

Issue Brief

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COSTA RICA: U.S. FOREIGN ASSISTANCE FACTS

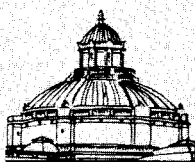
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ISSUE DEFINITION

Costa Rica is the only country in Central America with a longstanding tradition of both democracy and respect for human rights. This distinctive characteristic is a key theme in the current debate on U.S. assistance to Costa Rica, as U.S. policymakers determine how the United States can best help Costa Rica preserve its democratic heritage. This question has become increasingly important in recent years in light of the military buildup in neighboring Nicaragua and the growing tensions between the two countries. This issue brief provides basic information on the U.S. aid program and on the general situation in Costa Rica. It is one in a series on U.S. assistance to key countries. For a broad overview of U.S. aid to Central America, see IB 84075, Central America and U.S. Foreign Assistance: Issues for Congress.

BACKGROUND AND POLICY ANALYSIS

This section has four parts:

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

COUNTRY DATA

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

Population ('85): 2.66 million
Population growth rate ('85): 2.6%
GDP ('83): \$3.3 billion
Per capita GDP ('83): \$1,308
Annual per capita GNP growth rate/long term ('65-'83): 2.1%
Annual GDP growth rate/short term ('85): 5.5%
Annual inflation rate ('73-'83): 23.2%
Unemployment rate ('84): 6.7%
Avg. life expectancy ('85): 74.1 years
International debt ('82): \$2.475 billion
Debt service charges as a % of export earnings ('84): 53.2%
(Debt service ratio for all developing countries in 1983 was 19.0%)
Avg. per capita growth rate of agricultural production ('75-'84): 0.0%
Proportion of the labor force in agriculture ('82): 32.6%
Major crops: bananas, coffee, rice, corn, beans, beef
Major exports and value ('84 est.): coffee, bananas, beef and veal/\$900 million
Major imports and value ('84 est.): manufactures, machinery, transport equipment/\$900 million.

<u>U.S. FOREIGN ASSISTANCE DATA</u> (millions \$)						<u>a/</u>
	FY83	FY84	FY85	FY86	FY87 (est)	FY88 (req)
Development						
Aid	27.5	15.5	20.5	10.9	12.8	12.9
(Loans)	(20.2)	(12.4)	(10.7)	(6.3)	(5.0)	(6.9)
(Grants)	(7.0)	(3.1)	(9.8)	(4.7)	(7.8)	(6.1)
Other Economic						
Aid	1.7	1.9	3.4	2.6	2.8	2.9
(Loans)	-	-	-	-	-	-
(Grants)	(1.7)	(1.9)	(2.9)	(2.6)	(2.8)	(2.9)
Food	28.2	22.5	21.4	16.2	16.2	15.2
(Loans)	(0.2)	-	-	-	(0.2)	(0.2)
(Grants)	(1.1)	(0.2)	-	-	-	-
ESF	157.0	130.0	160.0	120.6	87.7	90.0
(Loans)	(118.0)	(35.0)	-	-	-	-
(Grants)	(39.0)	(95.0)	(160.0)	(120.6)	(87.7) <u>b/</u>	(90.0)
Military						
Aid	4.6	9.1	13.2	2.6	1.7	2.5
(Loans)	-	-	-	-	-	-
(Grants)	(4.6)	(9.1)	(13.2)	(2.6)	(1.7)	(2.5)
TOTAL	218.7	179.0	218.0	153.2	121.2	123.5
(Loans)	(166.2)	(69.9)	(32.1)	(22.5)	(21.0)	(21.9)
(Grants)	(52.5)	(109.1)	(185.9)	(130.7)	(1.2) <u>b/</u>	(101.6)

Total U.S. aid FY46-86: \$1,244.8 million (current \$)

Costa Rica's rank among U.S. aid recipients: FY87 - 14th
FY86 - 14th

<u>OTHER AID DONORS</u>	1982	1983	1984	1985
Int'l Agencies	29.8	124.4	35.8	155.3
Western Countries	17.7	19.5	n/a	n/a
OPEC Countries	-	-	n/a	n/a
Communist Countries	-	-	n/a	n/a

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.

b/ An additional \$40 million in supplemental FY87 ESF has also been requested.

