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AIDING CENTRAL AMERICA: THE THREE CONTEXTS OF AID

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Oficial Development Assistance in Times of Crisis

The Central American economic model entered into an economic crisis in the early 1980s. At the same time, there was considerably popular unrest that resulted from poverty, social inequality, and political repression.

Within this context the 1980s were characterized by an increased flow of foreign assistance to Central America, particularly bilateral aid. This overall aid did not flow uniformly, nor it was based on development promotion alone. Foreign aid, bilateral and multilateral, in the 1980s took place within three different contexts that defined the development and growth patterns of the region. First, bilateral ODA showed new regional caracteristics. Bilateral aid from members of the Development Assistance Committee of the OECD appeared with new donor countries targeting certain countries and increasing DAC assistance over the decade. Second, the quantity of United States assistance materializes as a strategic manifestation of its strength in the region during the cold war. Third, multilateral aid is conditioned to structural economic change. Although it also increased, its non-concessional character expressed in terms of policy-based lending —as in the World Bank's case— suggested a very different type of «assistance» that attached many conditions to lending. Although it may appear that there are only two kinds (contexts) of aid, bilateral and multilateral, arguably, United States aid to the region created its own context, independent of ODA, but interdependent with World Bank's and International Monetary Fund's structures of «development and assistance» and sometimes interdependent with bilateral ODA. This chapter is an attempt to look at these three contexts of aid.

1. Bilateral Oda to Central America: The overal context

Bilateral assistance from DAC countries to Central America presented certain important characteristics related to both donor and recipient countries and to the historical trend that evolved during the period of the 1980s in relation to previous years. This section will cover three major aspects of bilateral official development assistance: trends of the assistance during the decade and donor and recipient countries' characteristics respectively.

a. Aid Trends

The first trend of aid in the 1980s was that Central America received more than a third of total Latina America aid. Prior to 1980, foreign aid to Central America was very small in comparison to aid Latin America. As Table 2.1 shows, in the 1960s aid to Central America was only 10 percent of total aid to Latin America, but by the mid 1980s Central America's share of aid was above forty percent.

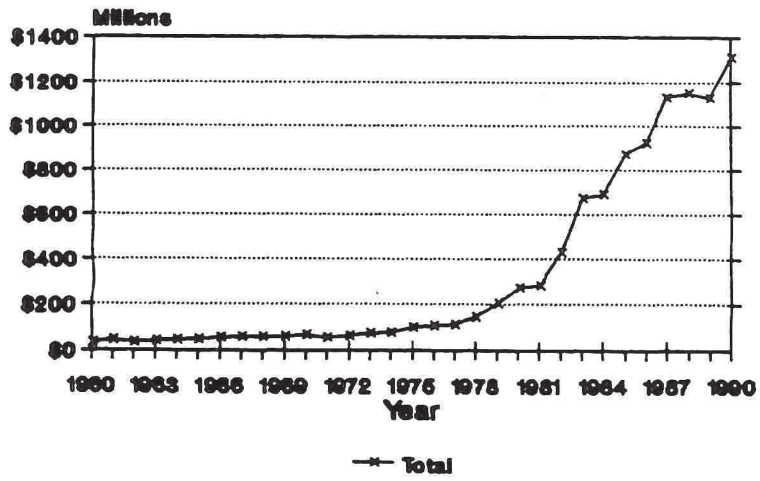
Table 2.1: Flow of ODA from DAC countries to Latin America (in $US million)

	1961-1970	1971-1975	1979-1980	1985
a. Latin America	$ 562.2	$486.9	$836.8	$2149.5
b. Central America	$ 1	$ 91.5	$ 253.6	$ 946
b/a (%)	10.8	18.8	30.3	44.0

Source: García, Rigoberto, ed. *Central America: Crisis and Possibilities* Stockholm: Institute of Latin American Studies, Monograph N. 16 p. 126

Also, Central America's volume of aid experienced unequal flows at least ten times greater than the existing levels in the 1960s. Figure 2.1 shows the dramatic increase of foreign aid to the region that accounts for billions of dollars, with slow signs of decline by the end of the 1980s.

Figure 2.1. ODA to Central America 1960-1990.



