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Central America: Reconstruction After Hurricane Mitch

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ABSTRACT

The United States and the international community have launched a major relief and reconstruction response to the devastation in Central America caused by Hurricane Mitch (October 26-November 5, 1998). This paper provides background on conditions in the region both before and after the hurricane. It identifies the humanitarian and reconstruction aid provided by the United States and the international community and discusses the future course of the reconstruction effort. The President requested an emergency supplemental of \$955.5 million on February 16, 1999 to pay for the U.S. effort (which includes reconstruction aid to Caribbean countries and Colombia). P.L. 106-31 appropriated \$999.9 million for reconstruction programs. The supplemental request did not include trade expansion effort. Trade provisions are included in a Senate bill, S. 371, the Caribbean and Central American Relief Act, introduced on February 4, and its companion bill, H.R. 984, introduced on March 4 and reported to the full committee on May 18. The Administration trade bill (H.R. 1834) was introduced on May 18. This report will not be updated again.

Central America: Reconstruction after Hurricane Mitch

Summary

On February 16, the Administration transmitted an emergency supplemental request for \$955.5 million to provide reconstruction assistance to the Central American countries devastated last Fall by Hurricane Mitch. The supplemental did not include any of the trade expansion provisions which the Administration has proposed previously, and which the Central American countries include as their highest priority. The Senate supplemental appropriations bill (S. 544) passed the Senate on March 23 and the House bill (H.R. 1141) passed the House on March 24. The final legislation, P.L. 106-31, increased the funding to \$999.9 million. Trade expansion provisions were included in the Central American and Caribbean Relief Act (S. 371), introduced on February 4 by Senator Graham of Florida and 9 cosponsors and its companion bill (H.R. 984) introduced on March 4 by Congressman Crane and 3 cosponsors. The Administration bill, H.R. 1834, was introduced on May 18.

Hurricane Mitch left a swath of destruction in its path across Central America from October 26 through November 5, 1998. The storm, which dumped torrential rains on the region, devastated Honduras and caused severe damage in Nicaragua. It produced lesser destruction in El Salvador, Guatemala, Belize, and Costa Rica. In addition to killing thousands and displacing many from their homes, the floods and mud slides also threaten the economy of the Central American countries through destruction of crops, cropland, and infrastructure, such as roads, bridges, and electric power equipment. The United States and international donors began providing emergency relief once access to the area became possible. By mid December, the U.S. government had pledged or provided \$304 million. By mid-November, the immediate emergency was over, and donors began to focus on longer term recovery.

The Inter-American Development Bank (IADB) and the World Bank sponsored a donors' meeting on December 10 and 11 in Washington to examine the damage assessments being made by the regional governments and U.S. and U.N. experts and to develop a multilateral reconstruction program. USAID sponsored a meeting for private sector donors on December 14. At a May 25-28 follow-up meeting in Stockholm, donors pledged about \$9 billion, including \$5.3 billion from the InterAmerican Development Bank and World Bank over the next four years and over \$3 billion by bilateral donors.

The Administration has clearly stated its intention to use the opportunity provided by the disaster and the necessity for reconstruction to bring about significant changes in Central America. The reasons given for this emphasis are the trade potential of the region, support for the growing movement toward democracy, and concern that a slow response might trigger instability in the region or encourage large numbers of disaster victims to migrate to the United States. The President traveled to the region on March 8 to 11.

This report describes the situation within the region, and the U.S. and international response to the disaster. It also discusses the longer term needs so far identified and the U.S. and international response to these needs.

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Central America: Reconstruction after Hurricane Mitch

Introduction

Hurricane Mitch, which struck Central America between October 26 and November 5, 1998, was the most damaging storm to hit Central America in decades¹. According to U.S. satellite imagery systems, the storm affected 40 percent of the land mass of Honduras, Nicaragua, Guatemala, and El Salvador. Honduras suffered the most damage and loss of life. Nicaragua also suffered large losses. Guatemala, El Salvador, Belize, and Costa Rica suffered less damage. Deaths, injuries and loss of homes and infrastructure were the result of floods and mud slides made worse by years of environmentally destructive agricultural practices. Damage to infrastructure (roads, bridges, power and telephone systems, and public buildings) and destruction of crops and cropland will require long-term reconstruction. In all of the countries, clean water is scarce and disease from contaminated lakes, streams and flooded areas is an ongoing threat. (U.N. and U.S. medical personnel report that no major outbreaks of disease have occurred, and attribute this to special attention to disease control by the local governments and the relief agencies.) The U.S. Agency for International Development (USAID) had prepositioned relief equipment and personnel in the region before the storm touched land and began relief efforts as soon as weather permitted. Other countries and international governmental and nongovernmental agencies also responded quickly. Destruction of bridges and roads made emergency relief possible only with helicopters in many areas. By November 12, assistance was flowing smoothly and major roads and bridges had been repaired in all countries. People were returning to their homes and damage assessments were underway. (Information on the disaster is updated frequently. For information on conditions, view the reports of governments, private voluntary agencies, and U.N. agencies on the web at the following address: <http://www.reliefweb.int/>)

Even as the emergency response was occurring, discussion of the medium and long term reconstruction of the area began within the region, at international meetings, and within the U.S. government. This effort is well underway.

Preliminary assessments made by the World Bank and U.N. Development Program (UNDP) for the December 1998 donor's meeting in Washington estimated

¹The largest disasters occurring in the region prior to Hurricane Mitch identified by the USAID Office of Foreign Disaster Assistance were earthquakes in Nicaragua (1972) and Guatemala (1976) and a Hurricane in Honduras (1974). The earthquakes in Nicaragua and Guatemala resulted in the deaths of 10,000 and 23,000 respectively. The Honduran hurricane killed 8,000. Deaths from Hurricane Mitch are estimated to be between 8,000 and 9,000 with as many as 9,000 missing.

the total damage in the region of \$5.361 billion². **Check on these figures.** This included \$1.3 billion in the social sector (housing, health, education), \$1 billion in infrastructure (roads, bridges, water, sanitation, energy), \$2.9 billion in productive sector (agriculture, manufacturing, trade, services) and \$68 million in environmental damage. U.S. disaster advisors report that it will be at least two years before the agricultural sector is back to normal and at least that long until the affected countries can harvest a fruit crop. Replacing housing will be a major concern. On February 16, the Administration requested a supplemental appropriation of nearly \$956 million to reimburse agencies for the money already spent, and provide reconstruction assistance to the countries of Central America, the Caribbean and Colombia.

While Hurricane Mitch was the most destructive storm in decades, the area is subject to frequent tropical storms and other natural disasters. International development and disaster personnel agree that damage caused by Mitch was magnified by environmental problems. Some reports estimate that 50 to 75 percent of the economic losses resulted from poor design and siting of homes, roads, bridges and industry. Additional damage was caused by poor land use procedures (such as deforestation and hillside farming with no soil conservation) and poor watershed management. The reconstruction effort will attempt to reduce the vulnerability of these countries to future storms and especially focus on reversing the environmental degradation of recent years. An international meeting held on February 16-19, 1999, discussed disaster preparedness and the response to both Hurricanes Mitch and Georges (a storm which occurred a few weeks earlier, largely in the Caribbean). The February 22, 1999 report prepared for the meeting by the U.N. Office for the Coordination of Humanitarian Affairs (OCHA) is posted on the [<http://www.reliefweb.int>] web site. Among the concerns mentioned in this report are poor dissemination by national governments of storm warnings to their populace, lack of communication between regional governments about the course and damage of the storm, and lack of local governmental disaster response plans and procedures. Another concern is that due to lack of available land, many homes are being rebuilt in disaster areas. Some victims are being settled in makeshift shelters which are likely to remain permanently due to inability or unwillingness of governments to resolve long standing land availability problems. Both regional governments and donors want to make sure that reconstruction programs address past environmental degradation (such as deforestation, cultivation of marginal lands, and lack of soil conservation) which increased the damage caused by the storm. Safe population resettlement in areas which are less prone to disaster is also a major concern.

²In requesting the supplemental appropriation the United States used the damage estimate of \$8.5 billion. This amount was based on replacement costs estimated by the Army Corps of Engineers. Some voluntary agencies criticize the use of Corps estimates because they rely too heavily on U.S. labor and material costs. Another estimate used by the Administration is \$7.5 billion. This estimate is derived from the World Bank/UNDP damage assessment, but relies on the "replacement costs" which are defined in the assessment to include "in addition to the losses in assets (infrastructure and lost production damaged by the event), income lost and production that will not be obtained indirectly due to the event, and investment that will have to be made to recuperate a similar production level to pre-hurricane levels". A third estimate cited by the Administration is \$10 billion. According to USAID, this is the amount of damage caused by both Hurricane George in the Caribbean and Hurricane Mitch as estimated by the World Bank/UNDP.

