

CRS Report for Congress

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U.S. Foreign Assistance to Latin America and the Caribbean

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U.S. Foreign Assistance to Latin America and the Caribbean

Summary

U.S. foreign assistance programs to developing nations began in earnest after the conclusion of World War II. Trends in U.S. assistance to the region generally reflect the trends and rationales for U.S. foreign aid programs globally. Aid to the region increased during the 1960s with the Alliance for Progress and during the 1980s with aid to Central America. Since 2000, aid levels have again increased, especially in the Andean region as the focus has shifted from Cold War issues to counternarcotics and security assistance. Current aid levels to Latin America and the Caribbean comprise about 9% of the worldwide aid budget, representing a slight increase over levels ten years ago of 8.2%. Aid levels to the region could increase further as new presidential initiatives — the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Account — are implemented.

For FY2005, U.S. assistance to Latin America and the Caribbean is estimated at \$1.8 billion, the largest portion of which is allocated to the Andean region: \$947 million. Mexico and Central America are slated to receive \$311 million, while the Caribbean will receive \$370 million, largely reflecting assistance for hurricane and flood damage. Brazil and the Southern Cone of South America are to receive an estimated \$52 million. The United States also maintains programs of a regional nature that are to total an estimated \$110 million in FY2005.

Aid programs are designed to achieve a variety of goals, from poverty reduction to economic growth. Child Survival and Health (CSH) funds focus on combating infectious diseases and promoting child and maternal health. Development Assistance (DA) promotes sustainable economic growth in key areas such as trade, agriculture, education, the environment, and democracy. For FY2006, the Administration proposes funding for a Transition Initiative (TI) that is designed to support stabilization efforts in fragile states. Funding for TI was formerly part of Development Assistance. Economic Support Funds (ESF) assists countries of strategic importance to the United States, and funds programs relating to justice sector reforms, local governance, anti-corruption, and respect for human rights. P.L. 480 food assistance is provided to countries facing emergency situations, such as natural disasters. Counternarcotics programs seek to assist countries to reduce drug production, to interdict trafficking, and to promote alternative crop development. Foreign Military Financing (FMF) provides grants to nations for the purchase of U.S. defense equipment, services and training.

The annual Foreign Operations Appropriations bills have been the vehicles by which Congress provides funding for foreign assistance programs. The FY2005 Consolidated Appropriations Act (H.R. 4818/P.L. 108-447) provided \$19.7 billion for the foreign assistance budget worldwide. Congress has expressed concerns about a number of related issues, including the general effectiveness of foreign aid programs, and how best to address the HIV/AIDS problem and poverty issues. Congress has also debated the U.S. role in fighting narcotics trafficking and illegally armed groups in Colombia, as well as stabilizing the situation in Haiti. This report will be updated as events warrant.

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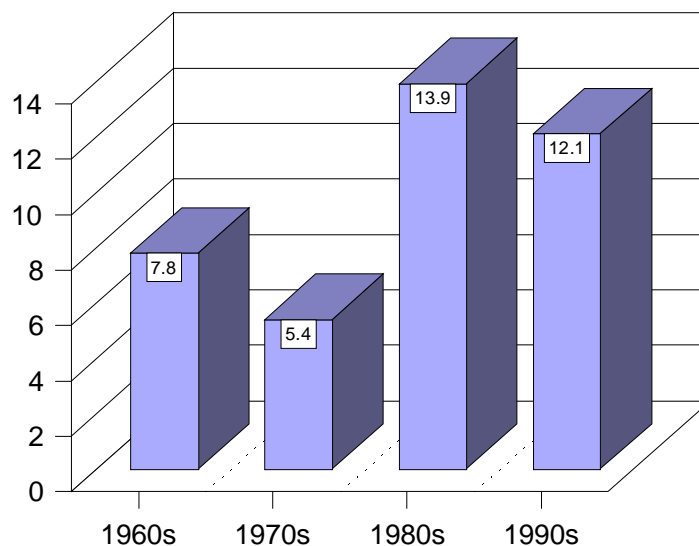
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U.S. Foreign Assistance to Latin America and the Caribbean

Introduction

Trends in U.S. foreign assistance to Latin America generally reflect the trends and rationales for U.S. foreign aid programs globally. U.S. assistance spiked in the 1960s during President Kennedy's Alliance for Progress, reflecting an interest in preventing the spread of Soviet and Cuban influence in the region, and recognizing poverty as one possible root cause of popular discord. In the 1980s, the U.S. focus shifted to the Central American isthmus where leftist insurgencies were challenging friendly governments, and where a leftist movement in Nicaragua had taken control of government through armed combat. Substantial amounts of U.S. assistance were provided to support Central American governments and the U.S.-backed Contras seeking to overthrow the Sandinista government in Nicaragua. In the aftermath of the 1989 U.S. military intervention in Panama, and the 1990 electoral defeat of the Sandinista government in Nicaragua, U.S. assistance to these two countries increased substantially. Central America resolved many of its political problems since then, although it is still one of the least developed areas in the hemisphere. With the dissolution of the Soviet Union in 1991, U.S. concerns about spreading communist influence lessened, and so too did levels of U.S. assistance. Since 2000, assistance has again increased, largely in the Andean region for counternarcotics programs.

Figure 1. U.S. Foreign Assistance to Latin America
(in U.S. \$ billions)



Source: U.S. Agency for International Development, U.S. Overseas Loans and Grants (Greenbook), Latin America and the Caribbean, 2003.

U.S. support for development is identified by President Bush as one of the three pillars, with defense and diplomacy, of the National Security Strategy, developed after the terrorist attacks of September 11, 2001. Since then, foreign assistance programs have been influenced by the need to counter radical groups espousing terrorist tactics in weak states, as well as counternarcotics assistance, mainly in the Andean region of South America. The U.S. Agency for International Development identifies five challenges to which U.S. assistance programs are designed to respond: promoting transformational development;¹ strengthening fragile states; providing humanitarian relief; supporting U.S. geostrategic interests; and mitigating global and transnational ills. USAID identifies the main security threats to the United States as the confluence of terrorism and the proliferation of weapons of mass destruction, and global criminal networks. The focus has shifted to strengthening the institutions of weak states, rather than on just economic growth, because weak states are seen as permissive environments for terrorist and criminal activities.

Compared to other donors, the U.S. share of worldwide economic assistance has declined. Nevertheless, the United States has been in most years the largest donor in absolute terms, although it lags behind others when aid levels are viewed as a percentage of Gross National Income (GNI). (Levels of foreign aid are commonly measured in absolute dollars, or as a percentage of GNI.) In 1972, the United Nations adopted a resolution calling on developed countries to allocate 0.7% of national income for foreign assistance. The United States never committed to this target, and few countries have achieved it. In 2003, U.S. economic assistance has increased to about 0.13%², and will likely continue to increase, albeit not to levels suggested by the United Nations. Since 2000, U.S. aid levels globally have increased. With regard to Latin America and the Caribbean, increases have been seen especially in the Andean region, as the focus shifted from Cold War issues to the fight against drug trafficking and related terrorism activities. In 1994, foreign assistance to the region amounted to 8.2% of the total U.S. foreign aid budget. As of 2004, Latin America and the Caribbean represent about 11% of the total.

In Congress, the annual Foreign Operations Appropriations bills have been the vehicles by which Congress provides funding for, and exercises oversight of foreign assistance programs. Congress has not enacted a comprehensive foreign assistance authorization bill since 1985. For FY2005, Congress provided \$19.7 billion out of the President's \$18.8 billion international affairs request in the FY2005 Consolidated Appropriations Act (H.R. 4818/P.L. 108-447). For FY2006, the President requested \$22.8 billion, with increases due mainly to the new Millennium Challenge Account and the Global HIV/AIDS Initiative. The Millennium Challenge Account (MCA), unveiled in 2002, links U.S. assistance with good governance and measures of

¹ USAID defines transformational development as “development that does more than raise living standards and reduce poverty. It also transforms countries, through far-reaching, fundamental changes in institutions of governance, human capacity, and economic structure that enable a country to sustain further economic and social progress without depending on foreign aid.” *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century*, January 2004.

² Organization for Economic Cooperation and Development, *OECD Development Co-Operation 2003 Annual Report*.

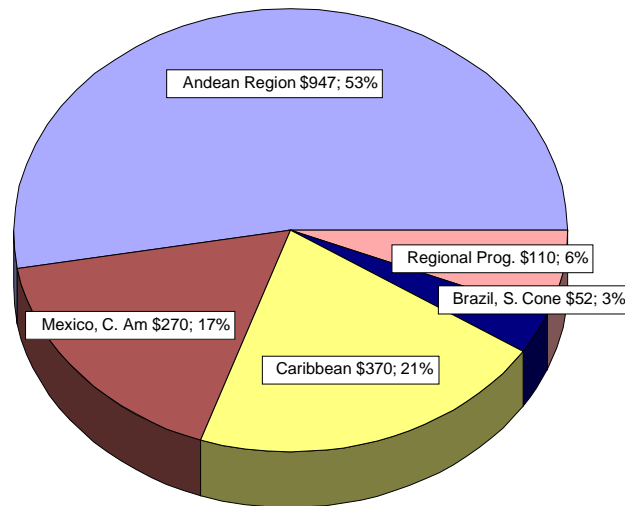
performance of recipient nations. The President has proposed increasing assistance through MCA from the nearly \$10 billion currently spent on official development assistance to \$15 billion by 2006.³ However, the FY2006 request is \$3 billion. The MCA program, if fully funded, represents one of the few marked increases in U.S. foreign assistance since the Marshall Plan after World War II, and the Alliance for Progress in Latin America during the 1960s. For FY2005, Congress appropriated \$1.5 billion for MCA.