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

The three main objectives of the U.S. foreign aid program to Costa Rica are economic stabilization, restoration of rapid and sustained economic growth, and preservation of Costa Rican democracy. The realization of these objectives is made difficult by the persistence of many of the factors which undermined economic growth in the 1970s following years of steady progress. These include unfavorable terms of trade, high per capita foreign debt, and regional tensions and violence that have disrupted regional trade. Additionally, these objectives could become more difficult to achieve if Nicaraguan efforts to defeat the so-called "contra" insurgency (part of which

operates along the Nicaraguan-Costa Rican border) should drag Costa Rica into a conflict with its neighbor, or if Nicaragua should in some manner attempt to "export its revolution" to Costa Rica.

Human rights conditions have not been a factor in U.S. aid to Costa Rica. The country's long tradition of democratic rule was consolidated in the so-called "Revolution of 1948," that ousted a president seeking to perpetuate his rule through dishonest electoral practices. Under the constitution adopted in the wake of that revolution, Costa Rica has seen regular, democratic changes of government through open elections. The political system is dominated by two centrist parties, the ruling National Liberation Party, which led the 1948 Revolution, and the more conservative United Social Christian Party, which evolved from the party of the president ousted in 1948. Leftist parties participate freely in Costa Rican politics and held 4 of the 57 seats in the previous Legislative Assembly. In the 1986 elections, the left split, lost some of its traditional seats, and emerged with but one seat in the new national legislature. Costa Rica presidents are barred from successive terms, and the electorate has tended to alternate the presidency between the two major parties. Thus the victory of the PLN candidate, Oscar Arias, in the February 1986 election was unusual since the current president, Luis Alberto Monge, is also from the PLN. Arias was inaugurated on May 8, 1986.

Economic Support Fund (ESF): Between FY82 and FY86, Costa Rica received almost \$588 million in ESF aid, the largest allocation per capita after Israel. The volume of ESF aid has expanded rapidly since its initiation in 1982, and its composition has changed from a loan-dominated mix to pure grants in FY85. The program is intended to aid Costa Rica's economic recovery through balance of payments support. The program makes monies available for the importation of machinery, raw materials, and spare parts needed to restore production and increase employment. The Administration requested \$150 million for the FY87 ESF program.

An additional \$113 million in balance of payments support was provided between FY82 and FY86 through Title I of P.L. 480, the program that provides low cost loans to facilitate imports of essential food and feed grains. The Administration requested an additional \$18 million for this program in FY87.

These programs are a response to the severe economic problems Costa Rica has experienced over the last 10 years. Despite chronic balance of payments deficits, the Costa Rican economy performed well from the early 1950s through the early 1970s. By the mid-1970s, however, Costa Rica was caught between rising prices for its principal imports (oil and manufactures) and declining prices for its exports (agricultural commodities, especially coffee. The country's economic situation deteriorated. The Costa Rican government tried to use stimulative economic policies to fight the downturn and to counter unemployment, and it borrowed heavily abroad to fill the growing balance of payments gap. These steps helped postpone the need for adjustment. Meanwhile, though, the country's foreign debt ballooned to \$4 billion -- the second largest per capita, after Israel, in the world) and inflation grew. The full effect of the economic crisis was felt between 1980 and 1982, when the economy shrank by more than 10% -- back to the 1977 level in absolute terms -- and real wages fell by over 40%. The Monge government, which took power in 1982, took steps to deal with the economic crisis. It negotiated a balance of payments loan from the IMF in 1982 and in 1983 it succeeded in rescheduling its debts overdue to official and commercial lenders. Devaluation of the national currency helped ease the balance of payments problem, and the United States commenced a major program of economic aid