The U.S. Response to the Disaster

The United States is generally a leader and major contributor to relief of humanitarian disasters. In the case of Central America, it is clear that the response to Mitch will be a major long term effort and that the U.S. goals for the reconstruction program are ambitious in comparison with other disaster responses. USAID Administrator Atwood stated in a November 19 press conference that the U.S. aim "is to repair the infrastructure of this region so that it is even better than it was before this storm." He added that the U.S. response was self serving as well as humanitarian. "...this region has been a region wherein we have invested a great deal in the development of democracy and open markets. And as a consequence of that, we don't want to see a storm, a bad one, destroy the investments that we have all made together, the people of this region and the United States."³ At a press conference on January 28, 1999, U.S. spokesmen gave the following reasons for this attention: to ensure that recently established democracies remain stable; to revitalize economies that were struggling before the hurricane; to prevent a mass flood of illegal immigrants to the United States; and, to help reverse environmental degradation resulting from the hurricane and develop mitigation systems to lessen the damage of any future natural disasters. Assistant USAID Administrator Mark Schneider suggested that the reconstruction program will be a three to five year process.⁴

President Clinton echoed these comments during his trip to the area, from March 8 to 11, 1999. Over the course of the trip, he expanded on U.S. goals for the area. These include: expansion of trade and investment in the region; concern for workers' rights, especially a ban on child labor; protection of the environment and reversal of destructive practices; and, fairness in treating migrants from all countries in the United States. While in the region, he promised \$25 million to assist in implementing the Guatemalan peace accord, \$25 million over five years to support regional environmental initiative through CONCAUSA, \$11 million over three years from USAID/OFDA for disaster mitigation programs, \$8.2 million for programs to eliminate child labor, and support for the Organization for American States pilot project on street children.

U.S. Emergency Response Mechanism

The President has wide authority to provide emergency assistance for foreign disasters and the United States government provides disaster assistance through several U.S. agencies. The Office of Foreign Disaster Assistance (OFDA) in USAID (FY1999 appropriation of \$200 million) can respond immediately with relief materials and personnel including some already located in various countries around the world⁵. OFDA has emergency response teams of experts (DARTS) which can be put together quickly to respond to disaster. OFDA also provides assistance through grants to governmental and nongovernmental agencies in the disaster area. USAID is the U.S.

³USAID News Briefing. Transcript. Washington. November 19,1998.

⁴ U.S. committed to helping Central America recover from Mitch. USIS Washington File. January 28, 1999.

⁵Authorized in Sec. 491-493 of P.L. 87-195, the Foreign Assistance Act of 1961.

agency charged with coordinating U.S. government and private sector assistance.⁶ It also coordinates with international organizations, the governments of countries suffering disasters, and other governments. OFDA has wide authority to borrow funds, equipment and personnel from other parts of USAID and other federal agencies. USAID administers Title II of the Food For Peace program which provides food aid to victims of disasters (about \$338 million in FY 1999). The Department of Defense has a humanitarian assistance program which received a \$50 million appropriation in FY1999. In addition, the President has the authority to draw down defense equipment and direct military personnel to respond to disasters⁷. The President may also use the Denton program⁸ to provide space available transportation on military aircraft and ships to private donors who wish to transport humanitarian goods and equipment in response to a disaster.

U.S. Emergency Assistance

President Clinton announced the first round of U.S. government emergency aid totaling \$70 million on November 5. Over the following weeks, with visits to the region of senior U.S. officials and Mrs. Clinton, American assistance pledged had grown by December 4 to \$304 million, using every available emergency relief tool. Table 1 summarizes the major components of U.S. aid, while individual elements are

discussed below. In addition to the aid shown in table 1, the United States has announced other initiatives that do not need appropriated funds to implement.

Generally, OFDA provides emergency aid which lasts 30 to 90 days. The same is true for Department of Defense humanitarian assistance. After the initial emergency is over, assistance is provided through other channels, such as the regular country development programs of USAID.

Table 1. U.S. Hurricane Mitch Aid
(\$s - millions)

USAID-OFDA	\$34
USAID Development aid	\$5
USAID Food for Peace	\$52
Department of Agriculture	\$63
DOD 506(a) drawdowns	\$75
DOD humanitarian & airlift	\$75
Total U.S. aid	\$304

⁶Private donations may be made to the private agencies working in the area which are listed on the Internet at [<http://www.interaction.org>] or by phone at 202-667-8227. Cash contributions through the Organization of American States can be made at any Citibank branch in the country to the Central America (or specific country) Disaster Relief Fund. Those wishing to provide relief services or supplies can contact Volunteers in Technical Assistance (VITA) at 703-276-1914 or [<http://www.vita.org>].

⁷Sec. 506 of the Foreign Assistance Act of 1961 (P.L. 87-195) authorizes the President to draw down articles and services from any U.S. agency. Title 10, section 2551 authorizes the use of DOD funds to transport humanitarian relief items and provide other humanitarian assistance to the extent authorized annually by Congress.

⁸Title 10, section 402, is named after former Member of Congress Jeremiah Denton. It authorizes shipment of privately donated humanitarian goods on U.S. military aircraft on a space available basis. For further information on this program, see CRS Report 95-976 F, DOD Assistance in Foreign Humanitarian and Disaster Relief, the Current Congressional Controversy, 1995. or the USAID web site [http://www.info.usaid.gov/hum_response].

Types of Assistance

USAID's Office of Foreign Disaster Assistance. OFDA provided assistance valued at nearly \$34 million in the immediate aftermath of the storm. This includes cash, to purchase relief supplies and rent transportation locally, personnel to coordinate relief activities and assess longer term needs, and shipments of relief supplies which were not already in the area, such as emergency water systems. It also included funding for an emergency shelter program for Honduras which enabled schools being used for shelter to reopen as schools.

Table 2. USAID/OFDA Aid to Central America (2/10/99)

Honduras	\$14,704,648
Nicaragua	4,844,267
Guatemala	1,257,013
El Salvador	1,123,451
Costa Rica	45,000
Belize	25,000
Regional	11,660,000
Total	33,659,379

USAID Development Aid. USAID is providing \$5 million in Development Assistance money for micro enterprise credits. (The Inter-American Development Bank is providing an additional \$12 million in credits). The United States pledged an additional \$120 million in reconstruction aid at the December 10-11 meeting of donors sponsored by the IADB and the World Bank. This will be provided through reprogramming existing food aid, child survival, and development assistance funds appropriated in FY1999 and directing \$18 million of FY2000 foreign assistance funding toward reconstruction activities. These funds will be used to rehabilitate transportation infrastructure, restore public utilities and health care, reestablish crop and livestock production, and revitalize the economic sector. The \$120 million will be allocated to Honduras (\$66 million), Nicaragua (\$32 million), El Salvador (\$16 million), and Guatemala (\$5 million). For a breakdown of total USAID funding, including the money appropriated in the emergency supplemental, P.L. 106-31, see the individual country sections.

Food Aid. USAID has approved \$52 million in Food for Peace emergency food aid (P.L. 480 Title II) to Honduras, Nicaragua, and Guatemala (60,000 tons to Honduras, 18,000 tons to Nicaragua, and 7,600 tons to Guatemala, and a \$1 million contribution to the World Food Program for El Salvador). This represents 50% of the overall food aid needs in the region. In addition, the Department of Agriculture has approved \$10 million in concessional loans (P.L. 480 Title I) which will be divided between El Salvador and Guatemala, and \$20 million in grants (Food for Progress) which will be divided between Honduras and Nicaragua. Surplus wheat and corn, valued at \$33 million will also go to the region under section 416 (b) of P.L. 81-439⁹. According to the Department of Agriculture, 60,000 tons of surplus wheat will go to both Honduras and Nicaragua, and 30,000 tons each to El Salvador and Guatemala. The surplus corn amounts to 50,000 tons, of which 15,000 tons will go

⁹Under this section, the Secretary of Agriculture may furnish eligible commodities for carrying out assistance programs in developing countries and friendly countries under the Food for Peace Act and the Food for Progress Act and for such other purposes as approved by the Secretary of Agriculture.

to Nicaragua. The food will be sold in the region and the money raised will be used for rehabilitation programs.