Another important trend relates to the changes in the type of aid provided. Donor countries increased the amounts of grants in relation to loans to all Central American Countries. Between the 1960s and 1970s, an average 57 percent of aid was in the form of grants. In the decade of 1980, however, grants increased their share to 64 percent of total aid. If one excludes Guatemala, grants accounted for 70 percent of total aid. This is probably due to the donors' opposition to Guatemala's human rights record. In Table 2.2 can be observed the percent change during the 1980's, with Guatemala exhibiting fewer grants received than the rest of the Central American countries. Figure 2.2 demonstrates the dramatic increase of grants in relation to total aid since the 1960's for Central America as a whole.

b. Donor Countries

Bilateral assistance to Central America from DAC countries has certain important characteristics related to its distribution. In the first place, the United States is the most important donor country in terms of the quantity of aid disbursed to the region. Second, other donor countries also dramatically increased their aid provision. This constituted a major historical change in terms of aid to Central America, and it also created the links between donor and recipient country and opened new channels of cooperation.

Table 2.2: Grants as Percentage of Total ODA (%)

YEAR	CR	ELS	GUA	HON	NIC	CA	CA-GUA
1960	100	100	81	60	38	76	74
1965	41	96	43	41	70	58	62
1970	64	57	87	43	25	55	47
1975	37	65	41	53	31	45	47
1980	42	71	86	25	33	51	43
1985	76	72	60	69	88	73	76
1990	79	85	23	71	98	71	83

United States Aid

United States aid to Central America during the 1980s represented 70 percent of total Official Development Assistance, amounting to an annual average of $550 million and totalling $7.8 billion (at 1987 prices). In Table 2.3 one can observe that U.S. aid increased considerably, from $200 million in 1980 to over $600 million by the end of the decade.

This aid has two important features. First, although US aid increased in relation to previous US assistance, its share vis-a-vis total aid (from all sources) decreased. As shown in Figure 2.3, aid to Central American countries in the 1960s and first half of 1970s accounted for 90 percent of total assistance to the region. During the period 1975-1980, US aid decreased by half due to the New Directions policy from the Agency for International Development, AID. This new policy was based on a strategy of reducing aid focusing by on the Basic Needs approach. (1) The 1980s however, presents a different scenario. The United States increased the volumen of aid to the region, but with the entrance of new donor countries, its share of the total did not return to the level of the 1960s. Furthermore, by the end of the decade there was a gradual decrease in aid that manifested the change in foreign policy under the Bush administration. Second, the volumen of US foreign aid in the 1980s had a particular orientation toward El Salvador. As Table 2.4 shows, 44 percent of total aid went to El Salvador, reflecting the strong US interests in the region and a strategy for which the economic dimension was foreign assistance. Following El Salvador, Honduras and Costa Rica were next in preference. They received 19 percent and 21 percent of total aid, respectively. Both countries represented strategic interests to the United States, militarily, economically, and politically, as part of a policy of containment of communism and opposition to Nicaragua during the 1980s.

Before 1980, Somoza's Nicaragua received more US aid than other Central American Countries (figure 2.2). The Sandinista Revolution ending of the alliance between Nicaragua and the United States changed, also, the status of aid to the

Table 2.3: Official Developments Assitance to Central American Countries: United States

Year	COS	ELS	GUA	HON	NICA	C.A.
1980	$ 4.05	$ 58.5	$ 22.9	$ 25.7	$106.6	$217.4
1981	$ 6.16	$119.6	$ 22.2	$ 43.2	$ 17.3	$208.4
1982	$ 48.66	$196.9	$ 23.27	$ 78.8	$ 6.9	$354.5
1983	$224.2	$258.9	$ 40.3	$ 71.7	$ 3.4	$598.5
1984	$179.2	$238.6	$ 31.3	$132.8	$ 0	$581.9
1985	$209.0	$301.5	$ 52.5	$169.2	$ 0	$732.3
1986	$131.8	$280.1	$ 88.5	$180.2	$ 0	$680.6
1987	$160.0	$356.0	$155	$153.0	$ 0	$824.0
1988	$103.6	$307.8	$129.7	$150.0	$ 0	$691.1
1989	$134.2	$289.0	$136.1	$ 95.1	$ 0	$654.5

Source: *Geographical Distribution to Financial Flows.* (París: OECD, various editions)
Note: Numbers in Million of Dollars converted at 1987 prices.

Figure 2.2. Grants as percentaje of all aid to Central America, 1960-1990.