aimed at supporting a major program of change in the structure of the Costa Rican economy. The economy began to turn around in 1983, and in 1984 GDP grew an estimated 7.5%. In addition to the increased levels of external aid, this new growth was attributed to strong internal demand, good weather for agriculture, and government investment in infrastructure projects that boosted the construction industry. GDP growth in 1985 was slower (1.6%) but that rate is expected to double in 1986. Costa Rica began negotiations with the IMF in 1984 about a possible economic adjustment loan, but was unable to reach final agreement on the terms. It sought to remain in compliance, however, with the economic targets agreed to in the draft plan. In March 1985, formal agreement was finally reached with the IMF for a loan of SDR 54 million. The same month, the World Bank agreed to also provide Costa Rica a \$80 million structural adjustment loan. Costa Rica agreed, in connection with the IMF and World Bank loans, to undertake a major program of economic reforms designed to make its national economy more productive and more responsive to international market conditions.

Development Assistance: The size of the development assistance program has varied widely in recent years, as has the mix between grants and loans. The main program for FY86 was a \$5 million loan to provide credit to the private industrial sector for modernizing plants and improving productivity and competitiveness in world markets. The Administration also sought smaller amounts in support of agriculture, health, population, and education programs. The \$16 million requested for development aid in FY87 was slightly more than the level of aid programed in FY86. In addition to these development aid programs, the United States manages a substantial program in local currency, using funds generated in connection with the ESF program and owned technically by the Costa Rican government. In terms of its economic effects, the program funded with local currency is several times larger -- and some argue that in many ways it is more central to the country's key economic policy problems -- than the development program financed in dollars with regular appropriated funds.

Military Aid: The U.S. military aid program to Costa Rica is modest by any measure, reflecting the country's policy of unarmed neutrality. The Costa Rican Armed Forces were disbanded in 1949 to ensure that they would not be used to unseat the regime established the previous year. Two police bodies, the Civil Guard and the Rural Guard, share responsibility for external security, but the country relies principally on international treaties (in particular, the Inter-American Defense Treaty, the so-called Rio Treaty) to deter potential aggressors.

Until recent years, public opinion in Costa Rica clearly favored keeping the Civil and Rural Guards minimally equipped and trained. This was done to ensure that the forces became neither the praetorian guard of an aspiring dictator (as in the case of the Nicaraguan National Guard under the Somoza family) nor a full-fledged military with its own political aspirations (as in the case of the Panamanian National Police). In response to the recent perceived threat from Nicaragua, however, there is growing public support among Costa Ricans for upgrading the Civil and Rural Guards, but not for the reinstitution of an army as such.

To emphasize his country's peaceful intentions towards its neighbors, former President Monge unsuccessfully sought legislative approval for a constitutional amendment codifying Costa Rica's traditional policy of neutrality. He did, however, issue a presidential decree in November 1983, proclaiming the country's "perpetual, active, and unarmed neutrality." Despite the arguments among Costa Ricans over the need for legally enshrining

a policy of neutrality, neutrality has been a guiding force behind Costa Rica's foreign policy. Nevertheless, Costa Rica has sometimes been deeply involved in efforts to oust dictatorships in the Caribbean region. This involvement included official support for the Sandinista rebels against the Somoza dynasty in Nicaragua. Many analysts say that, without their Costa Rican bases, the anti-Somoza forces might not have succeeded.

Developments in Nicaragua after the Sandinista revolution, however, have caused most Costa Ricans to sour on the new regime. In addition, the Costa Ricans have been disturbed by the growing cost of providing for increased numbers of Central American refugees (Former President Monge estimated the number in 1985 at 200,000, mostly from Nicaragua) and the negative effects of the regional struggle on their international investment and trade situation. There is now popular support for the so-called Nicaraguan "contras" seeking to topple the Sandinista regime, especially for the faction previously led by Eden Pastora, which operates from Costa Rican territory. Officially, however, the government extends no support to the contras, and has attempted to stop the use of its territory as a base of operations for the contras. Costa Rica lacks the ability (and perhaps the desire), though, to effectively oust the contras from the jungle border with Nicaragua.