Defense Department. DOD had provided about \$150 million to the relief and reconstruction program when the second phase of their effort ended on February 27, 1999. This included \$75 million in drawdown of equipment, \$50 million from the DOD Overseas Humanitarian, Disaster and Civic Aid Program, \$25 million from the CINC Initiative Fund, and \$5 million to airlift OFDA relief supplies. Military assistance to the region included flights of relief supplies, helicopter delivery, medical personnel, water purification activities and infrastructure reconstruction activities and included the efforts of 5,300 military personnel. The first phase, emergency relief, ended on November 26. On November 27, the military services began the second phase focusing on infrastructure repair and health care. In mid March, there were 1,600 personnel still serving in the region. The final reconstruction phase, which would be funded primarily through the emergency supplemental, will be a National Guard and Reserve program called New Horizons, composed primarily of Reserve and National Guard engineering personnel. It will focus on roads, bridges, and public buildings such as schools and health clinics. The average daily number of U.S. personnel in each country under New Horizons will be 550 in Honduras and 350 in Guatemala, El Salvador, and Nicaragua. The Department of Defense estimates that 23,000 U.S. personnel will rotate through the region in the New Horizons program (which also includes the Caribbean) through the end of September and that the program will cost \$70 million¹⁰, of which \$14 million has already been found in the Department of Defense budget.

Debt Relief.¹¹ The destruction of Hurricane Mitch has placed additional financial strains on affected Central American countries, especially Nicaragua and Honduras which are both heavily indebted nations. Many organizations and national donors, including the United States, are examining alternative approaches for relieving these financial difficulties. Nicaragua's debt stock totals about \$5.9 billion, representing 21% of exports and 37% of revenues. Honduras owes \$3.6 billion, 16% of exports and about one-third of revenues. Only a small amount of the debt — \$94 million for Nicaragua and \$144 million for Honduras — is owed to the United States. The U.S. has placed a moratorium on Nicaraguan and Honduran debt payments to the U.S. for 1999 and 2000, an amount projected to total \$54 million over the two years. This mechanism does not represent debt forgiveness, but is similar to a debt rescheduling where the payments are deferred and spread out over a longer period of time, but are eventually repaid. On December 11, the United States further announced that it was prepared to negotiate debt forgiveness arrangements with Honduras and Nicaragua, canceling 67% and 90% of their debts, respectively. Forgiving foreign debt, however, requires advance appropriations which the Treasury Department sought in the February 16 supplemental request. The \$16 million requested covered the budgetary costs of expanding debt reduction for Honduras and permitting the cancellation of \$103 million of face value of Honduran debt owed to the United States.

¹⁰Reuters. U.S. military expands Central America program. Feb. 2, 1999.

¹¹Prepared by (name redacted), Specialist in Foreign Affairs.

Relief of debt owed by Nicaragua and Honduras to international financial institutions (IFIs), the largest part of their debt stock, represents 40-50% of their debt service requirements over the next two years. Britain and other European nations have helped establish a trust fund at the World Bank (Central America Emergency Trust Fund) into which donors can contribute money — \$115 million as of January 6 — to help the two countries service their IFI debts. The Administration included a \$25 million contribution to this Fund in the supplemental request.

U.S. Immigration Implications.¹² In the aftermath of Hurricane Mitch, the Attorney General on November 5, 1998, temporarily suspended the deportation of aliens from El Salvador, Guatemala, Honduras, and Nicaragua. The Administration then weighed the option of providing Temporary Protected Status (TPS) to aliens from these four countries who are residing illegally in the United States.¹³ Proponents of granting TPS to the Central Americans maintained it is an appropriate humanitarian response because people should not be forced to return to countries devastated by the natural disaster. Opponents feared TPS for those Central Americans in the United States would serve as a magnet to the millions of people displaced by the hurricane, prompting many of them to seek entry to the United States.

On December 30, 1998, the Attorney General designated TPS for undocumented Hondurans and Nicaraguans in the United States as of that date. The Administration maintained that the extraordinary displacement and damage from Hurricane Mitch warranted TPS for 18 months for Hondurans and Nicaraguans. Guatemalans and Salvadorans had their stays of removal extended for 60 days — until March 8, 1999. Some have criticized the Attorney General for not giving TPS to Guatemalans and Salvadorans, arguing that the Clinton Administration is continuing a longstanding pattern of differential treatment.¹⁴ The Administration maintains that hurricane damage in Guatemala and El Salvador was not extensive enough to justify TPS. The Administration did not extend the stay of removal for Guatemalan and Salvadorans beyond the March 8 deadline. Acting Assistant Secretary of State Peter Romero stressed the importance of maintaining control of national borders. “We’re aware of

¹²Prepared by (name redacted), CRS Domestic Social Policy Division.

¹³TPS offers blanket relief for aliens who may not meet the legal definition of refugee but are nonetheless fleeing potentially dangerous situations. According to the Immigration and Nationality Act, it may be granted under the following conditions: there is ongoing armed conflict posing serious threat to personal safety; a foreign state requests TPS because it temporarily cannot handle the return of nationals due to environmental disaster; or, there are extraordinary and temporary conditions in a foreign state that prevent aliens from returning, provided that granting TPS is consistent with U.S. national interests. For further discussion, see: CRS Report 98-759, *Immigration: Temporary Protected Status Background and Issues*, by (name redacted).

¹⁴For background, see: CRS Report 97-810, *Central American Asylum Seekers: Impact of 1996 Immigration Law*, by (name redacted); and CRS Report 98-3, *The Nicaraguan Adjustment and Central American Relief Act: Hardship Relief and Long-Term Undocumented Aliens*, by (name redacted).

the burden of returnees, but we also see a troubling situation in terms of the flow of people to the United States.”¹⁵

The media, meanwhile, are reporting that significant numbers of displaced Central Americans are moving north to the United States in the wake of Hurricane Mitch's devastation. One account cites Border Patrol agents in Brownsville, Texas, saying that apprehensions of Hondurans increased by 61% in the last three months of 1998.¹⁶ There appears to be confusion on the part of some displaced Nicaraguans and Hondurans who incorrectly think that they will be given TPS when they arrive in the United States. The State Department, nonetheless, maintains that there is no hard evidence of a mass exodus of displaced Central Americans to the United States. For further information on this, see CRS Report RS20101, *Migration to the United States of Displaced Central Americans: Trends and Issues*.

The Administration and Congress are now faced with serious questions about their detention policy and the adequacy of resources to respond to displaced Central Americans. Current law calls for the Immigration and Naturalization Service (INS) to detain aliens entering the United States without proper immigration documents, but adequate detention space is an issue. About 1,500 Hondurans, for example, were reportedly apprehended and detained along the South Texas border near Brownsville, but INS has reportedly released many displaced Central Americans because of overcrowded conditions in the detention facilities.

The reports of INS releasing some of these aliens on their own recognizance prompted criticism from those who support the mandatory detention policy, including the House Judiciary Immigration Subcommittee Chair Lamar Smith. That some *criminal* aliens already present and detained in the United States might be released was of particular concern. Many critics of the release policy maintain that releasing the aliens will only encourage more displaced Central Americans to seek refuge in the United States, thereby creating a magnet effect. The Administration, arguing that it does not currently have the resources to detain all of the Central Americans crossing the border, requested and received \$80 million in the emergency FY1999 supplemental appropriations request for increased detention bed space to accommodate criminal aliens from Central America as well as the potential influx of displaced Central Americans.

Peace Corps. The first 23 former Peace Corps volunteers left for Central America and the Caribbean in late January to help with the long term reconstruction of the region. Most of this first group will go to Honduras, with a few in Guatemala and the Caribbean. A later group of at least 20 more volunteers will be sent to Nicaragua and El Salvador. Over the course of a year, approximately 100 volunteers will be in the region. The program allows them to volunteer for up to 6 months of service and is funded through the Peace Corps budget.

¹⁵ USIS Washington File. March 4, 1999. Ambassador Romero previews Clinton trip to Central America.

¹⁶“Painful Exodus Follows Hurricane’s Havoc,” by Hector Tobar, *Los Angeles Times*, February 10, 1999.