Assistance by Sub-Region

For FY2005, U.S. assistance to Latin America and the Caribbean is estimated at \$1.8 billion. The largest portion, \$947 million, is allocated to the Andean countries of Bolivia, Colombia, Peru, Ecuador, and Venezuela, and represents 53% of regional assistance. Another \$270 million, or 17%, is allocated to Mexico and Central America, while the Caribbean would receive \$370 million, or 21%, largely reflecting hurricane and flood assistance. Brazil and the Southern Cone of South America are to receive an estimated \$52 million, or 3%. The United States also maintains aid programs of a regional nature, such as trade capacity building, and migration and refugee assistance, that are to total an estimated \$110 million, or 6%, in FY2005.

Figure 2. U.S. Assistance to Latin America by Sub-Region, FY2005

\$ U.S. Millions



³ For more information on the Millennium Challenge Account, see CRS Report RL31687, *The Millennium Challenge Account: Congressional Considerations of a New Foreign Aid Initiative*, by Larry Nowels.

South America

The largest recipients of U.S. foreign assistance in South America are the Andean nations of Colombia, Bolivia, and Peru, where most of the world's cocaine originates. These nations receive funding from the Andean Counterdrug Initiative (ACI), military assistance such as FMF and IMET, as well as bilateral economic assistance in the form of Development Assistance, Child Survival and Health, and Economic Support Funds. The Andean countries of Venezuela and Ecuador, and the non-Andean nations of Brazil and Panama also receive ACI funds but to a smaller degree than Colombia, Bolivia and Peru. U.S. assistance to Argentina, Brazil, Chile, Uruguay, and Paraguay totaled \$52 million in FY2005. Requested amounts for these five countries for FY2006 total \$45 million.⁴ By contrast, U.S. assistance to the Andean region totaled \$946.9 million in FY2005, and \$957.8 million requested for FY2006.

The Andean Region. The area is generally known for its rugged terrain, from Peru's Pacific coastline to the Andes mountain range that traverses Peru, Bolivia, Colombia and Ecuador, to Amazonian basin regions marked by tropical rainforests. The region has large indigenous communities, high levels of poverty, and a history of political unrest. U.S. assistance to the Andean region has focused on narcotics trafficking since 2000, when Congress approved \$1.3 billion in support of Plan Colombia. The United States had supported counternarcotics issues in the Andes prior to 2000, but the levels of funding were far less.

Figure 3. The Andean Region



Source: Map Resources. Adapted by CRS. (K.Yancey 5/20/04)

Funding for the Andean Counterdrug Initiative (ACI) amounted to \$725 million in FY2005 while \$734.5 million was requested for FY2006. Most of ACI funding is for programs in Colombia (\$463 million) where 80% of the world's cocaine is produced. Peru (\$115 million) and Bolivia (\$90 million) are also major recipients. Ecuador is allocated to receive \$26 million in FY2005 funds, Brazil \$8.9 million, Venezuela \$3 million, and Panama \$6 million. In addition, Congress provided \$1 million each to Guatemala and Nicaragua. For FY2006, the Administration proposes spending a total of \$734.5 million, with Colombia receiving the same amount as in the previous year and

⁴ Brazil receives assistance from the Andean Counterdrug Initiative because it shares a 1,000 mile border with Colombia even though Brazil is not considered an Andean country. This included \$8.9 million in FY2005, and a requested amount of \$6 million for FY2006.

neighboring countries receiving cuts. Bolivia would receive \$80 million, Peru \$97 million, Brazil \$6 million, Ecuador \$20 million, Venezuela \$3 million, and Panama \$4.5 million. Other ACI funding includes an increase, to \$21 million, for the Air Bridge Denial Program, and \$40 million for a new Critical Flight Safety Program, which would upgrade and refurbish aging aircraft used for eradication programs. In addition to the ACI program, the Andean countries receive FMF funding, totaling \$103 million in FY2005, and \$93 million requested for FY2006. The largest portion (\$99 million in FY2005, and \$90 million in FY2006) goes to Colombia.

The region also receives economic assistance funds. Bolivia and Peru are major recipients of Development Assistance, Child Survival and Health Funds, and food aid. Ecuador and Peru receive sizeable amounts of Economic Support Funds. The Peace Corps maintains programs in Bolivia, Ecuador, Panama, and Peru. While Colombia is a major recipient of ACI funds, it does not receive any economic assistance, although portions of ACI funds are transferred to USAID for alternative development and institution-building programs.

Andean Counterdrug Initiative. The Andean Counterdrug Initiative is the centerpiece of U.S. policy toward Colombia and the Andean region. It seeks to curb narcotics production and trafficking, and to promote democracy and economic development, which it is believed will strengthen regional security. Colombia, Peru, and Bolivia produce virtually all of the world's cocaine, and Colombia has been a source of increasing amounts of high quality heroin destined for the United States. The two leftist guerrilla organizations and a rightist paramilitary organization operating in Colombia profit from the drug trade. All three — the Revolutionary Armed Forces of Colombia (FARC), the National Liberation Army (ELN), and the United Self-Defense Forces of Colombia (AUC) — have been designated foreign terrorist organizations by the State Department. The FARC and AUC have also been designated as Significant Foreign Narcotics Traffickers under the Foreign Narcotics Kingpin Designation Act (P.L. 106-120)

The United States has made a significant commitment of funds and material support to help the region fight drug trafficking. Congress passed legislation providing \$1.3 billion in assistance for FY2000 (P.L. 106-246), and has provided a total of \$5.4 billion from FY2000 through FY2005 in both State Department and Defense Department counternarcotics accounts. Since 2002, Congress has granted expanded authority to use counternarcotics funds for a unified campaign to fight both drug trafficking and terrorist organizations in Colombia. ACI funding for FY2005 is estimated at \$725 million. The region is to receive an estimated \$103 million in FY2005 in Foreign Military Financing (FMF) funds, most of which is allocated for Colombia. The Administration has requested \$734.5 million for the ACI program in FY2006, of which \$40 million is for a new Critical Flight Safety Program to upgrade and refurbish aging aircraft. The FY2006 request for FMF totals \$93 million.

Congress has debated a number of issues relating to the Andean Counterdrug Initiative. These include continuing allegations of human rights abuses; the expansion of U.S. assistance for counterterrorism and infrastructure protection; the health and environmental consequences of aerial fumigation for drug control; the progress of alternative development to replace drug crops with licit crops; judicial

reform and rule of law programs; the level of risk to U.S. personnel in Colombia and the continued captivity of three American hostages held by the FARC. Because Plan Colombia is a six-year plan, Congress will most likely review its progress in light of consideration of continued U.S. assistance after 2005. Further, the Bush Administration requested, and Congress approved in the FY2005 National Defense Authorization Act (S. 2400/P.L. 108-375), increasing the number of both U.S. military and civilian contractors that can be deployed to Colombia in support of Plan Colombia. Previously Congress imposed caps of 400 each for military and civilian contractors. The new provision raises the caps to 800 for military personnel and 600 for civilian contractors.

ACI also funds the controversial Air Bridge Denial Program that is currently operational in Colombia, and temporarily suspended in Peru, after an accidental shooting down of a civilian aircraft carrying U.S. missionaries in 2001. After the incident, in which two Americans died, the program in both countries was suspended until enhanced safeguards were developed. The program in Colombia resumed in August 2003. The program supports an aircraft fleet, pilot training, and logistical and intelligence support. It tracks aircraft suspected of being involved in drug trafficking, and forces them to land for inspection. If the aircraft is repeatedly unresponsive, it may be shot down, at the direction of the commander of the Colombian Air Force. The resumption of a program in Peru is still pending the development of safety enhancements. The FY2005 request was for \$21 million, and Congress approved \$11.1 million. Funding was not provided in the previous two fiscal years, as the program was suspended during 2001. The FY2006 request is for \$21 million.

For more information, see CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette; CRS Report RL32250, *Colombia: Issues for Congress*, by Connie Veillette; and CRS Report RL32774, *Plan Colombia: A Progress Report*, by Connie Veillette.