Relations between Costa Rica and Nicaragua reached a new low following an alleged attack by the Sandinista army on May 31, 1985, against a detachment of Costa Rican civil guardsmen. The incident, which left two Costa Ricans dead and nine others injured, inflamed public opinion in Costa Rica. The diplomatic rupture caused by this incident was not resolved until late February 1986, when Nicaragua issued a statement regretting the incident. In early 1986, Costa Rica and Nicaragua took further steps to diminish the tension between them. Following the inauguration of President Arias, the two countries signed a treaty which called for greater supervision of their mutual boarder and restrictions on cross-border movements.

Prior to 1982, Costa Rica's participation in U.S. military aid program was limited to a small amount of cash sales under the FMS program. In 1982, however, Costa Rica began to receive modest amounts of grants under the MAP and IMET programs. The level of aid grew from \$2.1 million in FY82 to an estimated \$13.2 million in FY85. The Administration allocated only \$2.5 million in FY86 and requested only \$3.4 million for FY87, however, for miliatry aid to Costa Rica.

The programs are designed to enable the Civil and Rural Guards to secure the country's borders, which have been violated by Sandinista troops and surveillance aircraft pursuing anti-Sandinista rebels operating from Costa Rican territory, and to counter a perceived threat of external subversion resulting from some terrorist incidents and arms smuggling by Nicaraguans inside Costa Rica. The programs include the purchase of ammunition, light arms, spare parts for previously acquired equipment (such as small observation aircraft), and training.

Training programs were a highly visible component of the military aid provided in 1985. Early in the year, 45 Costa Rican guardsmen were trained in counter-insurgency techniques at the U.S.-operated Regional Military Training Center in Honduras. In May 1985, approximately 24 U.S. military advisers were sent to Costa Rica to assist these 45 guardsmen in training some 750 more Costa Ricans as a "rapid reaction" battalion.

A program in which uniformed U.S. military engineers would assist in road building and development projects in northern Costa Rica near the Nicaraguan

border was dropped in 1984 at Costa Rican request due to adverse publicity over the idea of a U.S. military presence in Costa Rica. Although not strictly intended to be a military assistance program, the proposed projects were seen as helping integrate the isolated border area with the rest of Costa Rican national territory and as facilitating military access to the region.

In 1974, Congress passed an agreement to the 1961 Foreign Assistance Act (Sec. 660; P.L. 87-195) barring U.S. aid to foreign police forces and law enforcement agencies. While this would have appeared to preclude military aid to Costa Rica because it has no army, Congress repeatedly approved modest amounts of military aid for Costa Rica, apparently accepting the Administration's rationale that the law permits aid to those segments of a police force responsible for national defense. Nevertheless, the Administration sought a firmer legal basis, and in the FY86 Foreign Aid Authorization Act (P.L. 99-83/S. 960), Congress lifted the ban on aid to police forces for countries like Costa Rica that respect human rights and have no standing army.

KEY ISSUES

(1) Is U.S. Military Aid Militarizing Costa Rica?

Since 1948, Costa Rica has pursued a policy of unarmed neutrality, relying on international guarantees rather than military force for its external security. In abolishing its national military, it seemed to be acting on a perception -- learned from the lesson of its immediate neighbors -- that a military force can be as great a threat to domestic liberty as it is a protection against external attack.

Some argue that, in its eagerness to strengthen Costa Rica and to confront the Sandinista regime in Nicaragua, the United States is creating a military force which may ultimately subvert the Costa Rican democratic system. As noted in the background discussion, the Reagan Administration has supplied Costa Rica with several million dollars in military aid. This has helped strengthened the Costa Rican civil guard and rural guard as institutions as well as giving them more resources with which to operate. The United States has also invited Costa Rica to observe U.S. military exercises in Honduras and to attend regional military meetings. The Costa Rican authorities have declined these invitations, but they have allowed their forces to receive training at the Regional Military Training Center in Honduras before the center was closed in 1985.