Other Activities. At the December 10-11, 1998 meeting of donors, the Administration promised to work with Congress to gain approval for Caribbean Basin Initiative (CBI) enhancement which will reduce trade barriers between these countries and the United States. The Administration bill, H.R. 1834, was introduced by Congressman John Lewis on May 18, 1999. The Administration will submit bilateral investment treaties with Nicaragua and Honduras to the Senate. The Overseas Private Investment Corporation (OPIC) announced an investment facility for Central America and the Caribbean to meet the need for medium and long term capital on February 10. (The joint OPIC/ Citibank initiative will provide \$200 million in new projects for the region through the private sector.) In addition, on April 7, OPIC announced the approval of \$100 million insurance coverage for an electricity distribution project in Guatemala and a \$54 million political risk insurance contract for Nicaragua. On December 15, 1998, at a USAID sponsored meeting to encourage private sector aid to Central America, several other U.S. agencies announced aid proposals which would be provided through agency budgets. These include a program to provide Department of Housing and Urban Affairs (HUD)/ private sector housing assistance (HUD will provide \$5 million while the private sector will provide housing materials at cost). The Department of Commerce will focus on increasing trade and investment to the region and using its expertise in ensuring safe and environmentally friendly buildings. The U.S. Geological Service scientists are assessing the geological risk areas in Central America to guide rebuilding. FEMA, the Federal Management Agency will assist HUD and Commerce in this area. The Department of Energy announced assistance in energy technology. The Small Business Administration will perform the same role in the Central American disaster as it does in U.S. disasters, as the banker for small business, homeowners, and renters. Department of Transportation will focus on rebuilding the transportation infrastructure, including a \$1.3 million harbor navigation system for the region. This will be part of a transportation reconstruction effort by all the countries of the Americas. In all, the Administration expects more than 12 U.S. Cabinet agencies to be involved in the reconstruction effort. On January 28, the State Department announced the signature of a U.S.-Honduras agreement to provide a private audit of all donor assistance programs. A similar agreement with the government of Nicaragua is anticipated. The United States will provide funding for the audits.

Private sector assistance has already been substantial and is expected to continue to grow. On January 28, 1999, Department of State Counselor Wendy Sherman estimated the value of private U.S. donations at \$28 million. On March 2, 1999, the American Red Cross announced that Honduras, Nicaragua, Guatemala and El Salvador will share \$38 million which the public has donated in a record setting response to a disaster. As of February 24, DOD had transported over 11 million pounds of private relief supplies under the Denton program. USAID Administrator Atwood stated at hearings on February 24 that USAID is currently matching private corporate donations of goods and services from more than 50 U.S. businesses with needs in the region.

Legislative Actions

Supplemental Appropriation.¹⁷ The emergency supplemental appropriation requested by the Administration on February 16 included both new funding and reimbursement to USAID and the Department of Defense for money already spent. Aid to Central America was passed by Congress on May 20 as part of a much larger supplemental bill. P.L. 106-31 adds \$621 million in new funds to be administered by USAID, according to USAID press information.¹⁸ Other U.S. agencies will also take part in program implementation through transfers of

funds from USAID. The anticipated country allocations of this money are shown in Table 3. The law requires that all funds be expended within two years and in the sectors identified by Congress for each country. USAID identified the overall sector spending as: public health-\$136 million, restart economies-\$283 million, housing and schools-\$55 million, assistance to local governments-\$21.5 million, clearing land mines-\$2 million, USAID operating costs-\$5.5 million, USAID inspector general and General Accounting Office audit-\$2 million, DOD New Horizons exercises-\$54.3 million. In addition, USAID information states that the law includes \$41 million in debt restructuring and relief (of which \$25 million is the promised U.S. contribution to the Central America Emergency Trust Fund). USAID/OFDA and Department of Defense disaster relief accounts received \$158 million to replenish some of the funds spent in the region. Environmental management and disaster mitigation programs are funded at \$64 million. The law includes \$50 million for Caribbean recovery from Hurricane Georges and \$10 million for earthquake relief in Colombia. Finally, the Immigration and Naturalization Service received \$80 million to support increased detention facilities for criminal aliens and the greater number of Central American illegal aliens coming as a result of the storm (See previous section on immigration implications). The supplemental included most of the assistance pledged by the United States since the disaster occurred with the exception of the trade provisions, including expansion of the Caribbean Basin Initiative.

During hearings by the Foreign Operations Subcommittee of the House Appropriations Committee on February 24, Subcommittee members expressed concern about corruption and accountability among regional governments and

Table 3. Estimated Country Allocation of USAID Supplemental Funds
((\$s - millions)

Honduras	\$291.0
Nicaragua	94.1
Guatemala	25.0
El Salvador	20.5
Regional	131.0
Dominican Republic	29.0
Haiti	9.8
Eastern Caribbean	3.0
Colombia	10.0
Regional	131.0

¹⁷For detailed information on the Supplemental Appropriations bill, see CRS Report RL 30083, Supplemental Appropriations for FY1999: Central America Disaster Aid, Middle East Peace, and Other initiatives.

¹⁸Emergency supplemental package for Central America, the Caribbean, and Colombia. Fact sheet released by the Bureau for Western Hemisphere Affairs. May 25, 1999.

suggested establishing a special disaster account or requiring certification reports to give Congress and the Administration better oversight of the funds. Members also questioned whether debt relief should be included in emergency legislation. Finally, several members suggested appropriating an additional \$25 million, which would entirely eliminate Honduran and Nicaraguan bilateral debt to the United States. In the full committee mark up on March 12, the committee agreed to appropriate most of the money requested without any additional restrictions. However, the Committee identified funds from other programs which could be used to offset the cost of the supplemental and avoid additional expenditures. The Senate Appropriations Committee, which marked up the legislation (S. 544) on March 4, had first raised the issue of offsetting the cost of the supplemental. After the House mark up, press reports indicated that the governors of several states were concerned because \$350 million of the recommended rescission would come from welfare block grants to states. The Office of Management and Budget threatened to recommend a Presidential veto of the legislation because of the source of the funds chosen for offset. The Senate passed S. 544 on March 23. The House passed H.R. 1141 on March 24 by a vote of 220-211. As finally passed, P.L. 106-31 dropped all the offsets in the Central American part of the bill, added \$1 million to the DOD drawdown account and \$6 million for the DOD New Horizons program. An additional \$37 million was added for Caribbean reconstruction, bringing the total appropriation for Central American and the Caribbean to \$999.9 million.

Other Legislation Senator Bob Graham of Florida and nine cosponsors introduced S 371, the Central American and Caribbean Relief Act, on February 4, 1999.¹⁹ Much of the bill focuses on trade enhancement and additional trade benefits for the countries included under the Caribbean Basin Initiative. These include offering affected countries the same trade and tariff treatment as the North American Free Trade Agreement (NAFTA) countries and special temporary trade and tariff benefits. S. 371 also includes reconstruction assistance which is similar to the administration. The House companion bill, H.R. 984, was introduced on March 4 by Representative Crane and reported favorably to the full committee on May 18. The Administration bill to provide trade benefits to the Central American countries, H.R. 1834, was introduced on May 18 by Representative John Lewis.

¹⁹ For information on trade issues, see CRS Issue Brief 95017, *Trade and the Americas*.

International Assistance

The United States provides assistance as part of an international effort and much assistance is being provided by other governments and international agencies. The U.N. Office for the Coordination of Humanitarian Affairs (OCHA) tracks contributions to disasters from donors around the world. While the information is generally spotty and incomplete, Table 4 shows the distribution of over \$402 million which had been pledged or contributed as of

Table 4. International Cash Assistance to Central American Countries as of 12/1/98

Honduras	\$23,931,969
Nicaragua	16,028,509
El Salvador	7,542,501
Guatemala	4,554,249
Belize	448,486
Region	350,055,749
Total	\$402,561,463

Source: UN OCHA

December 1, as reported by governments to OCHA. It does not include non-cash contributions in services or in kind (such as trucks and aircraft, crews, and emergency and medical personnel). Many countries have made substantial non-cash contributions, including both military and civilian personnel. By December 7, the reported cash contributions had risen to \$426 million. U.N. agencies such as the World Food Program (WFP) and UNICEF, and regional agencies such as the Pan American Health Organization, are using donations from governments to provide food and health assistance such as vaccination and sanitation programs to head off outbreaks of disease. The European Union had contributed 200 million EUs by the end of 1998 (1EU=\$1.06) and has announced a pledge of 250 EUs for reconstruction over the next four years. Over 150 U.N. volunteers (similar to U.S. Peace Corps volunteers) provide both emergency and reconstruction assistance. Aid is also flowing through private voluntary organizations with programs in the area. The Red Cross, for example, mobilized 11,000 volunteers from the region and is receiving assistance from governments and Red Cross affiliates around the world. The Reliefweb web site lists many of these voluntary organizations.

United Nations follow-on activities began shortly after the disaster as well. A November 12, 1998 meeting of donors and affected countries established a U.N. sponsored Inter-Agency Transitional Appeal to raise \$153 million for relief and immediate rehabilitation for the next 6 months (until May 31, 1999). As of May 20, 1999, \$109.5 million or 72% of the amount had been pledged or contributed.