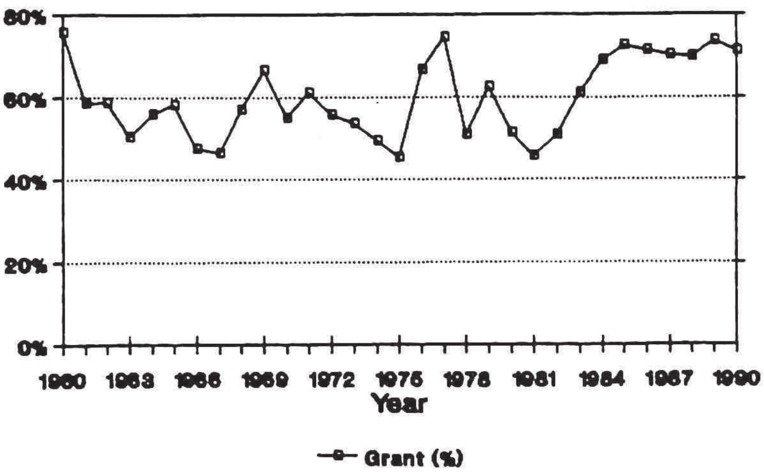


Figure 2.3. U.S. aid to Central America as percentage of total, 1960-1990.

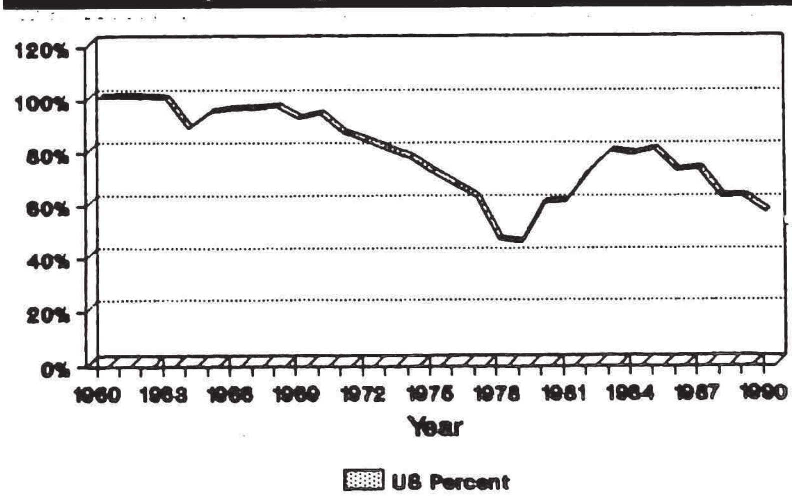


Table 2.4: Percent Distribution of US Aid

Year	CR	ELS	GUA	HON	NIC
1980	2	27	11	12	48
1981	3	57	11	21	8
1982	14	56	7	22	2
1983	37	43	7	12	1
1984	31	41	5	23	0
1985	29	41	7	23	0
1986	19	41	13	26	0
1987	19	43	19	19	0
1988	15	45	19	22	0
1989	21	44	21	15	0
Mean	21	43	13	20	2

SOURCE: Geographical Distribution of Financial Flows (París: OECD, 1990)

region, increasing the political implications of that change. In fact, while US aid to Nicaragua was decreasing, shown in Table 2.3, aid to El Salvador increased dramatically. The conservative El Salvador regime began receiving more than double the combined amount of aid received by Costa Rica and Honduras during the 1980's.

Other Donors' Aid

The observed decrease is US aid as percentage of the total was offset by an increase of aid from other countries and by an emergence of new donor countries into the region. Two distinct groups of countries can be identified: traditional donor countries, including France, Germany, Italy, and the United Kingdom, and the new donor countries, Canada, Japan, the Netherlads, Norway, Sweden and Switzerland. These groupings are based on countries' history in the region as partners in international cooperation. The two groups constituted 30 percent of total assistance in the 1980s.

Traditional Donor Countries

Traditional donor countries have maintained relations with Central America ever since they became independent republics. The United Kingdom, in particular, has maintained commercial and financial relations with Central America since the last century. France and Germany maintained diplomatic and commercial relations with the region especially at the end of nineteenth century. The traditional economic ties between these latter countries and Central America was commercial, for example, an exchange of coffee exports to Europa and imports of capital goods to the region. The level of cooperation in terms of foreign assistance is, however, very recent and small. It began to take shape during the 1980s, partially due to the crisis and the interest of European political groups in the region, such as the International Socialist. (2)

Traditional donor countries increased their help to the region at least three to five times the previous levels of aid in the 1970s. Germany and France more than doubled their assistance, and Italy increased its flows from $3 million in 1980 to $55 million in 1989. Only the United Kingdom, which has minimal interests in Latin American development, first because of its concerns with the Commonwealth and secondly because it regards Latin America as middle income and lacking the same developmental needs as poor country, maintained almost the same levels of aid for this period, though it slightly increased its flows. (3)

In addition to the increase in flows to the region, donor countries distributed their resources according to their preference toward certain countries. Table 2.5 shows, for example, that United Kingdom devoted 44 percent of its flow to Honduras and 41 percent to Costa Rica. Italy and France allotted 32 percent and 46 percent of their aid, respectively, to Nicaragua. Germany was the only country that shows an almost even distribution of aid to the region. These traditional donor countries constituted 12.04 percent to the total aid to Central America, Germany being the most important donor in the region, at over 6 percent, followed by Italy (3.28 percent), France (2 percent) and the United Kingdom (0.44 percent).