Even though the current level of U.S. military aid to Costa Rica is comparatively low, Presidents Monge and Arias have encountered vocal opposition to the counter-insurgency training that U.S. advisers are providing to Costa Rican guardsmen at a camp near the Nicaraguan border. Critics quote Jean Kilpatrick, former U.S. ambassador to the United Nations, as saying in 1981 that Costa Rica would have to create an army if it wanted to get U.S. economic aid. In effect, they say, that is what occurred. They note that the national police forces now have military uniforms and military equipment, they are led by a corp of professional officers, and they have been trained in military skills. In all but name, the critics say, they have become a military organization. The critics also contend that the United States has helped foster and arm several unofficial paramilitary groups in the country. Critics fear that the combination of a professional military,

with its own agenda, and private military forces could have a destructive effect on Costa Rican democracy.

Supporters of Administration policy towards Costa Rica, however, answer that the modest scale of the program would tend to preclude the militarization of Costa Rican society and politics. They argue that Costa Rica's civilian institutions and its democratic traditions are strong enough to contain any authoritarian tendencies which might germinate in the military and they say the fears about paramilitary groups are overdrawn. stress that the international guarantees (such as the Rio Treaty) relied on by Costa Rica for its external defense are only effective against direct external attack and offer little protection against subversion directed or financed by external forces. Despite the military buildup in Nicaragua since the 1979 Sandinista Revolution and tension between Nicaragua and Costa Rica over border incursions by Sandinista troops and surveillance aircraft, most observers, including the Administration, do not believe an Nicaraguan invasion of Costa Rica is very likely. Costa Rica's forces are too small, in any case, even with more U.S. aid, to repulse a full-scale Nicaraguan invasion. Many suggest, though, that Costa Rica may be vulnerable to terrorism, arms smuggling, and other forms of subversion. The Rural and Civil Guards must be adequately trained and equipped, they say, to deal with these possible threats. Former President Monge has denied that the United States imposed any conditions, in its economic aid program, requiring the expansion or militarization of Costa Rica's security forces.

(2) Should the U.S. Require a Stronger Costa Rican Stance on Nicaragua as a Condition for Economic Aid?

Costa Rica has sought to thread a careful path around the Nicaraguan issue, in order to avoid being embroiled in armed conflict. Officially, the Costa Rican government prohibits the "contras" from using its territory as a base for military attacks into Nicaragua, though it does permit the "contras" to maintain non-military offices and to receive medical care in the country. The Costa Ricans deny that any "contra" fighters are based in or supplied through their territory. Persistent reports indicate, however, that "contras" are based in Costa Rica and that they do receive equipment through Costa Rican airports and other facilities. Some reports also say that the Costa Rican civil guard has supplied "contra" fighters with arms, intelligence, and tactical advice on several occasions. The number of Nicaraguan "contras" on the Costa Rican frontier is relatively small, but many analysts believe their activities are important in stopping the Sandinista from focusing all their resources on the larger "contra" force on the Honduran frontier.

Having defeated an opponent in the February election who advocated a tougher line on the Nicaraguan Sandinista, President Arias has moved to reassert the Costa Rican policy of neutrality. The border agreement signed by the governments of Costa Rica and Nicaragua, in early 1986, calls for the establishment of a commission to supervise their common border. Arias has announced an intent to strengthen Costa Rica's border patrol, to crack down on cross border movements by "contra" fighters, to tighten government control of Costa Rican airfields, and to increase security in the country's northern zone. Arias has criticized the U.S. policy of exerting military pressure on the Sandinistas, in particular the proposal for \$100 million in U.S. military aid to the "contra" forces. On the other hand, he has also worked within the Contadora process to pressure the Sandinistas towards more freedom and towards adoption of a definite timetable for democratic reform. (For a

further review of the Contadora process, see IB85109: The Contadora Initiative: Implications for Congress.) He has also called on the Sandinistas to talk with its armed opponents.