**Table 1. U.S. Foreign Assistance to the Andean Region
FY2005 Estimates and FY2006 Funding Request**
(in \$ millions)

Country	DA	CSH	ESF	PL 480	IMET	ACI	FMF	Other	Total
Bolivia - 05	11.82	16.40	7.94	16.80	.80	90.27	1.98	3.06	149.07
FY2006 Req	14.54	14.89	8.00	24.66	.80	80.00	1.80	2.93	147.62
Colombia - 05					1.70	462.77	99.20	4.12	567.79
FY2006 Req					1.70	463.00	90.00	4.12	558.82
Ecuador - 05	6.69	.15	12.90		.30	25.79	.99	3.13	49.95
FY2006 Req	7.43		7.00		.05	20.00	.75	3.04	38.27
Peru - 05	11.63	13.89	7.94	12.92	.30	115.37	.99	2.43	165.47
FY2006 Req	15.35	11.95	8.00	13.25	.05	97.00	.30	2.65	148.55
Venezuela - 05			.50			2.98			3.48
FY2006 Req			.50			3.00			3.50
Air Bridge - 05						11.11			11.11
FY2006 Req						21.00			21.00
Critical Flight Safety - 05									
FY2006 Req						40.00			40.00
Total - 05	30.14	30.44	29.28	29.72	3.10	708.29	103.16	12.74	946.87
Total - 06	37.32	26.84	23.50	37.91	2.60	724.00	92.85	12.74	957.76

Source: Figures are drawn from Congressional Budget Justification, Foreign Operations, Summary Tables, Fiscal Year 2006, U.S. Department of State. Prepared by CRS, March 25, 2005. Excludes \$8.9 million for Brazil and \$5.9 million for Panama in FY2005. Both receive ACI funding because they share borders with Colombia, although neither is considered an Andean nation. The total for FY2006 also excludes \$6 million for Brazil and \$4.5 million for Panama. "Other" includes Non-proliferation, Anti-terrorism, De-mining and Related Programs (NADR) and Peace Corps.

- DA - Development Assistance
- CSH - Child Survival and Health
- ESF - Economic Support Funds
- PL 480 - emergency food aid
- IMET - International Military Education and Training
- ACI - Andean Counterdrug Initiative
- FMF - Foreign Military Financing

Brazil and The Southern Cone. The countries of Brazil, Argentina, Chile, Paraguay, and Uruguay are considered middle-income countries and therefore receive lower levels of assistance. The area is allocated to receive \$52 million in FY2005, while nearly \$45 million was requested for FY2006. Most of this funding goes to Brazil for Development Assistance and Child

Figure 4. South America



Source: Map Resources. Adapted by CRS. (K.Yancey 4/20/04)

Survival and Health, and Paraguay for Development Assistance, Child Survival and Health, and Economic Support Funds. The Peace Corps maintains a program in Paraguay. As mentioned earlier, Brazil receives ACI funding because it shares a long border with Colombia. The focus in Brazil is on generating sustainable economic growth and addressing extensive poverty and social inequality. Nearly one-third of Brazilians live below the international poverty line.⁵ With regard to health issues, nearly 60% of all HIV/AIDS cases in South America are in Brazil, while the country also ranks high in malaria and tuberculosis cases. Another area of focus is environmental degradation, particularly in the Amazon region, where deforestation is a problem. Paraguay, the region's second largest recipient of aid, has suffered multiple years of stagnant growth and a large external debt. U.S. programs focus on economic growth, reproductive health, the environment, and democracy.

**Table 2. U.S. Foreign Assistance to Brazil & the Southern Cone
FY2005 Estimates and FY2006 Request**
(in \$ millions)

Country	DA	CSH	ESF	ACI	FMF	IMET	Other	Total
Argentina 05					.99	.83	.05	1.87
FY2006 Req					1.00	1.10	.10	2.20
Brazil 05 ^a	7.98	9.32		8.93			.05	26.28
FY2006 Req	7.13	9.19	.75	6.00		.05	.08	23.20
Chile 05					.50	.60		1.10
FY2006 Req					.75	.60		1.35
Paraguay 05	3.79	2.00	2.98			.25	3.07	12.09
FY2006 Req	6.79	1.48	2.55			.05	2.92	13.79
Uruguay 05					.40	.15		.55
FY2006 Req					.15	.05		.20
Amazon Env. 05	8.00							8.00
FY2006 Req								
S. Am. Reg 05	2.04							2.04
FY2006 Req	2.30	1.35						3.65
Triborder 05							.50	.50
FY2006 Req							.50	.50
Total - 2005	21.81	11.32	2.98	8.93	1.89	1.83	3.67	52.43
Total - 2006	16.22	12.02	3.30	6.00	1.90	1.85	3.60	44.89

Source: Figures are drawn from Congressional Budget Justification, Foreign Operations, Summary Tables, Fiscal Year 2006 U.S. Department of State. Table prepared by CRS, March 28, 2005. "Other" includes Non-proliferation, Anti-terrorism, De-mining and Related Programs (NADR) and Peace Corps.

a. Brazil receives ACI funding because it shares a 1,000 mile border with Colombia, although it is not considered an Andean nation.

⁵ The World Bank defines the international poverty line as U.S. \$1 and \$2 per day in 1993 Purchasing Power Parity (PPP), which adjusts for differences in the price of goods and services between countries. The \$1 per day level is generally used for the least developed countries, such as in Africa, while the \$2 per day level is used for middle income countries such as in Latin America.

Figure 5. Mexico and Central America



Source: Map Resources. Adapted by CRS. (K. Yancey 4/18/04)

Mexico and Central America

Mexico. Although Mexico has a stronger bilateral relationship with the United States than any other country in Latin America, it is a middle-income nation that has not been a traditional recipient of U.S. foreign assistance. With the entry into force of the North American Free Trade Agreement (NAFTA) in 1994, Mexico became the United States' second largest trading partner in 1999. Burgeoning trade ties coincided with the election of new administrations in both countries in 2000 to produce greater U.S.- Mexico cooperation in the areas of counter-narcotics, immigration, law enforcement, and trade. Although foreign aid allocations to Mexico totaled \$31 million in FY2001, the Administration estimates spending nearly \$74 million in FY2005. This increase is primarily the result of a large rise in counter-narcotics (INCLE) funding, which rose from a \$12 million allocation in FY2003 to a request for \$40 million in FY2005, used since 2001 to improve Mexico's interdiction capacity, surveillance, and intelligence capabilities. Mexico also receives a small amount of IMET funds for military training, as well as economic assistance to promote growth, accountable governance and rule of law, infectious disease prevention and control, and educational exchange and scholarships. For FY2006, the Administration has requested \$30 million in counter-narcotics funding, and about \$36 million in DA, CSH, ESF, FMF, and IMET funds.

Central America. Central America is a region comprised of seven small countries with limited populations and economic resources. Although Panama and Belize are on the Central American isthmus and receive small amounts of U.S. aid, their distinctive histories distinguish them from the five core countries — Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica — generally referred to as "Central America." Belize is considered a Caribbean nation because of its history and linkages with the English-speaking Caribbean. Panama has a history of extensive economic linkages with the United States because of the Panama Canal. Among the five core Central American countries, Costa Rica enjoys a long history of stable

democracy and a per capita income that is 10 times greater than that of Nicaragua. The other four countries, although posting significant democratic and economic improvements in the 1990s, are still recovering from decades of civil war and trying to confront high levels of poverty and violent crime. Despite these differences, each of the countries in Central America is highly dependent on trade with the United States, and that trade is likely to increase significantly if the Central America Free Trade Agreement (CAFTA) is approved by Congress. Accordingly, the Central America Regional program, for which the Administration requested nearly \$14 million in FY2006, has focused on fostering regional trade integration, democracy programs, and immigration issues, organized crime (including gangs), and drug trafficking. The FY2005 Consolidated Appropriations Act (P.L. 108-447) provided that CSH and DA funding for Central America should not be less than what was provided in FY2004.

The major recipients of U.S. foreign assistance in Central America include El Salvador, Guatemala, Honduras, and Nicaragua. These nations receive substantial amounts of Development Assistance (DA) to fund trade capacity-building, justice sector reform, and other democracy programs. These programs are supplemented by Economic Support Fund (ESF) money in the case of Guatemala, Nicaragua, and Panama, and by a region-wide estimate of \$20 million for FY2005 for trade capacity building. All four countries continue to receive between \$6 million and \$11 million in Child Survival and Health (CSH) funds, which are especially focused on the prevention and treatment of HIV/AIDs and other infectious diseases. They also receive between \$7 million and \$21 million in Development Assistance. As a result of extreme rural poverty and recent natural disasters, each has also been eligible at times for P.L. 480 emergency food assistance. Possessing high levels of poverty and unsustainable levels of foreign debt, Honduras and Nicaragua have additionally qualified for debt-relief under the Highly Indebted Poor Country (HIPC) initiative. In 2004, Nicaragua and Honduras were selected as countries eligible to receive grants from the new Millennium Challenge Account.

Finally, the United States provides small amounts of International Military Education and Training (IMET) funding to El Salvador, Guatemala, Honduras and Nicaragua so that both civilian and military leaders can participate in professional training programs. On March 24, 2005, the United States lifted a 15-year ban on military assistance to Guatemala, making it eligible to receive some \$3 million in military assistance in FY2006. El Salvador is the only country in Latin America that has sent troops to Iraq. It is also home to one of the three counter-narcotics Forward Operating Locations (FOLs) in the region. The FY2006 request of \$13 million in Foreign Military Financing for El Salvador is substantially higher than the \$1.5 million allocated in FY2005.

For more information, see CRS Report RL32724, *Mexico-U.S. Relations: Issues for the 109th Congress*, by K. Larry Storr; CRS Report RL32322, *Central America and the Dominican Republic in the Context of the U.S.-Central America Free Trade Agreement (CAFTA)*, by K. Larry Storr; CRS Report RL30981, *Panama: Political and Economic Conditions and U.S. Relations*, by Mark Sullivan; CRS Report RS21655, *El Salvador: Political and Economic Conditions and Relations with the United States*, by Clare Ribando; CRS Report RS21103, *Honduras: Political and Economic Situation and U.S. Relations*, by Mark Sullivan, CRS Report RL32124; *Guatemala: Political Conditions, Elections and Human Rights*, by Maureen Taft-Morales; and CRS Report RS21943, *Costa Rica: Background and U.S. Relations*, by Connie Veillette.

