

Issue Brief

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HONDURAS: U.S. FOREIGN ASSISTANCE FACTS

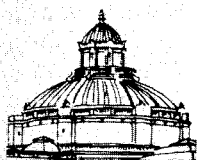
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ISSUE DEFINITION

During the past few years, Honduras has come to occupy a pivotal position in U.S. policy towards Central America. The country is a refuge and staging area for guerrilla forces (the "contras") opposed to the Sandinista regime and is host to U.S. military forces and regional military exercises, as a consequence, between 1981 and 1985, U.S. assistance to Honduras increased fivefold, reaching a peak figure of \$254.3 million in FY85. Although budgetary constraints led the Administration to originally allocate only \$187.8 million to Honduras in FY86, it provided an additional \$20 million of emergency military aid in late March 1986 and requested an aid package totaling \$253.0 million for FY87. The rapid increases in aid to Honduras and the continuing large requests are tied to larger U.S. concerns in Central America. Since mid-1984 there have been signs of Honduran dissatisfaction with the U.S.-Honduran relationship, which have produced strains between the elected civilian government of President Jose Azcona and the Honduran military. Thus, in 1985 the Honduran government sought to renegotiate the terms of U.S.-Honduran cooperation in order to address Honduran security and economic concerns. Contradictory feelings among the Honduran leaders about their country's role in U.S. strategy and about the value and impact of U.S. assistance remain a basic issue in U.S.-Honduran relations.

This issue brief provides basic information on the U.S. aid program and on the general situation in Honduras. It also outlines major issues that have arisen in the aid debate. This is one in a series of issue briefs on U.S. assistance to key countries. References and definitions of terminology are provided in a glossary contained in this brief.

BACKGROUND AND POLICY ANALYSIS

This section has four parts:

- Country Data
- U.S. Foreign Assistance Data
- Definition of Programs
- Program Background
- Key Issues

COUNTRY DATA

Country data were taken from the following sources: AID Congressional Presentation FY87; World Development Report 1984, The World Bank; The World Factbook 1985, The Central Intelligence Agency; Foreign Economic Trends, U.S. Dept. of Commerce, Sept. 1984; and Background Notes, U.S. Dept. of State, Sept. 1984.

Population ('85): 4.39 million
Population growth rate ('84): 3.3%
GNP ('85): \$3.3 billion
Per capita GNP ('85): \$753
Annual per capita GNP growth rate/ long term ('73-'83): 0.6%
Annual GNP growth rate/ short term ('84): 2.8%
Annual inflation rate/long term ('73-'83): 8.6%

Annual inflation rate/short term ('84): 4.8%
Avg. life expectancy ('85): 60.7 years
International debt('83): \$15.7 billion
Debt service payments as a % of export earnings ('83): 14.9%
(Debt service ratio for all developing countries in 1983 was
19.0%)
Per capita growth rate of agricultural production ('75-'84): 0.8%
Proportion of the labor force in agriculture ('82): 58.9%
Major crops: Corn, beans, rice, coffee, bananas, raw sugar
Major exports and value ('83): Bananas, coffee, wood/ \$675 million
Major imports and value ('83): Manufactures, machinery, transport
equipment/ \$705 million

U.S. FOREIGN ASSISTANCE DATA (millions \$) *

	FY83	FY84	FY85	FY86	FY87 (est)	FY88 (req)
Development						
Aid	31.3	31.0	44.3	44.3	40.9	40.4
(Loans)	(24.0)	(17.3)	(19.8)	(15.6)	(14.6)	(12.3)
(Grants)	(7.3)	(13.7)	(24.5)	(28.7)	(26.3)	(28.1)
Other						
Economic	3.2	3.8	5.0	5.2	5.1	3.8
Aid						
(Loans)	--	--	--	--	--	--
(Grants)	(3.2)	(3.8)	(5.2)	(5.2)	(5.1)	(3.8)
Food Aid	15.5	20.2	18.4	17.2	17.0	14.7
(Loans)	(10.0)	(15.0)	(15.0)	(13.9)	(12.0)	(12.0)
(Grants)	(5.5)	(5.2)	(3.4)	(4.6)	(5.0)	(2.7)
ESF	56.0	40.0	147.5	61.2	71.4	(100.0)
(Loans)	(11.0)	(6.0)	--	--	--	--
(Grants)	(45.0)	(34.0)	(147.5)	(61.2)	(71.4)	(100.0)
Military						
Aid	48.3	77.4	73.9	61.1	61.2	81.5
(Loans)	(9.0)	--	--	--	--	--
(Grants)	(39.3)	(77.4)	(73.9)	(61.1)	(61.2)	(81.5)
TOTAL	154.3	172.3	289.1	189.0	195.6	240.4
(Loans)	(54.0)	(38.3)	(34.8)	(29.5)	(26.6)	(24.3)
(Grants)	(100.3)	(134.1)	(254.3)	(159.5)	(169.0)	(216.1)

Total U.S. aid FY46-86: \$1,334.25 million (current \$)
\$1,998.30 million (constant 1987 \$)

Honduras's rank among U.S. aid recipients: FY87 - 8th
FY86 - 9th

<u>OTHER AID DONORS</u>	1982	1983	1984	1985
Int'l Agencies	37.0	89.6	154.3	15.3
Western Countries	29.6	41.8	n/a	n/a
OPEC Countries	2.5	4.5	n/a	n/a
Communist Countries	n/a	n/a	n/a	n/a

* U.S. Foreign Assistance and Other Aid Donors Data were taken from Agency for International Development and from Organization for Economic Cooperation and Development (OECD) publications.