The U.N. agencies are also providing damage assessments and reconstruction estimates to donors. The United Nations Environment Program (UNEP) provided an assessment of environmental damage in November for use of regional governments and donors. The UNDP/World Bank damage assessment provided the basis for the first donor meeting in December. A Food and Agriculture Organization (FAO)/WFP assessment of food aid needs and crop damage was given to donors in late January. In early February 1999, an inter-agency team from OCHA, UNDP, UNICEF, and World Health Organization (WHO), traveled to the region to evaluate Central

American disaster mitigation and rehabilitation needs for presentation to a meeting on the subject on February 16-19.

Washington Conference. On December 10 and 11, the IADB and the World Bank hosted the first international donor conference to discuss reconstruction needs in the region. Fifty donor nations and multilateral agencies, as well as the countries of Central America attended the meeting in Washington. According to USAID, a total of about \$6 billion in assistance was pledged at the meeting. The World Bank pledged about \$1 billion in new interest-free credits to Honduras and Nicaragua. El Salvador and Guatemala will also receive assistance through the Bank's traditional lending process. The IADB announced new financing totaling \$246 million: \$158.2 for Honduras, \$48.6 for Nicaragua, and \$40 million for Guatemala. (Since raised to a total of \$370 million) Prior to the meeting, the IADB had redirected \$430 million in previously approved loans to emergency programs in the region and the World Bank had redirected \$200 million of its already approved projects toward emergency projects in the region. The Paris Club of creditor nations, composed of most of the industrialized countries, announced a three year moratorium on debt repayment and began discussion of the eventual write off of most of the debt. (On January 7, 1999, the Paris Club announced the write off of 80% of Nicaragua's debt and the consideration of a similar plan for Honduras.) The United States pledged a multifaceted aid package at the meeting. (See section on U.S. assistance)

Stockholm Conference. At the conference of the Consultative Group on the Reconstruction and Transformation of Central America held in Stockholm on May 25-28, 1999, countries were asked to make long term aid commitments based on the Central American governments' expressed needs and more careful assessments of damage to the region. The estimated aid commitment was about \$9 billion. The unofficial estimate of the additional bilateral money which donors will provide for reconstruction is \$1.5 billion. In addition to the United States, the major donors are Japan-\$249 million, Sweden-\$185 million, Denmark-\$170 million, and Canada-\$112 million. General bilateral aid pledged to the region will add an estimated \$1.1 billion including \$682 million from Spain, \$202 million from Germany, and \$104 million from Norway. An additional \$500 million is estimated to have been reprogrammed to reconstruction projects by various governments. U.N. agencies and private voluntary agencies are adding reconstruction programs funded by these national donors as well as with private contributions.

At the Stockholm Conference, the Inter-American Development Bank and the World Bank announced that they would commit \$5.3 billion over the next four years to the five Central American countries. This includes the aid already committed to the region since the Hurricane struck in 1998. The aid will be composed of concessionary loans, debt relief, redirection of existing projects, and special projects geared to reconstruction.²⁰

The U.S. delegation statement summarized the approach agreed to by the conference participants. First, for environmental security, projects will stress good land use planning, environmental and geological analysis in all sectors from

²⁰ Inter-American Development Bank. May 28, 1999. Reliefweb. [Http://www.reliefweb.int](http://www.reliefweb.int).

transportation to agriculture to housing. Second, reconstruction projects must ensure that economic and social opportunities reach all, including the poor, the indigenous community, and other disadvantaged groups. Third, projects will emphasize decentralization and local government decision making. Fourth, projects will stress accountability and include safeguards to prevent misappropriation or misuse of funds. Finally, the progress of reconstruction will be monitored through country level and donor committee mechanisms.²¹

²¹Statement of U.S. delegation to the Consultative Group on the Reconstruction and Transformation of Central America. May 28, 1999. [Http://hurricane.info.usaid.gov/pledge.htm](http://hurricane.info.usaid.gov/pledge.htm).

Current Situation By Country

Honduras²²

Background on Honduras. Before Hurricane Mitch devastated Honduras, the country already faced significant development challenges. With a per capita income of less than \$750 and a poverty rate above 65%, the country was among the poorest in the hemisphere. According to AID, the country's most daunting challenges included: severe poverty, protectionist economic tendencies, archaic judicial practices, inadequate education and health care systems, and widespread environmental degradation. Health care in the country was weak, with infant mortality holding at 40 deaths per 1000 live births.²³ In FY1998, the United States provided about \$21 million in assistance to Honduras, consisting largely of development assistance (\$12 million), food aid (\$5.1 million), and a Peace Corps program (\$3.1 million). For FY1999, before the storm, the Administration had planned to provide \$29.6 million in assistance, consisting of \$21.9 million in development assistance, \$4.4 million in food aid, \$2.8 million for a Peace Corps presence, and \$0.5 million for International Military Education and Training. After the storm, assistance to Honduras increased substantially, as the United States provided significant amounts of emergency and reconstruction assistance (see "Emergency and Reconstruction Response" below).

Current President Carlos Flores Facusse, of the Liberal Party (PLH), is the 5th president since the country's return to civilian democratic rule in 1981 after ten years of military government. President Flores was elected in November 1997, defeating his National Party (PNH) rival by a margin of 10%. He succeeded Carlos Roberto Reina, also from the PLH. For most of this century, the PLH and the PNH have been the two dominant parties; both are considered center-right parties and there appear to be few ideological differences between the two. The Honduran military has been a powerful force in domestic politics since the 1950s. From 1963 until 1971, and again from 1972 until 1982, the military essentially controlled the national government. After the country's return to civilian rule, the military continued to operate as an autonomous institution with considerable involvement in economic activities, but in the 1990s successive Honduran administrations have taken steps to reduce the power of the military. In 1997, the national police were transferred from military to civilian control and in September 1998 the Honduran Congress approved constitutional reforms to abolish the position of commander-in-chief of the armed forces in favor of a civilian-appointed defense minister under the direct authority of the President. These reforms were ultimately ratified in late January 1999, and President Flores appointed the nation's first civilian defense minister, Edgardo Dumas.

The United States has had close relations with Honduras, particularly dating back to the 1980s when the country became a staging area for anti-Sandinista contra excursions into Nicaragua. In 1983, the United States introduced a force of about

²²Prepared by Mark Sullivan, Specialist in Latin American Affairs

²³U.S. Agency for International Development, Congressional Presentation, Fiscal Year 1999, Annex IV, Latin American and the Caribbean, pp. 113-114.

1,200 troops known as Joint Task Force Bravo located at Soto Cano (formerly Palmerola) Air Base in Honduras. The troops were involved in military training exercises and supporting U.S. counterinsurgency and intelligence operations in the region. Over the years, the troop level of the force has been reduced, and before Hurricane Mitch struck was estimated to be about 500; the main mission of the force in recent years has been support for training exercises and U.S. counterdrug activities.

Extent of the Damage.²⁴ The Honduran government reported that, as a result of the hurricane, 5,657 persons were killed, 8,052 were missing, 11,762 were injured, and around 1.9 million were affected by the storm. Reportedly some 70,000 houses were damaged and more than 92 bridges were destroyed and another 75 bridges were damaged. Damage to the country's export cash crops was severe, including most notably the banana industry which lost some 90% of its plants. In contrast, the country's domestic staple crops sustained less damage. Extensive flooding and wind damage were reported throughout the country, although AID officials report that the most heavily affected areas were several of the Bay Islands and the cities of Tegucigalpa, San Pedro Sula, La Ceiba, Tocoa, Trujillo, and Choluteca. As of early December 1998, road access had improved significantly in the affected areas and all areas that the U.S. military had been flying relief supplies to were open to surface transportation.

According to the Inter-American Development Bank's Consultative Group for the Reconstruction of Central America, damage estimates for Honduras amount to about \$3.6 billion (with almost \$2.2 billion in direct damage and \$1.5 billion in indirect damage). Some 56% of the total damage, \$2.1 billion, was concentrated in the country's productive sectors, including the agriculture, livestock, fisheries, and forestry sectors. Damage of infrastructure accounted for another 14%, or about \$512 million of the total damage. Damage in the social sectors of housing, health, and education accounted for 28% of the total, with housing accounting for the majority of the damage.