Some people argue that the United States should make its economic aid to Costa Rica more contingent on that country's cooperation in pressuring the Sandinista regime. They suggest, for example, that Costa Rica might relax its border patrols and its supervision of private airfields, through which the "contras" can obtain reinforcements and supplies. In addition, they say the Costa Ricans should retract their criticism of the \$100 million aid program for the "contras" and it should give more open diplomatic support to U.S. policy in the region.

Others argue that such pressure on Costa Rica would be self-defeating. More pressure might cause the Costa Ricans to distance themselves even further from U.S. policy on Nicaragua. The Costa Ricans are not strong enough, they say, to confront the Nicaraguans directly. Furthermore, Costa Rica has to be careful about appearances, as Nicaragua is already suing it (and Honduras) in the World Court protesting its alleged support for the "contras" and interference in Nicaraguan internal affairs. As a practical matter, they add, Costa Rica's border restriction have not seriously encumbered "contra" operations. Less supervision of private airfields might help the drug traffickers, who use Costa Rica as a way station for their cocaine shipments north, more than it would help the "contras." In any case, they argue, Costa Rica is valuable to the United States on its own terms and not simply as a base for "contra" activities. The U.S. aid program seeks to strengthen the country and to make it a example within the region for democracy and individual freedom and the success of free enterprise economic policies. This, they maintain, should be the main focus of the U.S. economic aid program in the country.

(3) What Should Be the Prime Focus of U.S. Aid Policy in Costa Rica?

The United States has often commended Costa Rica for its long tradition of democratic government and respect for individual liberties and suggested that this route -- rather than the more repressive routes taken by Nicaragua or some of the military dictatorships -- is one the regional countries might emulate in their own political development.

Costa Rica has been experiencing very serious economic strains in the past few years, and many analysts suggest that without substantial U.S. economic aid the country might have experiences a crushing economic crisis that could have had a devastating effect on its democratic system. As noted earlier in this issue brief, U.S. aid focuses primarily on providing balance of payments aid and on encouraging the Costa Ricans to adopt policies that strengthen the private sector, improve productivity and economic management, and facilitate public divestiture of money-losing state firms. Together with the World Bank and the International Monetary Fund, the U.S. aid program has promoted reform of the country's economic policies and institutions and adjustment of the basic structure of its national economy.

The question is how one can keep Costa Rica a functioning open democratic system while simultaneously subsidizing its operations and pushing for major changes in its domestic economic affairs. Many believe there are fundamental contradictions in the thrust of U.S. policy. From one point of view, people question whether the United States can afford to subsidize many more such democratic successes around the world. They say Costa Rica should put itself

on a self-supporting basis as quickly as possible. They also suggest that the massive recent infusions of U.S. aid have so cushioned the adjustment process that they have actually slowed the pace of social and economic reform. Costa Rica's basic democratic framework is strong enough, they say, to withstand the strain if the subsidies were ended and the country had to undertake prompt reforms in its national economy. Costa Rica should be treated as a sovereign country -- if it will not undertake vitally needed reforms without a subsidy, they say, we should not provide the money and they should learn to take the consequences of their inaction.

From a very different point of view, other people point to what they consider another contradiction in U.S. policy. Costa Rica has worked hard over the past 40 years, they say, to institute a broad based system of public benefits (a "welfare state") which promotes broad participation and public support and undergirds the democratic system. In pushing for structural adjustments that prune back or eliminate many of these public benefits, they say, the United States and the international agencies are working (perhaps unwittingly) undercut the structural supports -- the social compact -- that underlies the democratic system. Furthermore, they argue, these systems of public benefits are popular with the Costa Rican electorate. How can one be promoting democracy, they ask, if one is working in direct opposition to the public will? On the whole, the people who make these arguments believe the United States and the international agencies should assure the Costa Ricans their long-term economic support and work for the adoption of economic policies which meet the basic economic problems without fundamentally disrupting the national system.