DEFINITION OF PROGRAMS:

Development aid -- AID functional accounts that emphasize long-term development objectives. Accounts include agriculture, population planning, health, education and human resources, energy and selected activities, and the Child Survival Fund. (Excludes ESF).

Other Economic Assistance -- Peace Corps, Narcotics Control, Inter-American Foundation and other miscellaneous economic aid programs.

Food Aid -- Public Law 480/Food for Peace program. Through P.L. 480 activities the United States provides surplus agricultural commodities on a low interest loan basis (Title I and III) and on a grant basis to meet emergency and humanitarian requirements (Title II).

ESF (Economic Support Fund) -- Through the ESF, a flexible but complex aid category, the United States provides economic assistance to countries of special economic, political, or military significance. Much of current ESF aid provides short-term economic stabilization and budget support to key nations. The foreign aid budget submitted by the executive branch links ESF and military aid under the general security assistance heading. Authorization committees in Congress treat ESF as a separate category distinct from either development or military aid while appropriations committees include ESF among bilateral economic aid programs.

Military Aid -- The United States provides military assistance to countries on a loan basis at market rates through Foreign Military Sales (FMS) guaranteed loans, at below market rates through FMS concessional lending (about 5% interest), and on a grant basis through the Military Assistance Program (MAP). Military training grants are also offered through the International Military Education and Training Program (IMET).

Other Aid Donors -- International agencies include multilateral development banks, U.N. programs, and the European Community; figures represent commitments reported, for the most part, on a fiscal year basis. Western countries include members of the OECD's Development Assistance Committee; figures represent gross disbursements of official development assistance only (no military aid) on a calendar year basis. OPEC countries include members of OPEC and Arab OPEC aid agencies; these figures also represent gross disbursements of official development assistance only (no military aid) on a calendar year basis. Communist countries include the Soviet Union, Eastern Europe and China; figures are for economic loans and grants reported by calendar year.

PROGRAM BACKGROUND

In response to the changing political and security needs of Honduras, the magnitude and composition of U.S. aid to that country have changed dramatically in the past few years. According to the Agency for International Development (AID), U.S. aid to Honduras is designed to further the democratization process, restore and increase economic growth, and help preserve the country's territorial integrity.

Although civilian rule was reestablished in January 1982, democratic institutions in Honduras remain fragile. The two long-dominant political

parties, the ruling Liberals and the opposition Nationalists, are fragmented and are perhaps best described as rival "old-boy" networks. Their ability to adapt to the modernization of Honduran society and broker the tensions bound to arise from that process is not certain.

The military remains an important political actor, although its recent leadership has sought to keep a low profile. Like the political parties, the military also has its internal divisions, fed in part by its collegial command structure based in the large (between 25- and 40-member) Superior Council of the Armed Forces. The Superior Council also acts as a brake on the independence of the chief of the armed forces; in March 1984 and February 1986, the Superior Council acted to remove the chief of the armed forces. In both cases, questions over the degree of cooperation that Honduras gives to U.S. security policy in the region seems to have been important factors in their removal. The current chief is General Humberto Regalado Hernandez.

The underlying weaknesses of the political system and the importance of the military were illustrated by events surrounding the dispute over the manner in which the 1985 presidential election was to be decided. The Honduran constitution calls for the election of the candidate with the most votes, but an alternate method was agreed upon by key political actors in the spring of 1985 in order to resolve a severe political crisis pitting then-President Roberto Suazo against members of his own party in the national legislature. This method allowed each party to run multiple candidates with the presidency going to the leading candidate of the party which won the most votes overall.

This led to another political crisis in November, when the leading candidate of the winning Liberal Party, Jose Azcona, took only 26.6% of the vote compared to the 41.1% gained by the leading candidate of the losing Nationalist Party, Rafael Leonardo Callejas. (The Liberal Party took 49.2% of the vote; the Nationalist Party, 43.9%.) The support voiced by then-chief of the military General Lopez Reyes for the spring electoral accord was a key factor in Azcona's ability to deflect legal challenges to his victory, and he was installed as president on Jan. 27, 1986.

Although the country experienced a slight economic upturn in 1984 following several years of declining GDP figures, the economic condition of the country continues to weigh on the fragile political situation. Measured by per capita GDP, Honduras is the third poorest country in the Western Hemisphere (following Bolivia and Haiti). Many blame the poor economic performance in the early 1980s on unsound policy decisions by the government. Because 1985 is an election year in Honduras, the government was loathe to implement many of the economic reforms pushed by the United States, especially devaluation of the Honduran currency. The economic upturn in 1984 resulted from government spending on a major hydroelectric project, favorable weather for agriculture, and increased exports stimulated by rising prices for some of the key commodities exported by Honduras (bannanas, coffee, lead, and zinc). While domestic demand also increased in 1984, the economy is still hampered by a limited domestic market.