**Table 3. Mexico and the Central America
FY2005Funding Estimates and FY2006Funding Request**
(in \$ millions)

Country	DA	CSH	ESF	PL 480	IMET	INCLE	FMF	Other	Total
Mexico -05	14.89	3.23	13.39		1.25	39.68		1.24	73.68
FY2006Req	16.21	3.23	11.50		1.10	30.00	2.50	1.75	66.29
Costa Rica-05								1.73	1.73
FY2006 Req					.05			1.63	1.68
El Salvador -05	27.19	7.38			1.60		1.49	2.58	40.24
FY2006Req	18.89	6.47			1.60		13.00	2.56	42.52
Guatemala-05	10.90	11.60	5.95	18.03	.35	.99		3.73	51.55
FY2006Req	9.66	9.90	4.00	16.31	.40	2.50	.50	3.59	46.86
Honduras-05	21.61	13.34		14.01	1.10		.99	4.04	55.09
FY2006Req	19.93	10.85		14.19	1.10		1.00	3.83	50.90
Nicaragua-05	26.80	7.81	3.47	8.99	.60	.99	.50	2.91	52.07
FY2006Req	21.31	5.98	1.88	12.23	.60		.75	2.45	45.20
Panama-05 ^a	5.18		2.98		.60	5.95	.99	2.88	18.58
FY2006Req	6.60		2.00		.60	4.50	1.10	2.62	17.42
Central Am. Regional - 05	12.55	5.68							18.23
FY2006Req	8.01	5.84							13.85
Total - 05	119.12	49.04	25.79	41.03	5.50	47.61	3.97	19.11	311.17
Total - 06	100.61	42.27	19.38	42.73	5.45	37.00	18.85	18.43	284.72

Source: Figures are drawn from Congressional Budget Justification, Foreign Operations, Summary Tables, Fiscal Year 2006, U.S. Department of State. Table prepared by CRS, March 29, 2005.

^a INCLE funding for Panama is from the Andean Counterdrug Initiative account. Panama shares a border with Colombia, although it is not considered an Andean nation.

Caribbean

With some 34 million people and 16 independent nations sharing an African ethnic heritage, the Caribbean is a diverse region that includes some of the hemisphere's richest and poorest nations. In addition to the 13 island nations, the Caribbean region also includes two countries located on the northern coast of South America, Guyana and Suriname, and one country, Belize, located in Central America, that historically and culturally share similar backgrounds with the Caribbean.

The United States has provided considerable amounts of foreign assistance to the Caribbean over the past 25 years. U.S. assistance to the region in the 1980s amounted to about \$3.2 billion, with most concentrated in Jamaica, the Dominican Republic, and Haiti. An aid program for the Eastern Caribbean also provided considerable assistance, especially in the aftermath of the 1983 U.S.-led military intervention in Grenada. In the 1990s, U.S. assistance to Caribbean nations declined to about \$2 billion, or an annual average of \$205 million. Haiti was the largest recipient of assistance during this period, receiving about \$1.1 billion in assistance or 54% of the total. Jamaica was the second largest U.S. aid recipient in the 1990s, receiving about \$507 million, almost 25% of the total, while the Dominican Republic received about \$352 million, about 17% of the total. Eastern Caribbean nations received about \$178 million in assistance, almost 9% of the total. The bulk of U.S. assistance was economic assistance, including Development Assistance, Economic Support Funds, and P.L. 480 food aid. Military assistance to the region amounted to less than \$60 million during the 1990s.

Since FY2000, U.S. aid to the Caribbean region (including FY2005 aid estimates) has again increased, amounting to about \$1.2 billion, because of increased HIV/AIDS assistance to the region (especially to Guyana and Haiti), disaster and reconstruction assistance in the aftermath of several hurricanes and tropical storms in 2004, and increased support for the interim government in Haiti following the departure of President Jean-Bertrand Aristide from power. Haiti accounted for some 47% of assistance to the Caribbean region during this period. As in the 1990s, the bulk of assistance to the region consisted of economic assistance. With regard to hurricane disaster assistance, Congress appropriated \$100 million in October 2004 in emergency assistance for Caribbean nations (P.L. 108-324), with \$42 million for Grenada, \$38 million for Haiti, \$18 million for Jamaica, and \$2 million for other countries affected by the storms.

The FY2005 omnibus appropriations measure (P.L. 108-447, Division D) earmarked ESF assistance for several countries and programs in the Caribbean, including \$9 million for the Third Border Initiative, \$9 million for Cuba democracy programs, \$3 million for the Dominican Republic, and \$40 million for Haiti for judicial reform, police training, and national elections. The measure also earmarked \$20 million in Child Survival and Health funds and \$25 million in Development Assistance for Haiti.

For FY2006, the Bush Administration requested about \$316 million in assistance for the region, with \$196 million for Haiti, \$28 million for the Dominican Republic, \$27 million for Guyana, and \$19 million for Jamaica. Assistance to the seven small nations of the Eastern Caribbean (Antigua and Barbuda, Barbados

Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines) would be provided through USAID's Caribbean Regional program, which also funds some region-wide projects; for FY2005, the Administration requested almost \$10 million for the regional program. The Eastern Caribbean would also receive almost \$5 million in military assistance and a Peace Corps program. The request of \$6 million for a "Third Border Initiative" (TBI) would fund regional projects for the 14-nation Caribbean Community (CARICOM) plus the Dominican Republic that focus on administration of justice; safety and security for the flow of people, goods, and services in the region; and disaster preparedness. The TBI program would also help support smaller economies move toward greater competitiveness and also support improvement in environmental management. Operation Enduring Friendship, a new military assistance program, would support efforts to increase maritime security in the region. For FY2006, the request would provide assistance to the Dominican Republic and Panama and to a lesser extent the Bahamas and Jamaica to help them improve maritime security.

Looking ahead to future years, several Caribbean nations are potential recipients for Millennium Challenge Account (MCA) assistance, an initiative to target foreign assistance to countries with strong records of performance in the areas of governance, economic policy, and investment in people. While Haiti and Guyana were potentially eligible for MCA funds in FY2004 (because their per capita income was below \$1,415) neither country was approved to participate. Guyana could be approved in future years, but Haiti would likely have difficulty meeting the criteria for MCA funding. Beginning in FY2006, four additional Caribbean countries could become eligible for MCA funding, because their per capita income levels are below \$3,035: Belize, the Dominican Republic, Jamaica, and Suriname. (Also see "Millennium Challenge Account" below.)

For more information, see CRS Report RL32160, *Caribbean Region: Issues in U.S. Relations*, by Mark Sullivan, and CRS Report RL32001, *AIDS in the Caribbean and Central America*, by Mark Sullivan.

Cuba. Over the past several years, the U.S. Agency for International Development (USAID) has provided assistance to increase the flow of information on democracy, human rights, and free enterprise to Communist Cuba. The assistance has been part of the U.S. strategy of supporting the Cuban people while at the same time isolating the government of Fidel Castro through economic sanctions. USAID's Cuba program supports a variety of U.S.-based nongovernmental organizations to promote rapid, peaceful transition to democracy, help develop civil society, and build solidarity with Cuba's human rights activists. These efforts are funded through Economic Support Funds (ESF) in the annual foreign operations appropriations bill. In FY2001, \$4.989 million was provided for various Cuba projects; \$5 million was provided in FY2002; \$6 million was provided in FY2003; and while almost \$7 million was appropriated in FY2004, ultimately the Administration provided the \$21.4 million to fund democracy-building activities recommended by the inter-agency Commission for Assistance to a Free Cuba. For FY2005, the Administration requested and Congress appropriated (P.L. 108-447, Division D) \$9 million to promote democratization, respect for human rights, and the development of a free market economy in Cuba.

For FY2006, the Administration is requesting \$15 million in ESF assistance for democracy activities for Cuba. The funds would support USAID-administered programs with democracy and human rights groups, focusing on those groups that disseminate information to the Cuban people and those that provide humanitarian assistance to victims of political repression and their families. USAID will also continue to work with third-country non-governmental organizations in Latin America and Europe to raise awareness of Cuban government repression.

In addition to funding through foreign operations appropriations, the United States provides democratization assistance for Cuba through the National Endowment for Democracy (NED), which is funded in annual State Department appropriations measures. Cuba funding through NED has steadily increased over the past several years. NED-funded democracy projects for Cuba amounted to \$765,000 in FY2001; \$841,000 in FY2002; \$1.143 million in FY2003; and \$1.149 million in FY2004.

For more information, see CRS Report RL32730, *Cuba: Issues for the 109th Congress*, by Mark Sullivan.