These two criticisms are rejected by the Administration, the international agencies, and other supporters of the current foreign assistance program for Costa Rica. On the one hand, they say, one cannot be cavalier in pushing for too rapid change -- the economic effects of a rapid withdrawal of aid may be catastrophic and the political ramifications for the country and the region might be very serious. From the narrow point of view of U.S. interests, they say, it would be unwise to run those risks. On the other hand, they maintain, the United States and the international agencies cannot be put in the situation of merely subsidizing the Costa Rican welfare state. Most Costa Rican political leaders know their country needs major changes in its economic policies and institutions, they argue, even if they are unable to discuss the issue frankly because of domestic political constraints. Support for Costa Rican democracy means support for those policies which make it socially and economically viable over the long term, they say, not merely support for the public's current preferences. Costa Rica needs to move to a position where its national economic system is self-supporting, and this requires basic reform. The foreign aid donors should work with the country's leaders to map an effective route to implement those reforms, they argue, even if this goes contrary to tradition or current public opinion.

CONGRESSIONAL ACTION

Authorization -- FY86 and FY87

House. The foreign aid authorization bill reported by the Foreign Affairs Committee (H.R. 1555) and accompanying report (H.Rept. 98-39) recommended the full \$150 million requested by the President for the ESF program in Costa Rica. No specific recommendation was made for development assistance or military aid, although the Western Hemisphere Subcommittee recommended \$13.9 million for development assistance and \$2.7 million for military aid. The

committee bill included the President's request to permit exceptions to the general ban on U.S. aid to police forces. The House passed H.R. 1555 on July 11, 1985, and then inserted it as an amendment into the Senate foreign aid authorization bill, S. 960.

Senate. The foreign aid authorization bill reported by the Senate Foreign Relations Committee (S. 960) and accompanying report (S.Rept. 98-34) made no specific recommendations for aid levels to Costa Rica or Central America, although it did set worldwide program authorization levels covering that aid. The Senate bill did not include a repeal of the ban on aid to police forces. The full Senate adopted S. 960, 75 to 19, on May 15, 1985. No amendments affecting Costa Rica 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. Neither the conference report nor the law makes earmarks or other spending recommendations for Costa Rica. The President is thus free to allocate funds to Costa Rica as he sees fit (based upon the Administration's requests and presentation made in February 1985) given the global spending limits set by the bill for the various programs. The measure authorizes U.S. assistance to foreign police forces in countries with good human rights records and no standing army, such as Costa Rica.

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 Costa Rica, 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 recommended ceiling was \$43.6 million less than the President had requested for Central America.

When it became clear that Congress would not have time to complete action on all of the appropriations bills, 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). As reported by the committee and adopted by the House, this bill was identical to H.R. 3228 with regard to its provisions affecting Costa Rica.

Senate. The Senate Appropriations Committee reported out its foreign aid appropriations bill, S. 1816, on Oct. 31, 1985 (S.Rept. 99-167). The bill and report contained several direct references to Costa Rica, as well as some general provisions that affected Costa Rica. The bill earmarked not less than \$1.2 million to support a scholarship program at the National University, a California-based school with a campus in San Jose, Costa Rica. The bill also earmarked not less than \$7.4 million for the establishment of a land use management system in Costa Rica. In the report, the committee also stated its opposition to a renewal of the \$225-million ceiling on development assistance to Central America. The committee deferred action on the Administration's request for an FY86 supplemental to fund a Central American counterterrorism program pending congressional action on authorization bill for the program.

S. 1816 came before the full Senate as a part of the Senate's version of H.J.Res. 4465, 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 filed on Dec. 16 (H.Rept. 99-443). This report was rejected by the House that same day 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 (by a voice vote). The measure was signed by the President on the same day, becoming P.L. 99-190.

The measure makes only one specific reference to Costa Rica, indicating that up to \$1.2 million of the funds appropriated under AID's select development projects account of development assistance may be used to establish a land use management system in Costa Rica, if requested by the government of Costa Rica. The conference report calls attention to the scholarship program of the California-based National University at its Costa Rican campus and states that it deserves to be considered for funding by AID. The measure itself, however, contains no earmark or other mention of this program. Finally, the act contains a nonbinding \$250-million ceiling on development assistance for Central America, but does not contain any dollar amounts for individual countries in the region. The ceiling was \$18.6 million less than requested by the President.