Because it shares borders with three Central American countries -- Guatemala, El Salvador, and Nicaragua -- Honduras is particularly vulnerable to the political tensions sweeping the region. This is true from the perspective of both domestic and foreign policy. Externally, Honduras has a long-standing border dispute with El Salvador, which erupted into a short war in 1969.

Honduran relations with revolutionary Nicaragua are tense for a number of reasons. Honduras is troubled by the arms buildup taking place in Nicaragua and fears that Nicaragua is inciting labor strife and might regenerate a leftist insurgency in Honduras that collapsed several years ago. Internal Nicaraguan policies are also a concern of Honduras, since these policies have produced refugees and fighters for the contra rebellion who seek sanctuary inside Honduras and, in the case of the anti-Sandinista guerrillas, provoke cross-border attacks by Nicaraguan troops. For its part, Nicaragua resents Honduras' tacit support for the anti-Sandinista guerrillas and believes that the U.S.-Honduran military exercises are a preparation for a U.S. invasion of Nicaragua.

Internally, there is fear that the political violence common in the neighboring countries could spread to Honduras. The anti-Sandinista guerrillas operating from Honduras against Nicaragua are a focus of this fear. Investigations by the Honduran military have blamed the contras for the political murders and disappearances which have occurred in recent years, although some observers see this as an attempt by the military to evade responsibility for its own alleged involvement. Additionally, there are concerns that should the contras movement collapse, the Nicaraguan rebels may resort to armed banditry in Honduras. There is also concern that Nicaraguan refugees might settle permanently along the border region, if the contra movement should collapse, pushing Honduran citizens from the area and permanently complicating relations with Nicaragua. There have already been charges that some landowners have hired contras as private security forces to counter peasant organizations.

The Administration has also warned about the possibility of leftist terrorism in Honduras. In its letter to Congress seeking congressional approval for funds to initiate a regional counterterrorism program in Central America, the Administration pointed to "repeated attempts by local groups -- with strong backing first from Salvadoran insurgents and more recently from Nicaraguan Sandinistas -- to incite an insurgent movement and stir terrorism." It went on to warn that "the extreme left may be preparing for an escalation of attacks inside Honduras." (Dept. of State letter to George Bush, President of the U.S. Senate, on the Central American Counterterrorism Act of 1985, dated Sept. 25, 1985.

Military Assistance: This has been the fastest growing component of U.S. aid to Honduras since 1980. Military assistance, which totaled less than \$4 million dollars 5 years ago, has averaged over \$57 million annually since 1982. In February 1986, the Administration allocated Honduras \$59.7 million for military aid programs. On Mar. 25, 1986, however, the President announced that he was giving Honduras an additional \$20 million in emergency military aid. The emergency aid was a response to attacks across the Honduran border launched by Nicaragua three days earlier. With the addition of the emergency aid, military assistance for FY86 will only be about \$8 million less than that provided in FY85 (\$79.7 million compared to \$88.3 million). Only about \$410,000 of emergency aid (air transport and C-rations) was actually provided at the time of the incursion, however, with the remaining \$19.6 million arriving after the incident or still in the pipeline.

The Administration originally planned to provide Honduras with \$88.8 million in military aid during FY87, about the same amount it planned to provide in FY86. As was the case in FY86, however, budgetary considerations are likely to force the Administration to reduce the size of its FY87 military aid allocation significantly. Honduras has pushed for increased levels of military aid, in recent years, as its price for cooperation on U.S.

security objectives in the region. Pointing to a possible threat from Nicaragua, the Administration has announced plans to provide Honduras with the funds to purchase advanced fighter (either F-5 or Israeli Kfir, although there has apparently been some discussion of F-16) aircraft. This aims at assuring the continued superiority of the Honduran air force over the forces of Nicaragua.

In addition to providing the Nicaraguan "contras" with a territorial base and lines of communication and supply through its territory, Honduras has cooperated with the U.S. in other ways. Prominent among these was its willingness to permit the location of the U.S.-operated Regional Military Training Center (RMTTC) on its northern coast. The closure of the RMTTC in June 1985 after 2 years of operation was necessitated by political considerations that are illustrative of the strains in the relationship between the United States and Honduras. Although both Honduran troops and Costa Rican paramilitary forces received training at the center, a key purpose of the center was the training of Salvadoran troops, since the number of U.S. military advisers in El Salvador was limited to 55. Honduras was not at ease, however, assisting in the training of troops from its traditional regional rival, El Salvador. In September 1984, it banned Salvadoran troops at the center pending a new understanding with the United States regarding the level of economic and military aid, the status of the anti-Sandinista rebels, and the possibility of U.S. pressure on El Salvador to resolve the outstanding border dispute with Honduras. The future of the center was also clouded by claims brought against Honduras by a U.S. citizen whose property was expropriated to provide a site for the training center. In the FY85 continuing resolution, Congress required that these claims be resolved as a condition for release of FY85 funds for the center.