Haiti. Following a period of political discord and violence, President Jean-Bertrand Aristide resigned under disputed circumstances in February 2004, and an interim government was established. The United Nations authorized an international force, mainly composed of U.S. Marines, and French and Canadian police and military forces, to help restore order. This was subsequently replaced by a U.N. peacekeeping force, the U.N. Stabilization Mission in Haiti (MINUSTAH) beginning in June 2004, with the objective of securing a stable and secure environment and advancing the rule of law. The goal of new elections in 2005 could prove illusive amid continued violence. U.S. foreign aid to Haiti increased significantly in support of the interim Haitian government. Assistance increased from about \$72 million in FY2003 to \$132 million in FY2004, and an estimated \$163 million in FY2005. Because Haiti is a focus country under the President's Emergency Plan for AIDS Relief (PEPFAR), it has benefitted from increased assistance to combat HIV/AIDS. In FY2004, Haiti received about \$13 million in assistance under the Global HIV/AIDS Initiative (GHAI) account, while in FY2005 it will receive an estimated \$39 million. Haiti also received \$38 million in FY2005 disaster and reconstruction assistance following Tropical Storm Jeanne that killed some 3,000 Haitians in September 2004. For FY2005, Congress earmarked \$85 million for Haiti in FY2005 in the Consolidated Appropriations Act (P.L. 108-447) in Child Survival and Health assistance, Development Assistance, and Economic Support Funds.

For FY2006, the Administration is requesting \$196 million for Haiti, with \$50 million in ESF, \$47 million in GHAI assistance, \$32 million in food aid, and \$19 million for Child Survival and Health assistance. Unlike previous years, the Administration is not requesting any Development Assistance funding for Haiti. Instead, the FY2006 request includes \$30 million in Transitions Initiatives (TI) funding. This account provides funding to encourage stability, reform, and capacity development in fragile states. According to the Administration's request, the TI assistance will help restore and sustain a climate of peace and security, revitalize the

Haitian economy, and improve conditions for democratic processes to take place, including free and fair elections.

For more information, see CRS Report RL32294, *Haiti: Developments and U.S. Policy Since 1991 and Current Congressional Concerns*, by Maureen Taft-Morales.

**Table 4. U.S. Foreign Assistance to the Caribbean
FY2005 Estimates and FY2006 Requests**

(in \$ millions)

Country	DA	CSH	GHAI	ESF	PL480	IMET	INCLE	FMF	Other	Total
Bahamas 05 FY2006 Req						.24 .24	.99 .50	.10 .10		1.33 .84
Belize 05 FY2006 Req						.20 .20		.20 .20	1.72 1.69	2.12 2.09
Cuba 05 FY2006 Req				8.93 15.00						8.93 15.00
DR 05 FY2006 Req	7.06 9.08	13.00 10.55		2.98 3.00		1.10 1.10		.99 1.00	3.36 3.35	29.09 28.08
Guyana 05 FY2006 Req	3.46 3.94		13.15 21.36			.30 .30		.10 .10	1.54 1.52	18.55 27.22
Haiti 05 FY2006 Req	25.00	20.00 19.32	39.37 47.00	39.68 50.00	37.70 32.53	.15 .22	15.00	.30 1.00	1.39 31.41	163.59 196.48
Jamaica 05 FY2006 Req	12.88 10.91	4.56 3.29				.70 .70	1.48 1.00	.60 .60	2.93 2.87	23.15 19.37
Suriname 05 FY2006 Req						.15 .15		.10 .10	1.26 1.25	1.51 1.50
Trinidad & Tobago 05 ^a FY2006 Req						.05				.05
Third Border 05 FY2006 Req				8.93 6.00						8.93 6.00
Op. Enduring Friendship 05 FY2006 Req								5.00		5.00
Carib. Region 05 FY2006 Req	2.81 4.92	4.73 4.73							100.00	107.54 9.65
East. Carib. 05 FY2006 Req						.80 .78		.99 1.25	3.06 2.95	4.85 4.98
Total - 2005	51.81	42.29	52.52	60.52	37.70	3.64	2.47	3.38	115.26	369.59
Total - 2006	28.85	37.89	68.36	74.00	32.53	3.74	16.50	9.35	45.04	316.26

Source: Figures are drawn from Congressional Budget Justification, Foreign Operations, Summary Tables, Fiscal Year 2006 U.S. Department of State. Table prepared by CRS, March 29, 2005. "Other"

includes Peace Corps; \$100 million for Caribbean Regional assistance was for disaster assistance; and \$30 million for Haiti is for Transition Initiatives. Operation Enduring Friendship includes activities in Panama.

Regional Programs

The United States also provides assistance for programs that have a regional scope. The Latin America and Caribbean (LAC) program is the largest regional program and provides Child Survival and Health, Development Assistance, and Economic Support Funds for a number of purposes, such as justice and health-related programs. Funds will be used to strengthen democratic institutions and processes, improve education and health, and protect biodiversity and support new environmental technologies. Anti-Terrorism funding for the Western Hemisphere focuses mainly on Colombia, and the tri-border region of Argentina, Brazil and Paraguay. INCLE funding is also provided to the region centering on drug transit zones in Central America and the Caribbean.

**Table 5. Western Hemisphere Regional Programs
FY2005 Estimates and FY2006 Request**
(in \$ millions)

Program	Funding Level
Anti-Corruption (ESF) - FY2005	2.98
FY2006	3.00
Anti-Terrorism Assistance - FY2005	6.65
FY2006	5.31
Hemispheric Cooperation - FY2005	
FY2006	12.00
Latin America/Caribbean Regional - FY2005	43.00
FY2006	47.28
Latin America Regional (INCLE) - FY2005	3.22
FY2006	2.00
Migration/Refugee Assistance - FY2005	23.03
FY2006	26.00
OAS Demining - FY2005	1.77
FY2006	1.60
OAS Development Assistance - FY2005	4.86
FY2006	5.23
OAS Fund for Strengthening Democracy - FY2005	2.98
FY2006	2.50
Regional Security Fund (ESF) - FY2005	
FY2006	1.50
Summit of the Americas Support - FY2005	1.49
FY2006	3.00
Trade Capacity - FY2005	19.84
FY2006	
Western Hemisphere Regional (NADR) - FY2005	
FY2006	.05
Total - FY2005	109.82
Total - FY2006	109.87

Source: Figures are drawn from Congressional Budget Justification, Foreign Operations, Summary Tables, Fiscal Year 2006 U.S. Department of State. Table prepared by CRS, March 25, 2005.

Note: The amount of ATA assistance in FY2005 includes \$3.0 million for Colombia and \$1 million for the tri-border region of Argentina, Brazil, and Paraguay.

Additional Issues for Congress

Effectiveness of Programs

Congressional debate on foreign aid issues has often focused on whether it is effective in reducing poverty, and promoting U.S. interests abroad. Critics argue that aid is often wasted on countries that do not responsibly use the assistance to promote the welfare of their citizens. Others argue that programs are often ill-designed in relation to their goals. Proponents of foreign aid argue that development is a long term process that must be consistently implemented to see results. Recent studies have noted a marked lack of progress in reducing global poverty, and question the correlation between levels of development assistance and program success.⁶ Others argue that U.S. assistance, as currently structured, does not contribute as much to sustainable economic growth as does trade.⁷ One of the reasons suggested to explain this perceived lack of success is that aid programs often have objectives other than pure development, such as national security, environmental or human rights considerations. Another reason often pointed to is the nature and extent of corruption in societies that have little history of transparency.

The newly created Millennium Challenge Account seeks to address some of these concerns, in the view of the Bush Administration. The MCA links assistance to recipients' performance on a number of good governance and sound economic policy criteria. (See discussion below.) Proponents of the MCA view it as a way to reform foreign aid programs by rewarding good performers and by focusing on the objectives of poverty reduction, with limited consideration of strategic or political objectives. Critics raise concerns that by creating new aid programs, including the HIV/AIDS initiative, which will coexist with traditional aid programs, there will be a fragmentation of resources, and potentially a lack of coordination among the various entities administering the programs.⁸

Legislation has been introduced in both the House and the Senate to create a Social Investment and Economic Development Fund for the Americas (H.R. 953/S. 682) that would authorize an additional \$250 million in each fiscal year, from FY2006 through FY2010.

⁶ Paul Collier and David Dollar, "Aid Allocation and Poverty Reduction," The World Bank, January 1999; *Foreign Assistance in Focus: Emerging Trends*, InterAction, November 2003; and William Easterly, "The Failure of Development," *Financial Times*, July 3, 2001.

⁷ Evan Osborne, "Rethinking Foreign Aid," *Cato Journal*, Fall 2002.

⁸ *Foreign Assistance in Focus: Emerging Trends*, InterAction, November 2003.

For more information, see CRS Report 98-916, *Foreign Aid: An Introductory Overview of U.S. Programs and Policy*, by Curt Tarnoff and Larry Nowels.

Article 98 Agreements

A further concern of policymakers has centered on current U.S. policy opposing the application of jurisdiction of the International Criminal Court to U.S. citizens. Countries who have not agreed to sign so-called Article 98 agreements with the United States are subject to a cutoff of U.S. military assistance, comprising Foreign Military Financing, International Military Education and Training funds, and the Excess Defense Articles program. (Such agreements, referring to Article 98 of the Rome Treaty on the International Criminal Court, prevent the ICC from proceeding with a request for the surrender of U.S. personnel present in the country.) These agreements are required under the American Services Members Protection Act of 2002, that was incorporated as Title II of H.R. 4775, the FY2002 Supplemental Appropriations Act (P.L. 107-206). Section 574 of the FY2005 Foreign Operations Appropriations (Division D of P.L. 108-447) extends the provision of law to include Economic Support Funds. The President may waive the law if it is in the national interest. Colombia, the major recipient of military assistance in Latin America, has signed an agreement. Others, such as Bolivia, have been given waivers.