Before the storm, economic growth estimates for 1998 were about 4% and were expected to increase to 5% in 1999.²⁵ But the storm's widespread damage to the agricultural sectors, particularly cash crops, lowered economic growth to around 3% for 1998 and it is estimated that the Honduran economy will contract by almost 4%

²⁴Damage estimates are drawn from: U.S. Agency for International Development. Bureau for Humanitarian Response. Office of U.S. Foreign Disaster Assistance. Central America — Hurricane Mitch. Summary Fact Sheet. February 10, 1999. Anderson, John Ward. "Mitch Left Honduras a Republic Without Bananas," *Washington Post*, November 19, 1998, p. A39; Rohter, Larry. "Now Ruined Economies Afflict Central America." *New York Times*, November 12, 1998. P. A10; and Sanchez, Isabel. "Nicaragua, Honduran Storm Victims Still Awaiting International Aid," *Agence-France Presse*, November 18, 1998.

²⁵"Honduras: Country Update," *Economist Intelligence Unit (EIU) ViewsWire*, September 25, 1998.

in 1999.²⁶ The maquila (export processing) sector survived the effects of the hurricane and is projected to grow strongly in 1999.²⁷

Emergency and Reconstruction Response. Numerous countries, U.N. agencies, and nongovernmental organizations have contributed to the relief effort in Honduras. The U.N. Office for the Coordination of Humanitarian Affairs (OCHA), which tracks assistance from donors around the world, shows that around \$400 million in donations had been pledged or contributed to the region as of early December 1998. On December 3, 1998, the United Nations issued an appeal for an additional \$153 million for the region (on top of approximately \$400 million already provided) with Honduras accounting for almost \$83 million of that appeal. The appeal will fund UN projects in such areas as clean water, emergency health services, food, shelter, and education. International donor conferences were held in December 1998 in Washington and in May 1999 in Stockholm, with billions pledged to Central America from bilateral donors such as the United States, Japan, Sweden, Denmark, and Canada, and multilateral donors such as the World Bank, Inter-American Development Bank. (See section above on "International Assistance.")

The U.S. response in Honduras has consisted of substantial emergency relief and reconstruction efforts with a variety of U.S. agencies involved. AID's Disaster Assistance and Response Team (DART) responded immediately with some 15 disasters specialists in the country beginning in late October. The assistance included funds: for the local purchase and transport of relief supplies; for U.S. military deployment of aircraft for aerial assessments, search and rescue operations, and the delivery of relief supplies; and for grants for non-governmental organizations such as CARE to administer a variety of disaster response projects in such areas as water and sanitation, housing, transportation, and health.

Since Honduras was the country most severely affected by the storm, it is slated to receive the largest share of the FY1999 supplemental package of assistance for the region (P.L. 106-31, signed into law May 21, 1999), \$307 million out of a total of almost \$1 billion. The assistance for Honduras consists of: \$121 million for economic reactivation (policies to reactivate the economy and assist small and medium producers and micro-enterprises); \$90 million for public health (projects to repair, rebuild, or rehabilitate rural water supply and sanitation systems); \$20 million for housing (projects to ensure permanent housing solutions); \$20 million for education (projects to finance the repair and rehabilitation of damaged schools); \$32 million for disaster mitigation and the environment (projects to support disaster preparedness plans, management plans for local watersheds, and disaster mitigation infrastructures); \$3 million for local government infrastructure; \$5 million for transparency and accountability (the establishment of an independent oversight function to monitor the hurricane reconstruction program); and \$16 million for the reduction of bilateral debt owed to the United States.

With regard to debt relief, the Clinton Administration initially called for a moratorium (not debt forgiveness) of the country's debt service obligations owed to

²⁶"Honduras: Country Risk Summary," *EIU ViewsWire*, July 7, 1999.

²⁷"Honduras: Country Outlook," *EIU ViewsWire*, June 2, 1999.

the United States over the next two years. (Similar actions were taken by other nations, like Canada and Germany, while France announced that it would provide Honduras outright debt forgiveness.) But the FY1999 supplemental appropriations package (P.L. 106-31) went further and includes \$16 million that will reduce the face value of Honduras' debt by about \$103 million. Currently, Honduras has approximately \$140 million in debt outstanding to the U.S. government (out of a total debt stock of some \$3.6 billion) so that the Administration's request would reduce the country's bilateral debt to the United States by about two-thirds.

The FY1999 supplemental appropriations package also includes a \$25 million contribution to a Central American Emergency Trust Fund, administered by the World Bank, to help over the cost of debt service owed to the World Bank and other international financial institutions. The majority of Honduran foreign debt, over 60%, is owed to the international financial institutions (World Bank, Inter-American Development Bank, etc.) and some observers maintain that any efforts to relieve the country's debt burden should include relieving debt owed to the IFIs. Britain and several other nations already have pledged assistance to the World Bank trust fund. (For additional information, see "Debt Relief" section above.)

The U.S. military presence in Honduras, estimated at 500 before the storm, grew to over 1,300 after the storm, as soldiers became involved in the relief effort throughout Central America. Military helicopters and aircraft delivered relief supplies, and military engineering units cleared and helped repair key roads. In early February 1999, the U.S. Southern Command announced that its work in the region would continue through September 1999 and would focus on "nation building" efforts, including the building of schools, the repairing of bridges, and the operation of medical clinics.²⁸ A U.S. Southern Command official noted in June 1999 that the U.S. military efforts in the Central America region will utilize over 21,000 personnel, drawn primarily from National Guard and reserve units, through September.²⁹

The Honduran government faces numerous challenges in its reconstruction efforts over the short and long-term. The government is faced with the challenge of providing housing for thousands who lost their homes. Controlling the spread of disease is also a major concern in addition to the dramatic increase in the number of street children, dubbed "Mitch kids" by social workers.³⁰ Some observers have raised the potential of social stability in Honduras if aid is not distributed fairly or if concerns arise over corruption involving assistance. For example in January 1999, riot police broke up a demonstration of some 1,000 protesters in Choluteca, who were demanding land on which to build houses.³¹ Longer-term reconstruction issues center on whether efforts will be made to overcome environmental damage and poor land use which augmented the destruction of Hurricane Mitch. Some observers maintain that floods like those caused by Hurricane Mitch will continue unless something is

²⁸"U.S. Military Expands Central America Program." *Reuters*. February 2, 1999.

²⁹Rothwell, Glenn. "In Hurricane's Wake, Reconstruction Efforts Continue in Central America," U.S. Information Agency, June 25, 1999.

³⁰Deane, Daniela. "Mitch Kids Alone, Adrift" *USA Today*, February 2, 1999.

³¹"Violence Erupts in Storm-Hit Honduras," *Reuters*, January 20, 1999.

done to address the issue of proper land use (e.g. preventing shantytowns from being built along riverbanks and unstable hillsides).³²

A controversial issue that arose recently was an April 20, 1999, vote by the Honduran Congress to limit the power and term of the National Commissioner for Human Rights. The current commissioner, Dr. Leo Valladares, has gained international prominence for his efforts to bring to justice those responsible for the disappearance of 184 people during the 1980s. He had recently issued a report on the country's distribution of international aid after Hurricane Mitch, which generally was positive, but did note some potential mishandling of aid. Protests by Honduran popular organizations, as well strong international criticism, prompted the Honduran Congress to rescind its action on April 27, 1999. Press reports maintain that the reputations of the Flores government and the Congress were tarnished in such a way that international aid donors will pay more attention to the issue of transparency and accountability in the reconstruction process.³³

Nicaragua³⁴

Background.³⁵ Before the hurricane struck, Nicaragua was one of the poorest countries in the western hemisphere, second only to Haiti. Its per capita GDP is \$438, less than it was in 1979 before the Sandinistas took power. Unemployment had been falling before Hurricane Mitch, but nonetheless was at 16%; 36% were underemployed. Social indicators are low: almost 50% of the population lives at or below the poverty line; life expectancy is 62 years; the infant mortality rate is 50 per 1,000 live births, and only 28% of first graders complete primary school.

AID's strategy in Nicaragua has been to help further consolidate democratic institutions, encourage sustainable growth in income and employment, improve maternal and child health, and expand primary education. The Administration's FY1999 request for assistance to Nicaragua included: \$15.9 million for development assistance, \$6.6 million for child survival and disease programs, \$2.3 million for P.L.480 Title II programs. (\$1.5 million in Economic Support Funds was included in the Latin America and Caribbean Regional request.)

Nicaragua began free market reforms in 1991, a year after the election of President Violeta Chamorro, who followed 12 years of Sandinista rule. Since then, Nicaragua has made significant progress in some areas of economic development. 1998 was the fourth consecutive year of economic growth, which was 5% in 1997.

³²Goldoftas, Barbara. "Unnatural Disasters," *San Francisco Chronicle*, January 11, 1999, p. A17.

³³"Honduras Politics: Allegations Over Misuse of Funds Sparks Outcry," *EIU ViewsWire*, June 1, 1999.