In March 1985, the Administration announced that the training center would be closed because no agreement had been reached with Honduras on the training of Salvadorans. It reallocated the \$18.5 million of FY84 supplemental funds appropriated for the center to other training programs in Central America (Honduras received \$6.5 million of the reallocated funds, although about \$.5 million went towards closing down the RMTTC). Reallocation of FY85 funds was delayed until the center had completely wound down its operations in June 1985 in hope that an agreement could be reached. No agreement was reached, and Honduras received \$5 million from these funds. (For additional information on the RMTTC, see CRS issue brief 84134, Honduras: U.S. Military Activities.)

In 1985 (as part of the foreign aid authorization act), Congress exempted Honduras from the general ban on the use of U.S. foreign aid to pay for police and law enforcement training. The exemption granted to Honduras, however, requires that the President certify to Congress that human rights progress has been made in the prior six months. While the human rights situation in Honduras would probably present no serious obstacle to such certification, the Administration has not filed a report at this time. Congress has not appropriated any funds specifically for police training for Honduras.

Security-Related Economic Assistance--Economic Support Funds (ESF): This form of aid has also increased significantly in recent years, reaching \$147.5 million in 1985. Prior to 1982, Honduras received virtually no ESF. The ESF program is intended to support economic policy change and an economic stabilization program which aims at resolving the balance of payments problem, reducing the government's budget deficit through taxes and spending reductions, and helping the government more efficiently manage decentralized

public entities and government enterprises. Honduras has been allocated \$61.2 million of ESF for FY86. The decline from FY85 to FY86 is not as sharp as it first appears, however, since the FY85 figure includes \$72.5 million from a FY84 supplemental that was not obligated until the next fiscal year. The Administration requested \$90 million for FY87. It also recommended that Honduras get \$8.5 million from the \$300 million in supplemental economic aid earmarked for Central American democracies in the contra aid portion of the military construction appropriations bill (H.R. 5052). As the discussion (below) of congressional action on FY87 foreign aid appropriations indicates, Congress did not in the end not to provide any extra funds for supplemental aid to Central American democracies. The reduced size of the total ESF appropriation, and the substantial earmarks of aid for other countries, also had the effect of limiting the probable size of the U.S. aid program in countries (like Honduras) which were not protected in the aid bill. The Administration has not yet indicated the amount being allocated from the FY87 appropriation for ESF aid to Honduras.

In an largely unsuccessful effort to encourage economic reform in Honduras during 1985, the Administration linked obligation and disbursement of ESF to the implementation of reform measures. An agreement on steps to be taken was reported reached in May 1985, but the State Department delayed disbursing the FY85 aid because Honduras has not fully implemented the May understanding. Press reports frequently link these obligation and disbursement problems to Honduras' refusal to devalue its currency, but the State Department denies that this is a condition for U.S. aid. The funds were ultimately disbursed in late 1985, after President Suazo reportedly appealed directly to President Reagan, even though key conditions still remained unfulfilled.

Development Aid: This assistance has grown steadily since 1982, but at a much slower pace than security aid. In FY86, Honduras is scheduled to receive \$43.2 million in development assistance, compared to \$33.8 million in 1982. AID programs in Honduras are designed to promote economic growth, primarily in the areas of agriculture, exports, and small business. The Administration has not yet indicated its decision for development assistance in FY87.

Food Aid: This has gradually risen in recent years to about \$18 million. The program augments ESF balance of payments supporting by financing the importation of wheat. AID estimates that it will maintain the current level of food assistance through the end of this decade.

KEY ISSUES

1) Where Should the Balance Be Struck Between Military and Economic Assistance?

In light of Honduras' severe economic problems and fragile democratic institutions, questions have been raised regarding the balance between military and economic/development assistance. Top officials of the Honduran government have complained that they have not benefitted enough from the current U.S. aid program. In particular, they say, the United States seems too inclined toward seeing things through the prism of the Nicaraguan issue, and not enough toward considering Honduras' own national needs. Most analysts agree that Honduras would probably not receive the level of U.S. aid it currently receives, were it not for the "contras" and the country's proximity to Nicaragua. Nevertheless, many Hondurans seem to believe the United States is less interested in helping their country develop than in

using it as a base for broader U.S. regional policies. This is a source of strain in U.S.-Honduran relations.

Some analysts believe that inadequate growth and underdevelopment are the country's most fundamental problems. They say that if these are not properly addressed, the country's social and political situation will deteriorate. Its basic stability will be undercut and the continuity of civilian democratic government would be put in doubt. Greater stress needs to be put on development aid and economic reform, they argue, and less on military forms of assistance. Others agree that it is important to buttress the economic situation, but they say that substantial military aid is required to improve Honduras' military capacity vis-a-vis Nicaragua and to provide material encouragement for the military's continued support for democratic civilian government.

Concerns that U.S. security assistance programs could undermine democratic rule and respect for human rights were highlighted by press accounts in February 1986 based on allegations made by both U.S. and Honduran officials. These allegations charge that between 1981 and 1984, U.S. intelligence operatives were aware that Honduran commando squads they had trained were killing and torturing persons suspected of smuggling arms through Honduras to El Salvador, but they did not intervene or attempt to bring any pressure to stop the abuses. Although this situation evidently ended in March 1984 when the Superior Council of the Armed Forces ousted then-Chief of the Armed Forces General Gustavo Alvarez, who was closely associated with U.S. policy in Honduras, as many as 200 persons may have been killed or "disappeared" during the period in question.