HIV/AIDS in the Caribbean and Central America

The AIDS epidemic in the Caribbean and Central America has begun to have negative consequences for economic and social development, and continued increases in infection rates threaten future development prospects. In contrast to other parts of Latin America, the mode of transmission in several Caribbean and Central American countries has been primarily through heterosexual contact, making the disease difficult to contain because it affects the general population. The Caribbean countries with the highest prevalence or infection rates are Haiti, with a rate of 5.6%; Trinidad and Tobago, with a rate of 3.2%; the Bahamas, with a rate of 3%; Guyana, with a rate of 2.5%; and Belize, with a rate of 2.4%. (Belize and Guyana are considered Caribbean nations because of their extensive linkages.) Four other Caribbean countries — the Dominican Republic, Suriname, Barbados, and Jamaica — have rates over 1%. In Central America, Honduras has the highest prevalence rate of 1.8%, while Guatemala has a rate over 1%.

The response to the AIDS epidemic in the Caribbean and Central America has involved a mix of support by governments in the region, bilateral donors (such as the United States, Canada, and European nations), regional and multilateral organizations, and nongovernmental organizations (NGOs). The World Bank, the Inter-American Development Bank, and the Global Fund to Fight AIDS, Tuberculosis, and Malaria have funded numerous HIV/AIDS projects in the Caribbean and Central America. Many countries in the region have national AIDS programs that are supported through these efforts.

The U.S. Agency for International Development (USAID) has been the lead U.S. agency fighting the epidemic abroad since 1986. USAID's funding for

HIV/AIDS in Central America and the Caribbean region rose from \$11.2 million in FY2000 to \$33.8 million in FY2003. In May 2003, Congress approved the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (P.L. 108-25), which authorized \$3 billion per year for FY2003 through FY2008 to fight the three diseases worldwide. The legislation and the President's Emergency Plan for AIDS Relief (PEPFAR) focus on assisting 12 African countries plus Guyana and Haiti, although the legislation notes that other countries may be designated by the President.

Because of the inclusion of Guyana and Haiti in PEPFAR, funded largely through the new Global HIV/AIDS Initiative (GHAI) account, overall U.S. HIV/AIDS assistance to the region in FY2004 amounted to at least \$18 million, and will amount to at least \$53 million in FY2005. For the FY2006 request, the Administration is requesting \$21.4 million in GHAI assistance for Guyana and \$47 million for Haiti, bringing the total GHAI request for the region to \$68.4 million. These amounts do not include additional HIV/AIDS assistance funded through Development Assistance and ESF accounts for other countries and regional programs in the Caribbean and Central America.

Some Members of Congress wanted to expand the list of Caribbean countries in the 2003 HIV/AIDS legislation. In the 108th Congress, both the House-passed FY2004-FY2005 Foreign Relations Authorization Act, H.R. 1950 (Section 1818), and the Senate Foreign Relations Committee's reported FY2005 Foreign Relations Authorization Act, S. 2144 (Section 2518), had provisions that would have added 14 Caribbean countries to those listed in the May 2003 legislation, but no final action was taken on these measures. In the 109th Congress, S. 600, the Foreign Affairs Authorization Act, FY2006 and FY2007, contains a provision (Section 2516) that would add 14 Caribbean countries to the list of focus countries targeted for increased HIV/AIDS assistance.

For more information, see CRS Report RS21181, *HIV/AIDS International Programs: Appropriations, FY2003-FY2006*, by Raymond W. Copson; CRS Report RL31712, *The Global Fund to Fight AIDS, Tuberculosis and Malaria: Background and Current Issues*, by Raymond W. Copson and Tiaji Salaam; and CRS Report RL32001, *AIDS in the Caribbean and Central America*, by Mark Sullivan.

Millennium Challenge Account

The MCA initiative differs from traditional USAID programs in a number of respects, and could have implications for the future of assistance programs in general. First, the proposed \$5 billion in funding by FY2006, which is nearly twice the size of the FY2003 U.S. development budget, is linked to performance and results. Second, the conceptualization of development projects rests with the countries themselves and their national development strategies, with the United States playing an advisory role. Third, MCA funds are intended to center exclusively on development goals without regard for other U.S. foreign policy and geostrategic objectives. While the international community and nongovernmental organizations have been generally supportive of the initiative, some concerns have been expressed

that funding for traditional assistance programs (Development Assistance and Child Survival and Health) could end up being cut to accommodate the increased funding for MCA. The Administration has stated that it does not intend for the MCA to negatively affect its other development programs. Despite that assertion, funding for DA and some health programs under CSH has fallen in both FY2004 and the proposed FY2005 budgets. Observers have also suggested the implausibility of choosing countries without regard to U.S. geostrategic goals.

When fully operational, the MCA initiative will be limited to countries with per capita incomes below \$2,935. But in the first two years (FY2004 and FY2005), countries with per capita incomes below \$1,415, and that can borrow from the World Bank's International Development Association (IDA) in FY2004, are eligible to compete for grants. However, income level is not the only criteria for participation. Some countries may not receive funding if they do not meet certain criteria relating to political rights and civil liberties. Performance indicators fall into three general categories — ruling justly, investing in people, and economic freedom. Specific measurements of each category would be taken from the World Bank, the World Health Organization, and the Freedom House annual study on civil liberties and political freedom, among others. It is anticipated that the list of eligible countries could reach 115, although just 20 to 30 may ultimately qualify for MCA grants.

Congress has been involved in determining the criteria for country eligibility and performance indicators, and funding levels. Congress passed P.L. 108-199 (Division D) that created the Millennium Challenge Corporation, the entity charged with managing the initiative, and appropriated \$994 million for the first year, instead of the \$1.3 billion requested by the Administration. Congress made some changes to the composition and size of the Board of Directors from what the Administration had proposed. It also debated the extent to which lower-middle income countries could participate, with implications for Latin America. During markup of the Foreign Relations Authorization Act, (H.R. 1950) by the House International Relations Committee, an amendment offered by Congressman Menendez would have made low-middle income countries eligible in FY2004 rather than FY2006. The amendment was offered because of a concern that few Latin American nations would be eligible in the first two years, despite large areas of poverty in these nations. The amendment was defeated by a 24 to 10 margin. During floor consideration, Congressman Kolbe offered an amendment to allow low-middle income countries to be eligible beginning in FY2005 instead of FY2006. It was also defeated, by a 313 to 110 margin. The final legislation authorizing the MCA allows only low-income countries to be eligible during the first two years. Beginning in FY2006, low-middle income countries can participate, but they can only receive 24% of the amount appropriated for the MCA in that year. Congress will continue to exercise an oversight role in addition to providing annual funding levels.

With regard to Latin America, countries that have per capita incomes of less than \$1,415 and that are IDA-eligible include Bolivia, Guyana, Haiti, Honduras, and Nicaragua. Of those candidate countries, Bolivia, Honduras and Nicaragua were deemed eligible to participate after the MCC board met to approve participants on May 6, 2004. Paraguay is a 'threshold' country that is eligible for assistance to help it participate in the process. Beyond FY2006, when eligible countries can have per capita incomes up to \$2,935, the following additional Latin American countries could

qualify: Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Peru, St Vincent and the Grenadines, and Suriname. For FY2005, Congress appropriated \$1.5 billion for MCA worldwide. The request for FY2006 is \$3 billion.

For more information, see CRS Report RL31687, *The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative*, by Larry Nowels.

Terrorism

In the aftermath of the September 2001 terrorist attacks on New York and Washington D.C., U.S. attention to terrorism in Latin America has intensified, with an increase in bilateral and regional cooperation. The State Department, in its annual report on worldwide terrorism (*Patterns of Global Terrorism*, April 2004), highlights terrorist threats in Colombia, Peru, and the tri-border region of Argentina, Brazil, and Paraguay, which has been a regional hub for Hizballah and Hamas fund-raising activities. While U.S. attention has focused on potential links in the region to the Al Qaeda terrorist network, the *Patterns* report maintains that claims of an Al Qaeda presence in the tri-border region remain “uncorroborated by intelligence and law-enforcement officials.” The State Department also has designated four terrorist groups (three in Colombia and one in Peru) as Foreign Terrorist Organizations, and Cuba has been listed as a state sponsor of terrorism since 1982.

Through the State Department, the United States has provided Anti-Terrorism Assistance (ATA) training and equipment to Latin American countries to help improve their capabilities in such areas as airport security management, hostage negotiations, bomb detection and deactivation, and countering terrorism financing. ATA financing is provided through the annual foreign operations appropriations measure under the Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR) account. In FY2002, a total of \$27.5 million was provided for the region, with \$25 million for an anti-kidnapping program in Colombia (appropriated through an FY2002 supplemental appropriations measure, P.L. 107-206) and \$2.5 million for the regular Western Hemisphere program. For FY2003, the Administration provided \$3.6 million in ATA assistance for the region, with \$3.3 million of that for Colombia. For FY2004, \$5.3 million in ATA assistance was provided for the Western Hemisphere. For FY2005, an estimated \$11.1 million is being provided for the region, with \$3.9 million for training anti-kidnapping units in Colombia and \$0.5 million for the tri-border area of Brazil, Paraguay, and Argentina. For FY2006, the ATA request for Latin America is \$9.7 million, again with \$3.9 million for Colombia and \$0.5 million for the tri-border area.