Table 2.5: ODA to Central America, 1980-1989: Donor's Percent Allocation to Recipient

COUNTRY	COS	ELS	GUA	HON	NIC
CANADA	28.15	13.13	7.34	26.32	25.06
FRANCE	11.63	11.10	14.64	17.06	45.57
GERMANY	21.81	19.74	21.98	20.45	16.03
ITALY	16.11	22.02	21.26	8.50	32.11
JAPAN	11.80	1.29	8.18	78.17	0.56
NETHERLANDS	13.57	9.36	7.76	12.07	57.23
NORWAY	2.87	8.19	6.15	2.62	80.17
SWEDEN	4.15	2.77	0.33	0.00	92.76
SWITZERLAND	6.80	5.36	3.71	53.71	30.42
U.K.	41.35	9.20	0.47	44.34	4.63
U.S.	21.67	43.41	12.66	19.84	2.42
ODA	19.85	34.13	12.42	21.25	12.35

Source: OECD. Geographical Distribution of Financial Flows. (París: OECD, various editions)

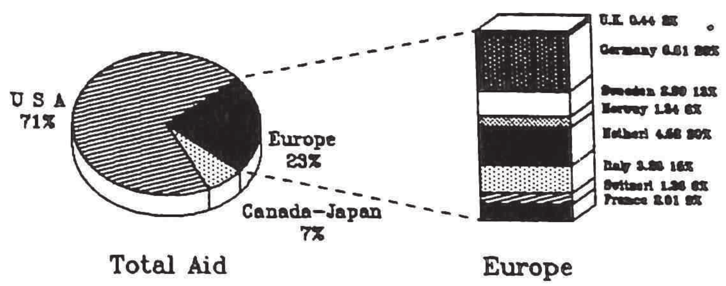
New Donor Countries

New donor countries are a heterogeneous group whose participation in Central American development previous to 1980 was very insignificant. Canada's entrance in Central America was recent but dynamic. With a share of 2.87 percent of total aid, Canada doubled its resources to the region from $10 million between 1980 and 1989. In addition, at some points it increased resources for projects on refugee repatriation. (4) Canada's interest in Central America grew considerably during the economic crisis. Its major contribution was through development assistance and it attempted to provide a policy of support for peace. Its efforts focused on cooperative development in Nicaragua, support to Canadian NGOs running community-development projects in the region and tying its aid to trade. (5) Japan has traditionally been a trade partner for Central America through exports of cars and car parts, particularly to Honduras. But the entrance of Japan into the development arena is very recent, (6) though it gradually increased its aid allocation to Central America during the 1980s. In fact, by 1989 Japan's aid to Central America was three times greater the amount it gave in 1980 and more than ten times greater the aid provided previous to 1980, while continuing to maintain a preference for assisting Honduras. (7)

The other new countries share their European identity, geographic proximity, and the fact they have provided more aid in relation to their GNPs than other DAC member countries. (8) These countries had provided almost no assistance prior to 1980, and in terms of general forms of international cooperation in the region, their profile was low in the region and consisted of embassies and cultural relations. Also, their assistance increased during the decade, tripling the size of their participation.

An important aspect that deserves to be mentioned is that these new European donor countries demonstrated a particular interest in Nicaragua. In fact, as Table 2,5 shows, Sweden concentrated 92 percent of its aid on Nicaragua, Norway 80 percent, followed by the Netherlands with 60 percent. By contrast, Japan oriented 78 percent of its resources to Honduras and the rest to Costa Rica and Guatemala. Although this group of countries represented only 17 percent of total aid to the region, because their presencewas new, to some extent they provided and additional source of aid, and their projects constituted a major contribution to the region. Their contribution should also not be minimized because these countries' aid more than equalled the amount of assistance provided by traditional donors.