A U.S. embassy spokesman in Tegucigalpa has denied any U.S. involvement in death squads activities, however, and an internal investigation by the Honduran military absolved that body, placing blame for abuses on the anti-Sandinista guerrillas. Supporters of existing military assistance programs to Honduras also point to the growing institutionalization of democratic structures, such as the recent peaceful presidential election and transfer of power, as evidence that democratic values are being strengthened in Honduras.

Even as some Members question the level of security-related assistance for Honduras, others suggest that Central America as a whole is receiving a disproportionate share of development assistance. Reflecting these concerns, Congress placed a nonbinding ceiling of \$225 million on development assistance to the region in FY85 and of \$250 million in FY86 (reduced by the Gramm-Rudman-Hollings deficit reduction measure to \$239.25 million), but in both cases the President has exceeded the ceiling.

Proponents of the ceiling on development assistance argue that the Central America countries are relatively well off compared to many other third world countries, particularly those in sub-Saharan Africa, and they question the rapid rise in development assistance to Central America when cutbacks are being made elsewhere in the world.

Administration supporters counter, however, that aid levels are consistent with the recommendations of the National Bipartisan Commission on Central America (the so-called Kissinger Commission) and are necessary if the social problems that contribute to the political violence and unrest of the region are to be overcome. They also note that Honduras is one of the poorest countries in the Western Hemisphere, and its per capita GNP is comparable to those of Egypt and Zambia and lower than some aid-recipient countries of

Sub-Saharan Africa.

2) Is U.S. Military Aid to Honduras Indirectly Channeled to the "Contras"?

Press reports in 1985 claimed that a number of countries that receive military aid from the United States, including Honduras, gave increasing amounts of aid to the anti-Sandinista guerrillas during the period of the U.S. aid cutoff to the contras. This raised suspicions that congressional restrictions on direct and indirect U.S. aid to the contras were being violated. (See IB84139, U.S. Assistance to Nicaraguan Guerrillas: Issues for the Congress.) Those who suspect that U.S. military aid to Honduras is being channeled to the contras charged that U.S. aid must have been diverted because in fiscal years 1984 and 1985 U.S. military aid significantly exceeded the approximately \$50 million Honduran military budget.

In reply to these charges, Secretary of State George Shultz has said that the aid is being used for the purposes for which it was given; but he has also observed that Honduras and the other alleged contra supporters are sovereign countries, "and if they have things they want to do with their own funds, that's up to them." (Remarks made during an interview on Meet the Press, Jan. 13, 1985. Cited in Panel to Probe Aid Diversions to 'Contras.' Congressional Quarterly, Jan. 26, 1985. p. 150.) Some analysts also argue that the Honduran budget covers only Honduran government expenditures and does not include the cost of all military goods acquired as the result of external grant aid.

In response to these claims both the House and the Senate took steps in drafting the FY85 foreign aid authorization bill to address these allegations. As signed into law, the measure (P.L. 99-83) prohibits the use of authorized funds for use in supporting, directly or indirectly, military or paramilitary operations in Nicaragua. It also prohibits the expressed or implied conditioning of U.S. foreign assistance or military sales on recipients/purchasers providing aid to the contras.

When \$20 million of emergency military assistance was given to Honduras in late March 1986 in response to a Nicaraguan border incursion, some press accounts noted the similarity of the equipment given (air defense weapons, conventional ordnance, emergency spare parts, and armament for helicopters) to the items requested by the Administration for the anti-Sandinista rebels. According to the Washington Post, when "asked whether any of the equipment would wind up in contra hands, [White House spokesman Larry] Speakes said, 'I don't know.'" (Mar. 26, 1986, p. A1 and A12.) U.S. officials have emphasized, however, that the assistance was intended for Honduras. While press reports have indicated that the anti-Sandinista rebels did almost all of the fighting against the Nicaraguan troops and a Honduran human rights group, the Committee for the Defense of Human Rights, has charged that the \$20 million went to the anti-Sandinista rebels, no evidence has been presented to support the charges that the rebels were the recipients of the emergency aid.

3) What Are Acceptable Terms for U.S.-Honduran Security Cooperation?

Following the March 1984 dismissal of General Alvarez as the head of the Honduran military, Honduras reassessed its relationship with the United States and sought to negotiate a higher price for its continued cooperation. Specific Honduran concerns include: (1) the potential danger of helping the United States train the troops of its traditional enemy, El Salvador; (2) the possibility that, in the absence of U.S. funding, the anti-Sandinista

guerrillas will turn to banditry in Honduras; and (3) the wisdom of antagonizing its neighbor, Nicaragua, by supporting the contras and other U.S. military activities in the region.

In its discussions with the United States, Honduran demands have centered on four areas: (1) increased aid, including parity with Salvadoran military aid levels, (2) written security guarantees, (3) U.S. pressure on El Salvador to settle its border dispute with Honduras, and (4) provision for removal of the contras to the United States if the movement is disbanded.