³⁴Prepared by Maureen Taft Morales, Analyst in Latin American Affairs.

³⁵U.S. Department of State, Background Notes: Nicaragua, March 1998; U.S. Agency for International Development, Congressional Presentation, Fiscal Year 1999, Annex IV, Latin America and the Caribbean, pp.144-148.

Inflation was reduced from 13,500% to 12%, the foreign debt was cut in half, and 351 state enterprises were privatized.

Democratic reforms also progressed under President Chamorro. Nicaragua had essentially been ruled by the Somoza family for over four decades (1936-1979) until ousted by a coalition of forces led by the Sandinista National Liberation Front guerrillas in July 1979. When the pro-Soviet Sandinistas gained control of the government and pursued increasingly radical social policies, U.S.-backed “contras” launched an eight year war (1982-1990) against the government. The Central American peace agreement ending that war called for democratic elections. When Chamorro took office in April 1990, she inherited a fragile peace and a highly polarized country. The first years of her term she pursued a policy of “national reconciliation.” Constitutional reforms in 1995 strengthened the legislature’s powers and tightened civilian controls over the military. In January 1997 Chamorro transferred power to another democratically-elected president, Arnoldo Aleman.

But Nicaragua still had a long way to go before achieving sustainable, broad-based economic growth and consolidated democratic reform. Before the hurricane inflicted its damage, AID said that “the transition from past failed policies will take at least another four to five years to complete with sustained donor assistance levels...Graduation from U.S. assistance is not anticipated in the near-term.”³⁶

Extent of the Damage.³⁷ Hurricane Mitch inflicted most of its damage in Nicaragua with torrential rains which caused extensive floods and mudslides. The Hurricane left 2,863 people dead, and 884 missing in Nicaragua, according to the Nicaraguan National Emergency Commission as of November 19, with the count expected to continue to rise. Many of these were due to a large mudslide that engulfed ten communities at the base of the Casitas Volcano when hurricane-driven rains filled the dormant volcano’s lake until it burst through the volcano’s sides. Across the country, 867,752 people were displaced, and more than 30,000 houses were either completely or partially destroyed.

Damage from Hurricane Mitch totals 44.4% of Nicaragua’s GDP (Nicaragua’s GDP for 1996 was \$2.3 billion), according to the Inter-American Development Bank Consultative Group for the Reconstruction of Central America (December 1998). Total damage is reported to be \$898 million. Damage to the social sectors (housing, health, and education) equals \$239 million; to infrastructure (roads, bridges, railways, telecommunications) \$340 million; to the productive sectors (agriculture, fisheries and forestry, manufacturing, trade, restaurants and hotels) \$310 million; and to the

³⁶Congressional Presentation, p. 145.

³⁷U.S. Agency for International Development, Hurricane Mitch Fact Sheet #17, Nov. 19, 1998; U.S. AID ReliefWeb, “U.S. Efforts to Help Rebuild Central America,” Nov. 19, 1998; U.S. AID press release, “U.S. Disaster Relief for Hurricane Mitch Exceeds \$263 Million”, Nov. 23, 1998; USAID Summary Fact Sheet, Feb. 10, 1999; Cynthia Corzo and Arnold Markowitz, “Nature Slams Nicaragua Again”, Miami Herald, Nov. 4, 1998; Andres Viglucchi, “Nicaragua Overwhelmed by Floods of Misery”, Miami Herald, Nov. 4, 1998; InterAmerican Development Bank Consultative Group for the Reconstruction of Central America, “Central America: A Preliminary Overview of Damages Caused by Hurricane Mitch”, Dec. 10, 1998.

environment, \$8.5 million. The hurricane damaged 30% of Nicaragua's banana crop; in 1996 banana exports provided some of the country's fastest economic growth. What little transportation system existed was crippled by the storm, with 71 bridges destroyed throughout the country and 70% of roads impassable. Since then, the roads to the northwestern Pacific coast region have been cleared enough to allow wide distribution of relief supplies there. Nonetheless, the lack of infrastructure prior to the storm, and the region's remoteness have made damage assessments difficult. The other areas most severely affected by the storm, the north-central region and the northeastern Atlantic coast, continue to be difficult to reach.

President Arnoldo Aleman has also expressed concern about the possibility of more deadly landslides. His office has identified 41 communities that face "major risks" of landslides, and urged those living near volcanoes to move elsewhere. On November 3, a volcano just 22 miles from Casitas Volcano erupted; its lava flowed on the side where there are no villages. The last time it erupted, however, three years ago, the eruption lasted about four months and 6,000 people had to evacuate the area.

Flood waters brought swarms of disease-carrying mosquitoes, and swept away communities' latrines, contaminating water and contributing to epidemics of malaria, dengue fever, leptospirosis, and cholera in the wake of the storm.

Emergency and Reconstruction Response. OFDA is reviewing relief assistance proposals that focus primarily on agricultural and health projects for Nicaragua. Nicaragua will be receiving a portion of the Clinton Administration's overall assistance package for the region, which includes food aid, development assistance, Department of Defense assistance (defense stocks and services), and debt relief.

The OFDA began operating in Nicaragua on October 29, conducting assessments, assisting national search and rescue operations, and other activities in response to the disaster. OFDA provided funds for the purchase and transportation within Nicaragua of critical relief supplies, such as medicine, food, and shelter material. OFDA airlifts of relief supplies to Nicaragua began on Nov. 4. Total USAID/OFDA assistance to Nicaragua totaled \$4.8 million as of February 10, 1999. USAID will now begin the transition from critical emergency relief assistance to longer-term rehabilitation, reconstruction and development initiatives.

Many other countries, international agencies, and private organizations are contributing to the relief effort in Nicaragua, providing supplies, personnel, or technical assistance. The Nicaraguan government has reported receipt of almost \$11 million in goods and cash from all over the world, from Taiwan to Denmark. Mexico provided relief supplies as well as soldiers and helicopters to help deliver them. The Nicaraguan government accepted Cuba's offer of 3,000 pounds of medical supplies, and, after initially rejecting them, later accepted the services of several Cuban medical teams.

Several countries, including France, Brazil, and Germany, have canceled or eased Nicaragua's debt. The Clinton Administration declared a moratorium on Nicaragua's debt payments to the United States for the next two years. Nicaragua's \$90 million

debt to the United States represents a small portion of its total debt of about \$5.9 billion.

The United Nations issued an appeal for additional funds to help Central America recover from Hurricane Mitch's devastation; \$38.2 million were requested to assist Nicaragua in sectors such as health, water and sanitation, shelter, food security, agriculture, and education.

Guatemala³⁸

Background. With a population of over 10 million and a GDP of \$18 billion, Guatemala is the most populous and the most economically important country in Central America, accounting for over a third of the region's population and economic production, despite the existence of a large non-integrated indigenous population. After decades of military rule and guerrilla conflict, the country has experienced democratic government since 1985 and is in the early phase of implementation of the late 1996 peace accord that ended the 36-year-old guerrilla conflict. President Alvaro Arzu of the National Advancement Party (PAN) was elected in a runoff election in January 1996 and in his three and a half years in office he has advanced free market economic policies and the peace process.³⁹ Doubts about the peace process emerged in April 1998 when Monsignor Juan Gerardi was killed a few days after he released the Church's Restoration of Historical Memory report documenting extensive human rights abuses by the military. The government charged a fellow priest and roommate in the murder, and the investigation is continuing although the courts freed the suspect in February 1999. Church and human rights groups are convinced that elements of the military are involved, and they have criticized government prosecutors. At the end of February 1999, the Guatemalan Historical Clarification Commission, established under U.N. auspices by the Peace Accords, released its report, documenting numerous human rights abuses in the past, most committed by military forces.

In October 1998, the Guatemalan Congress approved constitutional amendments to reduce the role of the military and to grant rights to indigenous peoples, as called for in the peace accord. After some delays, the constitutional reforms were submitted to popular referendum on May 16, 1999, in a peaceful climate except for the killing of the Assistant General Secretary of the leftist New Guatemalan Democratic Front (FDNG) a few days before the referendum. With a turnout of only 18.5% of the eligible participants, the voters rejected the reforms in the referendum, with 55.25% voting against the reforms, and 44.75% voting for the reforms. Observers state that the status of the constitutional reforms and implementation of the peace accords are important topics of debate in the upcoming presidential elections to be held on November 7, 1999.

³⁸Prepared by (name redacted), Specialist in Latin American Affairs.

³⁹ For background, see U.S. Department of State, Background Notes: Guatemala, March 1998; and U.S. Agency for International Development, Congressional Presentation, Fiscal Year 1999, Annex IV, Latin America and the Caribbean.