In addition to ATA assistance, several Latin American countries receive small amounts of assistance under other NADR programs. For FY2006, Argentina, Brazil, and Panama would receive some assistance under the Export Control and Related Border Security Assistance (EXBS) program, which helps strengthen the countries’ export and border control systems to prevent the proliferation of weapons of mass destruction, missile delivery systems, and conventional weapons. Colombia, Ecuador and Peru would receive small amounts of assistance in FY2006 under a Small Arms/Light Weapons Destruction (SALW) program.

For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark Sullivan.

Appendix. Types of Assistance

Economic Assistance

Economic assistance is generally provided by the U.S. government directly to other foreign governments or to nongovernmental organizations working in those countries. Bilateral economic aid to Latin America is primarily administered by the United States Agency for International Development (USAID). USAID strives to use that assistance to alleviate poverty and to address critical transnational issues such as HIV/AIDS, the environment, and humanitarian relief. Bush Administration officials have maintained that U.S. policy towards Latin America is based on three broad objectives — strengthening democracy, encouraging development, and enhancing security.⁹ While hemispheric security is addressed by programs funded through counternarcotics and military accounts, most transformational development programs aimed at fostering social, political, and economic progress are funded by the Child Survival and Health (CSH), Development Assistance (DA), and Economic Support Funds (ESF) accounts.

Child Survival and Health (CSH). CSH funds focus on combating infectious disease such as HIV/AIDS, malaria, and tuberculosis, as well as those promoting child and maternal health, family planning, and overall reproductive health. For FY2006, the Administration requested \$125.3 million for Latin America out of a total of \$1.25 billion in CSH funds globally. The FY2006 request for Latin America reflects a 12.7% decrease from the FY2005 estimated allocation of \$143.5 million. Traditional CSH programs are being cut in favor of new initiatives such as the President's Emergency Plan for AIDS Relief (PEPFAR), a State Department administrated program currently targeting two Latin American countries, Haiti, and Guyana. For FY2005, worldwide CSH assistance is estimated at \$1.54 billion.

CSH funded HIV/AIDS programs focus on prevention, care, and treatment efforts, specifically targeting children affected by AIDS. They will be integrated into the overall policy framework and strategic "prevention-to-care continuum" espoused by PEPFAR. Child survival and maternal health programs strive to reduce the number of deaths in children under the age of five and save the lives of women in childbirth. Interventions used to reduce preventable child deaths include immunizations, pneumonia and diarrhea prevention and treatment, oral rehydration, safe birthing and prenatal care, nutrition, and breast-feeding initiatives. The final major component of CSH funds support expanded access to information and services concerning family planning and reproductive health.

Development Assistance (DA). DA funds aim to achieve measurable improvements in key areas to foster sustainable economic growth: trade and investment, agriculture, education, environment, health, and democracy. The Administration requested \$223.8 million for Latin America out of a total FY2006

⁹ U.S. Department of State, "Pursuit of Three Important Objectives in the Western Hemisphere," J. Curtis Struble, Acting Assistant Secretary of State, Bureau of Western Hemisphere Affairs. Remarks to the Senate Committee on Foreign Relations, April 2, 2003.

request of \$1.1 billion, an 8% decrease from the FY2005 estimated allocation of \$255.5 million. For FY2006, DA funding worldwide is estimated at \$1.448 billion.

DA supports the Opportunity Alliance for Central America, which focuses on facilitating regional integration and helping the region's economies recover from recent natural disasters, declining coffee prices and drought. Specific trade capacity-building initiatives were undertaken prior to the negotiation of the Central American Free Trade Agreement (CAFTA). Agriculture programs seek to promote non-traditional agricultural exports and find agricultural niche markets for local producers. DA funds basic education programs to strengthen preschool, primary, and secondary education, as well as the Centers of Excellence in Teacher Training (CETT) Initiative in Latin America and the Caribbean. USAID manages five Presidential initiatives addressing various aspects of sustainable development. These initiatives focus on encouraging natural resource management, developing alternative energy sources, expanding clean water access, preventing illegal-logging, and minimizing greenhouse gas emissions. There are justice sector modernization programs underway in 12 countries in the region, as well as 15 anti-corruption programs throughout Latin America. DA democracy programs also seek to strengthen Latin American democracies by supporting elections, strengthening civil society, and protecting human rights.

Transition Initiatives. For FY2006, the Administration has requested funding for Transition Initiatives (TI) that were previously provided in the Development Assistance Account. The request for FY2006 is \$325 million, of which Haiti would receive \$30 million. The program will support stabilization, reform and post-conflict reconstruction programs in fragile states. In FY2005, the State Department estimates spending \$25 million in Haiti, and \$8.9 million in FY2004. Other countries receiving TI assistance include Ethiopia, Sudan, and Afghanistan.

Economic Support Funds (ESF). Through the security-related ESF program, the United States provides economic aid to countries of strategic interest to U.S. foreign policy. Funding decisions are made by the State Department; programs are managed by USAID and the State Department. Although Israel and Egypt receive the majority of ESF aid, 11 Latin American countries have received some ESF funding in recent years, with Bolivia, Cuba, Ecuador, Mexico, and Peru among the largest recipients. In FY2005, the United States allocated an estimated \$145.8 million for ESF to Latin America, and the Administration has requested \$143.7 million in assistance for FY2006. ESF assistance in the Andean region, Mexico, and Central America is used to pursue justice sector reform, facilitate implementation of free trade agreements, improve local governance, fight corruption, and promote respect for human rights. The \$6 million requested for the Third Border Initiative, which began in FY2002, will enhance immigration, border security, rule of law, and disaster preparedness in the Caribbean. A \$15 million FY2006 request for Cuba will continue the Administration's efforts to support a transition to democracy there through information dissemination and support for dissidents and human rights activists. Finally, a total of \$19.5 million is requested for Regional Anti-corruption Initiatives, a Regional Security Fund, Hemispheric Cooperation Programs, and Summit of the Americas Support. The Administration has requested no funds for Trade Capacity Building; the FY2005 funding level is \$19.8 million.

P.L. 480 Title II Food Aid. This account, funded through the annual Agriculture Appropriations bill, provides the funds for USAID to respond quickly to the food assistance needs of countries facing emergency situations. Food aid is targeted at vulnerable populations, especially those coping with, or recovering from, natural or manmade disasters, including prolonged civil strife. This assistance program is administered largely by U.S. private voluntary organizations and through the United Nation's World Food Program. For FY2005, the United States allocated an estimated \$108 million for P.L.480 in Latin America, and the Administration has requested \$113 million in assistance for FY2006. The largest recipients of food aid in Latin America include Bolivia, Guatemala, Haiti, Honduras, Nicaragua, and Peru.

Migration and Refugee Assistance (MRA). This program supports refugee relief activities, and in some cases, helps resettle refugees. FY2005 funding for MRA in Latin America was an estimated \$23 million. The Administration has increased its request for MRA for FY2006 to \$26 million. Most of the funding will be used to help the more than 2 million internally displaced persons (IDPs) in Colombia and thousands of refugees outside of Colombia. The State Department partners with the International Committee of the Red Cross and the UN High Commission on Refugees to provide refugee assistance.

Peace Corps. The Peace Corps sends U.S. volunteers to developing countries to provide technical aid and to promote mutual understanding on a people-to-people basis. The FY2006 request is \$44.5 million in Latin America. Countries in Latin America with Peace Corps programs include countries in the Eastern Caribbean region and Central America, the Dominican Republic, Guyana, Haiti, Jamaica, Suriname, Mexico, Belize, Bolivia, Ecuador, Peru and Paraguay.

Inter-American Foundation (IAF). The IAF is a small federal agency that provides grants to non-profit and community-based programs in Latin America that promote entrepreneurship, self-reliance, and economic progress for the poor. The FY2005 estimated allocation for the IAF is 17.9 million, and the FY2006 request is \$17.8 million.

Millennium Challenge Account (MCA). The MCA is a Presidential initiative announced in 2002 that is intended to increase foreign assistance to countries below a certain income threshold that are pursuing policies intended to promote democracy, social development, and sustainable economic growth. If fully funded, the MCA would increase foreign assistance beginning in FY2004 so that by FY2006 U.S. foreign aid would be \$5 billion higher than three years earlier. The FY2005 estimate for the MCA is \$1.488 billion. The Administration requested \$3 billion in FY2006. This assistance will be administered by the newly-established Millennium Challenge Corporation, in cooperation with USAID. Eligible recipients for FY2004 were announced on May 6, 2004, and in Latin America, include Bolivia, Honduras and Nicaragua. (For further information, see the discussion of the MCA in the "Additional Issues for Congress" section above.)

Global HIV/AIDS Initiative. In 2003, President Bush announced the President's Emergency Plan for AIDS Relief (PEPFAR), a new initiative pledging \$15 billion over five years for the prevention and treatment of HIV/AIDS, tuberculosis (TB), and malaria. This includes \$10 billion in new funding of which

\$1 billion is for contributions to the Global Fund to Fight AIDS, Tuberculosis, and Malaria. The other \$5 billion will come from existing programs managed by other agencies such as USAID and the Department of Health and Human Services (HHS). The Global AIDS Initiative, which constitutes the bulk of PEPFAR funding, is a Department of State program currently concentrated on 12 African countries, as well as Haiti and Guyana. The 2005 funding level for Haiti is estimated at \$39.4 million, and for Guyana, at \$13.2 million. The FY2006 request includes \$47 million for Haiti, and \$21.4 million for Guyana. (For further information, see the discussion on HIV/AIDS in the “Additional Issues for Congress” section above.) For FY2005, Congress approved \$1.39 billion for worldwide assistance.