Some observers see these demands as a bluff by the Honduran government to obtain increased aid from the United States. They emphasize that the common interest of the United States and its Central American allies is to meet the threat posed by Nicaragua. They note that during a May 1985 visit to Washington, then-President Suazo reached accommodation with President Reagan that did not require additional U.S. commitments.

Others believe that the Honduran demands represent fundamental differences between U.S. and Honduran analyses of the situation in Central America. The nature of these differences has not been defined. Observers note, however, that despite substantial quantities of U.S. aid, the Honduran government has been very reluctant to acknowledge officially that the contras are based on and supplied through its territory and has refused to allow U.S. agencies to use its territory for combat training for the contra forces.

Some see the Honduran demands stemming from a perception that the United States is an unreliable ally due to Congress' unwillingness to follow the Administration's lead. They point, for example, to the fact that each year the United States provides significantly less in the way of economic and military aid than the Administration had promised. Fearing a possible U.S. retreat from the region, Honduras, according to this viewpoint, wants to be prepared for a variety of contingencies, including possible reconciliation with Nicaragua and war with El Salvador.

Others believe Honduras is torn by differing viewpoints. Some Hondurans, typified by former Army Chief General Alvarez, accept the U.S. security analysis and strongly endorse cooperation with the United States. Others Hondurans see El Salvador as the principal threat and wish to prepare for that possibility. Still others simply see the Nicaraguan and Salvadoran problems as a form of leverage to win foreign assistance from the United States.

4. What Should be the Goals of U.S. Economic Aid?

The United States has supplied Honduras with over \$525 million in economic aid since FY83, \$150 million of it in development aid and the rest in balance of payments (BOP) support. The relative balance between these two forms of economic aid is controversial. Critics say the current program puts too much stress on BOP issues and not enough on long-term development problems. Supporters reply that development aid is important, but substantial BOP aid is also needed in order to prevent a virtual collapse of the Honduran economy, with all the serious dislocations that would entail.

A second controversy has to do with the content of the development aid program. It currently puts substantial emphasis on strengthening the private sector, expanding productivity, and encouraging exports. Critics say there should be more stress on meeting basic needs and alleviating poverty. In the

agriculture area in particular, they say, the focus should be less on expanding output and non-traditional export crops and more on promoting domestic food production. Supporters say the program already contains a substantial poverty-alleviation component, and it is also important to help make the economy more productive. An over-emphasis on domestic food production would be an error, they argue, because the market for traditional crops is too small to support adequate producer incomes, while higher productivity and new export crops can generate higher incomes for the producer and the country as well.

A third controversy has to do the relative priority the United States should give to its political and its economic policy goals for Honduras. In its aid agreements with the United States, the Honduran government typically agrees to undertake a package of economic policy and administrative reforms prior to the disbursement of the U.S. aid. These changes are often difficult and politically painful, but they are also generally seen as necessary for economic stabilization and future growth. The U.S. General Accounting Office has pointed out that, in several instances, broad political and foreign policy considerations led the United States to disburse ESF aid funds to Honduras even though the country had failed to undertake key reforms. In its FY87 appropriations report, the House Appropriations Committee directed the Administration to develop specific guidelines and timetables for the implementation of its aid conditions for Honduras prior to the commitment of future funds.

The key issue is how the United States should balance its political and its economic policy goals in Honduras. Some people believe that pushing the Hondurans to make painful reforms may actually make their economic situation worse in the shortrun and thus undercut our broader political goals. They would argue for disbursement of the funds with few conditions, in order to stabilize a friendly government and encourage its cooperation on sensitive political issues. Others insist that implementation of the economic reforms is vital for health of the Honduran economic and political system, and that postponing them only worsens the situation.

CONGRESSIONAL ACTION

Authorizations -- FY86-FY87

House. On July 11, 1985, the House passed the FY86 foreign aid authorization bill, H.R. 1555, on a voice vote. H.R. 1555 had been reported from the Foreign Affairs Committee on Apr. 11 (H.Rept. 99-39). The committee had adopted most, but not all of recommendations made by its Western Hemisphere Subcommittee on Mar. 19. During floor debate, all of the committee's provisions affecting Honduras were left unaltered, although two new provisions that affected Honduras were added. After passage of H.R. 1555, the House inserted it as an amendment into the Senate foreign aid authorization bill, S. 960.

Senate. The Senate Foreign Relations Committee reported out its foreign aid authorization bill, S. 960, and its accompanying report, S.Rept. 98-34, on Apr. 19, 1985. The full Senate adopted the measure, 75 to 19, on May 15. No amendments to the Honduran provisions were adopted.

Conference. The conference report on S. 960, H.Rept. 99-237, was issued on July 29, 1985. It was adopted by voice vote in the Senate on July 30 and by the House on July 31 (262 to 161). Signed by the President, S. 960 became

P.L. 99-83 on Aug. 8, 1985. As signed into law, the bill's provisions relating to Honduras are essentially those of the bill passed by the House on July 11, although several of the House's provisions were not included.