Administration Allocations and Gramm-Rudman-Hollings Reductions

In allocating U.S. assistance for FY86, the Administration had to balance its priorities against the constraints of foreign aid appropriations that totaled less than overall requests, legislative earmarks that directed a significant portion of U.S. foreign aid to countries that enjoy strong congressional support (e.g., Israel and Egypt) and international agreements that link U.S. assistance to base rights (e.g. Turkey and the Philippines). The Gramm-Rudman-Hollings deficit reduction act (GRH) required additional cuts in total foreign aid spending, but technical provisions in the foreign aid appropriation gave the President considerable leeway in apportioning the impact of the GRH cuts among the countries that did not have congressional earmarks.

The high priority of Central America, including Costa Rica, with the Administration apparently protected the Central American countries 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, but the President, apparently intending to exercise his prerogatives through the regular notification process, allocated a total of \$243.0 million (compared to his original request of \$268.5 million). In the end, the general shortage of foreign aid funds rather than Gramm-Rudman-Hollings was the more important factor 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 gives Costa Rica less aid in a number of important categories than was originally requested. In some cases, these cuts contrast with increases given to other Central American countries. Development assistance was set at \$10.9 million

(\$14.4 million requested) and ESF at \$120.6 million (\$150 million requested). Food aid, however, is being fully funded at \$23 million, and military aid took only a small cut -- \$2.6 million allocated compared to \$2.7 million 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 Costa Rica 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 Costa Rica 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 several countries 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. For the ESF program, especially, the effects of the cuts and earmarkings were potentially quite serious. In the case of Costa Rica, and the other Central American countries, ESF aid comprised a substantial portion of the proposed FY87 U.S. aid package. The committee made no specific references to Costa Rica in its report. As a general provision, though, it 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 slightly larger than the House bill (\$13.51 billion) and it provided somewhat more for bilateral economic aid. Its list of countries protected from cuts through earmarks was a bit shorter. The Senate bill made no specific references to Costa Rica, but it did require establishment of separate accounts for all countries (like Costa Rica) 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 level specified in the final FY87 appropriations act will probably necessitate reductions in the amounts of U.S. aid for Costa Rica. Congress trimmed the overall appropriation for AID regular development aid by 9%, but specified that Central America must receive the same share (27%) it got in FY86. Congress made cut the overall appropriation for MAP aid more deeply (by 14%), but it attached no limits or earmarks on the allocation of that aid.

The most significant cut, for the Central American program, came 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 are subtracted, the Administration has \$765 million in undesignated money in the ESF account. (This excludes 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 \$1.53 billion, including \$656 million for Central America (\$150 million of it for Costa Rica), \$211 million for other countries (besides Portugal and the Philippines) where the United States has military bases or base access, and \$753 million for all other countries (including Africa.) If the reduction in ESF aid for FY87 is allocated across the board, with no indications of priority, each country would get about 49% of the amount originally requested. If the base rights countries are given priority, Central America and the other regions would get about 41% of the original FY87 ESF request.

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 act specifies that the Central American democracies should get \$300 million, but it does not provide any extra funds. (For a further discussion of this, see IB84075, Central America and U.S. Foreign Assistance: Issues for Congress.)

Allocating FY87 Aid for Costa Rica. 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, Costa Rica is to receive \$102.4 million, down from the \$190.5 million the Administration had originally requested. Some \$87.72 million of the FY87 allocation was for ESF aid, \$12.9 million for AID development assistance, \$1.5 million for Military Assistance Program aid, and \$0.23 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 was \$40 million in additional ESF aid for Costa Rica. This was to provide the funds Costa Rica 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 raised Costa Rica's designated share to \$64 million.

Appropriation -- FY88

In February 1987, the Administration also sent to Congress its regular budget request for foreign aid. The request provided that Costa Rica should receive a total of \$123.5 million in U.S. aid in FY88, most of it in the form of ESF balance of payments aid. The details of the Administration request are shown in the table at the beginning of this report.