u>14.6</u>	<u>10.6</u>
Costa Rica					
Economic	211.9	105.1	75.0	180.1	208.0
Military	2.625	2.15	7.85	10.0	10.0
Total	<u>214.525</u>	<u>107.25</u>	<u>82.85</u>	<u>190.1</u>	<u>218.0</u>
El Salvador					
Economic	245.5	198.6	134.0	332.6	341.1
Military	81.3	64.8	178.7	243.5	132.5
Total	<u>326.8</u>	<u>263.4</u>	<u>312.7</u>	<u>576.1</u>	<u>473.6</u>
Guatemala					
Economic	27.5	13.6	20.0	33.6	96.4
Military	-	-	-	-	10.3
Total	<u>27.5</u>	<u>13.6</u>	<u>20.0</u>	<u>33.6</u>	<u>106.7</u>
Honduras					
Economic	102.7	84.4	84.5	168.9	139.0
Military	37.3	41.0	37.5	78.5	62.5
Total	<u>140.0</u>	<u>125.4</u>	<u>122.0</u>	<u>247.4</u>	<u>201.5</u>
Panama					
Economic	7.2	12.3	34.2	46.5	40.3
Military	5.45	5.5	10.0	15.5	20.0
Total	<u>12.65</u>	<u>17.8</u>	<u>44.2</u>	<u>62.0</u>	<u>60.3</u>
Regional Programs					
Economic	19.4	12.1	30.8	42.9	198.6
Military					
(RMTC)	-	-	25.0	25.0	20.0
Total	<u>19.4</u>	<u>12.1</u>	<u>55.8</u>	<u>67.9</u>	<u>218.6</u>
Miscellaneous					
Economic	-	-	11.5	11.5	86.6
Total					
Economic	630.9	430.1	400.0	830.1	1,120.0
Military	126.75	114.05	259.05	373.1	255.9
	<u>757.65</u>	<u>544.15</u>	<u>659.05</u>	<u>1,203.2</u>	<u>1,375.9</u>