The measure authorizes foreign assistance programs for both FY86 and FY87. Neither the conference report nor the law makes earmarks or other spending recommendations for Honduras. The President is thus free to allocate funds to Honduras as he sees fit (based upon the Administration's requests made in February 1985) given the global spending limits set by the bill for the various programs. The measure combines House and Senate prohibitions on military aid to the contras, barring funds authorized by the measure from supporting, directly or indirectly, paramilitary or military operations in Nicaragua and the formal or implied conditioning of U.S. aid or military sales on recipients or purchasers providing aid for such operations. The law tightens the restrictions contained in the House bill relating to aid to the Indian refugees in Honduras by stating that such aid can only be provided through private voluntary organizations. The law authorizes \$27 million for humanitarian aid to the "Nicaraguan democratic resistance." A House provision allowing the President to grant aid to Honduran police forces if progress is made in the elimination of human rights violations is also included in the text of P.L. 99-83.

Not included in the final law were House restrictions relating to the use of funds for the involuntary repatriation of Salvadoran refugees in Honduras and the reporting requirements for U.S. military exercises in Central America (although the conference report calls for information regarding such exercises to be "readily" provided to Congress).

Appropriation -- FY86

House. The House Appropriations Committee reported out the foreign aid appropriations bill, H.R. 3228, on Aug. 1, 1985 (H.Rept. 99-252). The measure contained no specific references to Honduras, but repeated language adopted in the FY85 continuing resolution (P.L. 98-473) that imposed a nonbinding ceiling of \$225 million on development aid to Central America. This was \$43.5 million less than the President had requested for the region.

When it became clear that Congress would not have time to complete action on all of the appropriations bill, H.R. 3228 was added to the FY86 Continuing Resolution, H.J.Res. 465. This new bill was reported to the House by the Appropriations Committee on Nov. 21 (H.Rept. 99-403). It passed the House on Dec. 4 (212 to 208).

Senate. The Senate Appropriations Committee reported out its foreign aid appropriations bill, S. 1816, on Oct. 31, 1985 (S.Rept. 99-167). The measure made no specific reference to Honduras, but it did contain several general provisions that could have affected aid levels to Honduras. The committee deferred action on the Administration's request for an FY86 supplemental to fund a Central American counterterrorism program pending congressional action on an authorization bill for the program.

S. 1816 came before the full Senate as an part of the Senate's version of H.J.Res. 465. reported without a written report on Dec. 5. It was passed by the full Senate on Dec. 10.

Conference. A conference report on H.J.Res. 465 was For example, one provision cut off U.S. assistance to any country whose duly elected head of government is overthrown by military coup or decree. The Senate committee

restated its opposition to any numerical ceiling on aid to Central America. filed on Dec. 16 (H.Rept. 99-443). This report was rejected by the House that same day (170 to 239), but the foreign aid appropriation was not the source of House dissatisfaction. A second conference report was filed on Dec. 19 (H.Rept. 99-450), the foreign aid provisions of which were identical to the report filed on Dec. 16. The House agreed to the new conference report on Dec. 19 (261 to 137), as did the Senate (in a voice vote). The measure was signed by the President on the same day, becoming P.L. 99-190.

The measure contains no specific references to Honduras, but does contain a nonbinding \$250 million ceiling on development assistance for Central America. It does not, however, contain any dollar amounts for individual countries in the region. The ceiling is \$18.6 million less than requested by the President. The Gramm-Rudman-Hollings Deficit Reduction Act (GRH) required additional cuts in total foreign aid spending, over and above the reductions made in the appropriations act. Technical provisions in the foreign aid appropriation gave the President considerable leeway, however, in apportioning the impact of the GRH cuts among the countries that did not have congressional earmarks.

The high priority of Central America with the Administration apparently protected the region from the most severe impacts of appropriation reductions and Gramm-Rudman-Hollings. In the case of development assistance, for example, Congress had imposed a nonbinding ceiling of \$250 million for aid to Central America. Gramm-Rudman-Hollings reduced this ceiling by 4.3%, to \$239.25 million. The President allocated a total of \$243.0 million. In the end, the general shortage of foreign aid funds for countries that had no earmarks was the more important factor than the GRH law in determining the level of aid in this part of the world.

Notwithstanding the general high priority of Central America, the February 1986 allocation of foreign aid made by the Administration gave Honduras less aid in a number of important categories than was originally requested. In some cases, these cuts contrasted with increases given to other Central American countries. The Administration allocated \$59.7 million for military aid, compared to a request of \$88.2 million. (This cut has been largely offset by the granting of \$20 million of emergency military aid to Honduras in late March 1986.) A sharp cut was also made in the level of ESF, \$61.2 million allocated compared to a \$80.0 million requested. Honduras held its own on development assistance, however -- \$43.2 million was allocated for FY86 compared to a request of \$45 million. Food aid also only took a small cut -- \$18.3 allocated compared to \$18.5 requested.