Counternarcotics Assistance

International Narcotics Control and Law Enforcement (INCLE).

INCLE funds bilateral, regional and global programs to assist foreign governments in strengthening their law enforcement capabilities, including the ability to destroy drug crops, disrupt drug production, and interdict drug trafficking. Its largest single program is the Andean Counterdrug Initiative. Its other programs focus on fighting money-laundering and terrorist financing, enhancing security along the U.S.-Mexican border, and fighting trafficking in persons, corruption, and cybercrimes. It also includes programs to strengthen the rule of law and to promote demand reduction. It provides some funding to the United Nations Office on Drugs and Crime to provide support for legal frameworks to prevent and combat organized crime, and the Organization of American States Drug Abuse Control Commission (CICAD) to strengthen national drug commissions and to support the Multilateral Evaluation Mechanism (MEM). MEM is the peer review system used to evaluate national anti-drug performance. INCLE’s current bilateral assistance to Latin America supports programs in the Bahamas, Guatemala, Haiti, Jamaica and Mexico. FY2005 funding totaled \$326 million. The request for FY2006 is \$524 million. Of this total, \$45.4 million in FY2005, and \$51 million in FY2006 is allocated for Latin America. Mexico receives the most funding in FY2006 (\$40 million), and Haiti receives the second highest allocation (\$15 million).

Interregional Aviation Support. INCLE manages the Interregional Aviation Support program that operates a fleet of 164 fixed- and rotary-wing aircraft supporting overflight drug crop imagery and aerial eradication programs in Colombia, Bolivia, and Peru, as well as border security operations in Pakistan. FY2005 funding is estimated at nearly \$70 million, of which approximately half is allocated for programs in the Andean region. The request for FY2006 maintains funding at \$70 million.

Andean Counterdrug Initiative. The core of U.S. counternarcotics programs in Latin America is the Andean Counterdrug Initiative (ACI). The three primary global producers of cocaine are Colombia, Peru and Bolivia. The objectives are to eliminate the cultivation and production of cocaine and opium, build Andean law enforcement infrastructure, arrest and prosecute traffickers, and seize their assets. The countries considered a part of the ACI include Bolivia, Brazil, Colombia, Ecuador, Panama, Peru and Venezuela, with the lion’s share of funding allocated for programs in Colombia. Funds are divided between programs that support eradication and interdiction efforts, as well as those focused on alternative crop development and

democratic institution building. On the interdiction side, this includes programs to train and support national police and military forces, to provide communications and intelligence systems, to support the maintenance and operations of host country aerial eradication aircraft, and to improve infrastructure related to counternarcotics activities. On the alternative development side, funds support economic development programs in coca growing areas, including infrastructure development, and marketing and technical support for alternative crops. It also includes assisting internally displaced persons, promoting the rule of law, and expanding judicial capabilities. FY2005 funding for ACI is estimated at \$725 million, and \$734.5 million for FY2006. (For further information, see the discussion of the ACI in the “South America” section above.)

Military and Terrorism Assistance

Military assistance is provided by the State Department through the Foreign Military Financing (FMF) program and the International Military Education and Training program (IMET), although both are managed by the Defense Department. Additional funding is provided from the Department of Defense for both counternarcotics and military programs. Anti-terrorism assistance is provided through the State Department.

Foreign Military Financing. Foreign Military Financing provides grants to foreign nations to purchase U.S. defense equipment, services, and training. The program’s objectives are to assist key allies to improve their defense capabilities, to strengthen military relationships between the United States and FMF recipients, and to promote the professionalism of military forces in friendly countries. In the Western Hemisphere, a large portion of FMF is allocated for Colombia and the Andean region with the objective of supporting the efforts of those nations to establish and strengthen national authority in remote areas that have been controlled by leftist guerrilla organizations, rightist paramilitaries, and narcotics traffickers. A portion of FMF funding in Fiscal Years 2002 and 2003 went for infrastructure protection of oil pipelines in Colombia. The program also seeks to improve foreign military capabilities of countries that control land approaches to the United States and the Caribbean, which is referred to as the “third border.” FMF also provides equipment and training for countries in the region that participate in peacekeeping operations. In FY2005, FMF funding worldwide totaled \$4.745 billion. Of the total amount, FMF programs in Latin America amounted to \$112.4 million. The requested FY2006 amount is \$4.588 billion, with \$123 million allocated to countries in Latin America.

International Military Education and Training (IMET). The IMET program provides training on a grant basis to students from allied and friendly nations. Its objectives are to improve defense capabilities, develop professional and personal relationships between U.S. and foreign militaries, and influence these forces in support of democratic governance. Training focuses on the manner in which military organizations function under civilian control, civil-military relations, military justice systems, military doctrine, strategic planning, and operational procedures. The largest IMET programs in Latin America are for Colombia, El Salvador, and Mexico. The total IMET budget in FY2005 is \$89 million, of which \$14.1 million

is for countries in Latin America. The FY2006 request is \$86.7 million, with \$13.7 for Latin America.

Anti-Terrorism Assistance (ATA). ATA is funded through the State Department's Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR). The objectives of ATA are to build the political will and operational capacity of partner countries in the fight against global terrorism. The program provides training, equipment, and advice to foreign law enforcement organizations. In the Western Hemisphere, Colombia has received training and equipment for anti-kidnapping units. Funding has also been provided for an assessment of needs study for the tri-border region of Brazil, Paraguay, and Argentina. The State Department has proposed using additional funds for training and for the investigation of terrorist networks. FY2005 funding levels worldwide are estimated at \$131.9 million. The requested amount for FY2006 is \$150.5 million. (For further information, see the discussion of terrorism in the "Additional Issues for Congress" section above.)

Multilateral Economic Assistance

Latin American countries benefit from a number of multilateral sources of assistance, including the World Bank, the United Nations and the International Fund for Agricultural Development (IFAD). There are also regional organizations that provide various forms of assistance, which are discussed below.

Inter-American Development Bank. The United States is a major donor to the Inter-American Development Bank, the primary source of multilateral financing for economic, social, and institutional development projects in Latin America and the Caribbean. The IDB makes near-market rate loans through its ordinary capital (OC) account and concessional loans to poor countries through its Fund for Special Operations (FSO). Another subsidiary of the IDB, the Inter-American Investment Corporation (IIC), makes loans and equity investments to promote the growth of private enterprises. Since 1993, the Multilateral Investment Fund (MIF), which is administered by IDB, has provided both grants and investments to businesses and non-governmental organizations (NGOs) in Latin America that have demonstrated new ways to develop small enterprises, build worker skills, and strengthen environmental management. The FY2005 estimated U.S. contribution is \$10.91 million, while the FY2006 estimate is \$3.5 million.

Organization of American States. The OAS is a regional organization of 35 countries in Latin America and the Caribbean that have pledged to promote democracy, advance human rights, preserve peace and security, pursue free trade, and tackle difficult problems caused by poverty, drugs, and corruption. The United States contributes roughly 59% of the regular budget of the OAS. For FY2005, the U.S. contribution to the OAS is \$55.7 million. Of the \$55.7 million, \$45.9 million is for the regular fund, and \$9.8 million is to pay tax reimbursements for U.S. employees of the OAS. The FY2006 request for the OAS is for \$65.9 million. The increase is to cover the cost of taxes owed for U.S. employees that are likely to retire in the coming year.

The United States has also made substantial contributions to a few specific funds developed by the OAS through foreign operations appropriations. The OAS

Fund for Strengthening Democracy supports OAS efforts to promote democracy and the Inter-American Democratic Charter throughout the region; the FY2005 U.S. contribution is \$3 million, while the FY2006 request is for \$2.5 million. OAS Development Assistance Programs focus on Summit of the Americas mandates pertaining to economic prosperity, social well being, and environmental health;¹⁰ the FY2005 U.S. contribution is \$4.9 million, while the FY2006 request is for \$5.2 million. The OAS De-mining Program (AICMA) works to ensure that the Western Hemisphere is cleared of all land mine devices; the FY2005 U.S. contribution is \$1.8 million, while the FY2006 request is for \$1.6 million.

Other Types of Foreign Assistance

Highly-Indebted Poor Countries (HIPC) Initiative. The HIPC initiative was first launched in 1996 by the IMF and the World Bank to provide relief to extremely poor countries facing unsustainable amounts of foreign debt. The HIPC initiative encompasses forty-one countries, mostly in Africa, but only those that have adopted sound fiscal policies and a poverty reduction plan may qualify. As of January 2004, 27 countries had qualified for at least preliminary debt reduction, although only 10 have received full HIPC relief. Latin American beneficiaries of the HIPC initiative include Bolivia, Guyana, Honduras, and Nicaragua. Total costs of the HIPC initiative are estimated at \$51 billion (nominal terms), roughly evenly divided between bilateral creditors like the United States and multilateral lenders such as the IMF and World Bank. Because only about 3% of the HIPC debt was owed to the United States, the U.S. financial commitment has been relatively small in relation to the cost to all creditors. In FY2005, funding for debt restructuring amounts to \$99.20 million. The FY2006 request totals \$99.75 million.

¹⁰ The bulk of these contributions support the Inter-American Council for Integral Development (FEMCIDI). FEMCIDI, financed by voluntary contributions from member states and other assets, contributes to national and multinational development projects.