President Clinton visited Guatemala and other countries in Central America in March 1999 and indicated continuing U.S. economic assistance for the region following the destruction caused by Hurricane Mitch. He also indicated continuing support for the peace process in Guatemala and for the economic and political reforms adopted. On May 20, 1999, in keeping with pledges made on the trip, the Clinton Administration issued new immigration regulations that made it easier for Guatemalans and Salvadorans living abroad to avoid deportation and to obtain legal status in the United States.

Even before Hurricane Mitch, Guatemala faced serious development challenges, with large sectors of the indigenous population living in isolation and poverty, while the country was emerging from a 36-year guerrilla conflict. Guatemala received \$67 million in U.S. assistance in FY1998, and initially was programmed to receive \$75 million in FY1999 assistance in regular and reprogrammed aid. Most of the aid for Guatemala has been for health and poverty reduction programs and support for implementation of the peace process. Following Hurricane Mitch, the Administration requested \$48.6 million in regular development assistance and economic support funding for FY2000, and it requested \$25 million in FY1999 supplemental assistance for Guatemala as part of the reconstruction assistance for the region.

Extent of the Damage. Hurricane Mitch moved northwestward across Guatemala on November 1, 1998, causing heavy rains and severe flooding.⁴⁰ According to AID damage reports, there were 268 deaths, 106,600 evacuees, and a total of 750,000 people affected, with over 22,600 homes destroyed or heavily damaged. In terms of infrastructure, 121 bridges were damaged or destroyed and 90 stretches of road were affected, although most were operable by mid-November. The longest lasting damage was to agricultural productive capacity, with the U.S. Embassy estimating in November that 95% of the nation's banana crop was decimated, 25-60% of the corn, bean, coffee, and sugar crops were destroyed, and 30% of the cattle herd was lost. The IDB Consultative Group for the Reconstruction of Central America concluded that Guatemala had suffered \$562.7 million in direct and indirect damage as a result of Hurricane Mitch, with \$387.5 million in damage to productive sectors (principally agriculture) and \$115.5 million in damage to infrastructure.

Emergency and Reconstruction Response. The United States has provided \$9.5 million in emergency relief assistance for Guatemala, and nearly \$30 million in rehabilitation and reconstruction assistance, mostly DoD-provided assistance to repair bridges and roads, and medical assistance in affected areas. In general, AID identified water treatment and addressing health issues, such as malaria, dengue, cholera, and diarrhea as the highest immediate priorities. According to the Pan American Health Organization, Guatemala had the highest risk for cholera epidemic activity of any of the five countries affected by Mitch. Due to the devastation suffered by the agricultural sector, AID recommended seeds and tools assistance programs as a priority during long-term recovery. Guatemala indicated that it might not be interested in forgiveness of its debt because that might make it impossible to obtain

⁴⁰ For a good after-the-fact damage report, see USAID/Guatemala, Hurricane Mitch Special Objective, 1999, available under Hurricane Relief Efforts on AID's homepage (<http://www.info.usaid.gov>).

future credits. The U.N. appeal covering the next six months anticipated devoting \$14 million to Guatemala, primarily in the health and water and sanitation sectors.

Guatemala's share of the new U.S. funding in the Emergency Supplemental Appropriations Act for FY1999 (H.R. 1141, P.L. 106-31), approved in May 1999, is \$25 million, of which \$24 million is for economic reactivation, and \$1 million is for disaster mitigation.⁴¹ Most of the funds for economic reactivation will be used for a range of activities to restore and improve agricultural production, and most of the funds for disaster mitigation will be used to work with the community-level committees, which were formed in response to Hurricane Mitch, to improve their preparation and organization to respond to future disasters.

El Salvador⁴²

Background. El Salvador is a small, densely-populated country of 5 million inhabitants that is experiencing increasing political pluralism since the resolution of a long guerrilla conflict that extended from the 1970s to the 1990s.⁴³ President Armando Calderon Sol of the conservative National Republican Alliance (ARENA) was inaugurated President for a 5-year term (1994-1999) on June 1, 1994, after defeating Ruben Zamora, the candidate of the leftist coalition which included the former guerrillas of the Farabundo Marti National Liberation Front (FMLN). President Calderon Sol continued the economic policies of his predecessor and generally advanced compliance with the 1992 peace accords, although he faced labor unrest and a wave of criminal activity. With economic conditions faltering somewhat, ARENA suffered a loss of support in the March 1997 legislative and municipal elections, with the leftist FMLN equalling ARENA in the Legislative Assembly and winning the mayorship of San Salvador. ARENA recovered strongly in the presidential elections of March 7, 1999, however. The ARENA candidate, Francisco Flores, won the election with 52% of the vote (more than the majority required for election in the first round) while the runner up, FMLN candidate Facundo Guardado, received only 29% of the vote. President-elect Francisco Flores was inaugurated as President on June 1, 1999, and promised to attack crime and generate employment.

President Clinton visited El Salvador and other countries in Central America in March 1999. He praised the country for the economic and democratic progress and he indicated continuing U.S. economic assistance for the region following the destruction caused by Hurricane Mitch. Responding to a major Salvadoran concern, the Clinton Administration issued new immigration regulations on May 20, 1999, that made it easier for Guatemalans and Salvadorans living abroad to avoid deportation and to obtain legal status in the United States.

⁴¹ Emergency Supplemental Package for Central America, The Caribbean, and Colombia, Fact Sheet released by the State Department's Bureau for Western Hemisphere Affairs, May 25, 1999.

⁴²Prepared by (name redacted), Specialist in Latin American Affairs.

⁴³ For background, see El Salvador under Calderon Sol, CRS Issue Brief 94048, by (name redacted).

Even before Hurricane Mitch, El Salvador faced serious developmental challenges, with continuing poverty and a large number of illegal immigrants abroad. Since 1997, AID has been implementing a six-year rural poverty alleviation strategy. El Salvador received \$35.8 million in U.S. assistance in FY1998, and was initially programmed to receive \$51.4 million in FY1999 from regularly scheduled and reprogrammed aid. Most of the development assistance for El Salvador has been to promote economic growth, democracy, health, and access to clean water. In early 1999, following Hurricane Mitch, the Administration requested \$38.9 million in development assistance and economic support funds for FY2000, and it requested \$20.5 million in FY1999 supplemental assistance for El Salvador as part of the reconstruction assistance for the region.

Extent of the Damage. El Salvador was affected by heavy rains, winds, and flooding as Tropical Storm Mitch passed through Honduras and Guatemala in late October and early November 1998.⁴⁴ According to AID reports, the Government of El Salvador reported that 374 people died or were missing as a result primarily of flash floods. The Government estimated in early November that 55,864 people had been displaced, with 10,372 houses damaged, but most of the displaced population returned home by November 24. Fifteen bridges, including three major bridges over the Lempa River, were destroyed, and the country's roads were seriously damaged. About 60% of the paved roads suffered some surface damage, and secondary roads suffered severe damage. Damage to agriculture was significant, particularly in basic grains, coffee, and sugarcane. Health issues were viewed as the most critical problems in El Salvador. The IDB Consultative Group for Reconstruction of Central America concluded that El Salvador sustained \$261.9 million in direct and indirect damage, with \$160.6 million in damage to productive sectors (mostly agriculture) and \$73.1 million in damage to infrastructure.

Emergency and Reconstruction Response. The United States has provided \$37.7 million in initial assistance, including \$420,000 in DoD assistance, \$20.7 million in food assistance, and \$15.7 million in ongoing AID assistance. The government estimates the cost of reconstruction at \$1.3 billion. The U.N. appeal covering the next six months anticipates spending \$16 million in the health, water and sanitation, agriculture, and education areas.

El Salvador's share of the new U.S. funding for reconstruction in the Emergency Supplemental Appropriations Act for FY1999 (H.R. 1141, P.L. 106-31), approved in May 1999, is \$20.5 million, including \$3.5 million in public health and water projects, \$2 million for construction of housing, \$3 million to rehabilitate and refurbish damaged schools, \$4 million for disaster preparedness activities, and \$8 million for economic reactivation projects.⁴⁵

⁴⁴ For a good after-the-fact damage report, see USAID/El Salvador, Hurricane Mitch Special Objective, 1999, available under Hurricane Relief Efforts on AID's homepage (<http://www.info.usaid.gov>).

⁴⁵ Emergency Supplemental Package for Central America, The Caribbean, and Colombia, Fact Sheet released by the State Department's Bureau for Western Hemisphere Affairs, May 25, 1999.

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