Appropriation -- FY87

House. On Aug. 5, 1986, the House Appropriations Committee reported the bill H.R. 5339 (H.Rept. 99-747) making foreign assistance appropriations for FY87. The committee took no action as regards a specific appropriation figure for Honduras in FY87. The size and the terms of the bill were such, however, as to almost certainly require reductions in the levels of U.S. aid to Honduras and most other aid recipient countries. The Administration had requested \$15.5 billion for the overall U.S. foreign aid program, but the House committee recommended the appropriation of only \$12.99 billion. This was the maximum sum allowable under terms of the FY87 congressional budget resolution. Because the aid levels for Israel, Egypt, Pakistan, and Northern Ireland were protected in the bill at or above the President's request levels, the burden of the cuts were to fall on the non-protected countries. This meant that, while total funding for the bill would be 16% less than the

President's request, the non-earmarked countries would receive only 57% of the amount requested if the cuts were allocated on an across-the-board basis. In certain programs, the cuts would be even deeper. For the ESF program, the non-protected countries would get only 49% of the recommended amount. This would be particularly serious in the case of Honduras, and the other Central American countries, as ESF aid comprised a substantial portion of the proposed FY87 U.S. aid package.

The House Committee expressed regret that the Honduran government had not made sufficient effort to implement the economic reforms agreed to in conjunction with U.S. aid programs. It requested that, prior to the obligation of any FY87 funds, a report be provided to the committee showing the intended reforms and the associated timetables for release of the U.S. aid funds. Regarding military and security aid, the committee directed MAP not to reimburse the U.S. Defense Department for the \$20 million in defense articles allocated to Honduras after a reported Nicaraguan incursion in March 1986. The House panel also required that the appropriations committees, not just the authorizing committees, must be notified in advance if any money were spent for police training in Honduras or El Salvador.

As a general provision, the committee also specified that all countries receiving more than \$5 million in U.S. aid should establish separate accounts in their central banks for those funds, so as to preserve accountability by not comingling them with any other funds.

Senate. On Sept. 16, 1986, the Senate Appropriations Committee reported S. 2824, its version of the FY87 foreign aid appropriations legislation. The Senate bill was the same as the House measure in terms of its overall funding level (\$12.99 billion), though because its list of countries protected from cuts through earmarks was a bit shorter the size of the cuts required for non-protected countries was a little less than in the House bill. The Senate bill made no specific references to Honduras, but it did require establishment of separate accounts for all countries (like Honduras) receiving more than \$5 million in ESF aid.

Conference. Neither the House nor the Senate took action to consider the separate bills reported by their appropriations panels. Instead, FY87 appropriations for foreign assistance were included in H.J.Res. 738, the omnibus FY87 continuing resolution. The conference report (H.Rept 99-1005) was filed in the House and approved on Oct. 15. The Senate agreed to the conference report on Oct. 17, 1986. The measure was signed into law the next day (P.L. 99-500).

The funding levels specified in the final FY87 appropriations act will probably necessitate reductions in the appropriations for the ESF, where Congress provided \$3.55 billion of the \$4.08 billion requested by the Administration. Some \$2.83 billion of the \$3.55 billion was earmarked for specific countries, however, at levels equal to or greater than the funding level of the President's original request. Consequently, the burden of the cut in the overall ESF appropriation was to be borne by all the countries whose FY87 programs are not protected in the bill. After the earmarks in the authorization and appropriation acts are subtracted, the Administration has \$765 million in undesignated money in the ESF account. (This excludes any implied earmarks for cases where the law says that "up to" a certain amount may be spent for a certain activity.) From this amount, the Administration must finance its FY87 ESF program for all countries not covered by earmarks. The planned program for these countries totalled approximately \$1.53 billion. If the reduction in ESF aid for FY87 were allocated across the board, with no

indications of priority, each country would get about 49% of the amount originally requested.

In its original form, adopted by the House and Senate earlier in the year, H.R. 5052 proposed that the Central American countries should receive an extra \$300 million in ESF aid. The final FY87 appropriation does not provide those extra funds. (For a broader discussion of this issue, see IB84075, Central America and U.S. Foreign Assistance: Issues for Congress.)

Allocating FY87 Aid for Honduras. On Dec. 15, 1986, the Department of State notified Congress, in a report required by Sec. 653 of the Foreign Assistance Act, that it had allocated the FY87 aid appropriation money. According to the report, Honduras is to receive \$173 million, down from the \$253 million the Administration had originally requested. Some \$71.4 million of the FY87 allocation was for ESF aid, \$40.4 million for AID development assistance, \$60 million for Military Assistance Program aid, and \$1.2 million for IMET assistance. The Sec. 653 report was delivered nearly a month later than the date required by law. Reports indicate that the executive branch had great difficulty deciding how the shortfalls in FY87 aid were to be allocated.

Supplemental FY87 Aid. In February 1987, the Administration sent a request for supplemental FY87 appropriations to Congress. Among its requests were \$65 million in additional ESF aid and \$17.5 million in additional military grant aid for Honduras. The additional ESF aid was to provide Honduras with the funds it would have received from the \$300 million in "extra" FY87 aid if it had eventuated. On Mar. 13, 1987, the Foreign Operations subcommittee of the House Appropriations Committee approved the Administration's FY87 supplemental aid request for Central America. In the process, it reduced Honduras' designated share of the ESF money to \$55 million and provided no funds for supplementary military aid.

Appropriations -- FY88

In February 1988, the Administration also sent to Congress its regular budget request for foreign aid. The request provided that Honduras should receive a total of \$240.4 million in U.S. aid in FY88, most of it ESF balance of payments supports or military aid. The details of the Administration request are shown in the table at the beginning of this report.