Figure 2.4. Geographical Distribution of ODA to Central America, 1980-1989



A Word about Europe

European countries provided 23 percent of bilateral aid to Central America, while they also maintained multilateral assistance through the European Economic Community, which in different forms increased the impact of European influence in Central America. (9) Figure 2.3 shows the participation of European donor countries in the distribution of aid by country of origin. These European countries were concerned with support to Nicaragua. (10) They provided Nicaragua with more aid than any country in the region. On average, 45 percent of total European aid to Central America went to Nicaragua.

Table 2.6: Aid in Per-Capita Terms to Central América

Year	C.R.	ELS	GUA	HON	NIC	CA
1980	$ 13	$15	$ 6	$16	$56	$18
1981	$ 16	$ 29	$ 5	$18	$25	$17
1982	$ 30	$ 44	$ 5	$29	$26	$24
1983	$102	$ 57	$ 7	$29	$23	$35
1984	$ 83	$ 52	$ 5	$43	$23	$34
1985	$101	$ 68	$ 8	$50	$19	$40
1986	$ 67	$ 67	$14	$54	$28	$40
1987	$ 80	$ 81	$25	$47	$26	$47
1988	$ 59	$ 73	$21	$51	$36	$44
1989	$ 69	$ 66	$21	$38	$38	$41

c. Recipient Countries

Its is necessary to consider a number of question regarding recipient countries. What tendencies, if any, did ODA developed in the recipient countries? Which countries benefited most from the volume of aid? Which donor countries were the major source of aid to each recipient? One clear aspect of ADA in the 1980s is that it not only increased, but also showed particular signs regarding flows to specific countries.

The increase on per capita and GNP levels speak to the real increase of the volume of aid. Despite a growing population, aid in per capita terms, as shown in Table 2.6, also increased, from $100 in 1980 to $230 in 1989 for the whole region.

In 1980 bilateral aid to Central America represented 2 percent of GNP, and in 1989 it averaged 5 percent of GNP. That increase was not, however, equally spread across countries; El Salvador's share of aid in relation to GNP was 8 percent by the end of the decade. In fact, compared to the region, El Salvador was the country that received most bilateral ODA.

As can be observed in Figure 2.5, 34 percent of bilateral ODA went to El Salvador. This share can be explained by the fact that the US was the greatest donor to Central America, and it concentrated 44 percent of that volumen in El Salvador alone. If the United States is excluded, one finds a very different structure of aid. Nicaragua and Honduras are the major recipients of foreign assistance, followed by Costa Rica, Guatemala and El Salvador. Thus, the positions not only change but they reflect different political aspects that will be analyzed in the fourth part of this research.

Costa Rica

The Costa Rican economy has been as vulnerable to the external sector as the other Central American nations. It is in a different position, however, as it enjoys better access to

Figure 2.5. Official Deveiopment Assitance to Central America

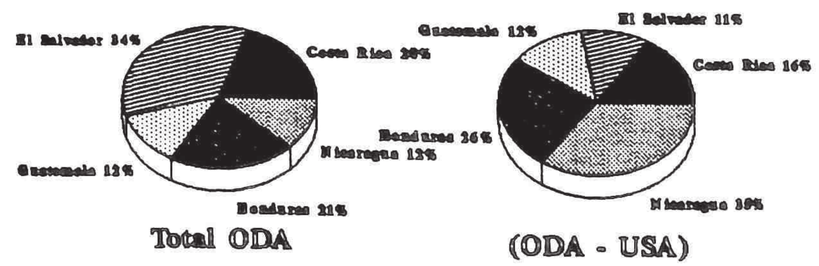
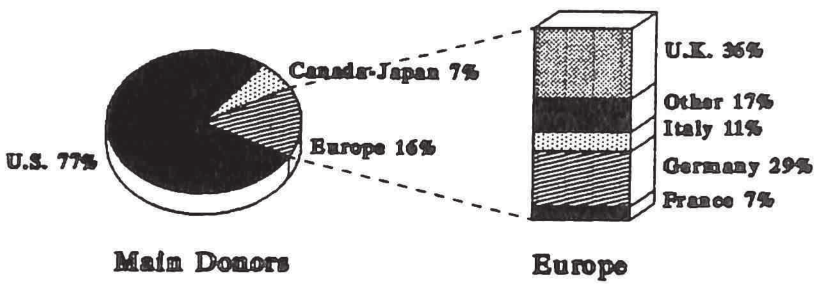


Figure 2.6. ODA to Costa Rica by Donor's Origin



distinct forms of financing. Despite that foreign capital in Costa Rica is more diversified—bilateral ODA only represents 30 percent to 40 percent of long-term capital— the country has been able to attract official development assistance from DAC countries, in addition to United States aid. In fact, more than one third of foreign bilateral aid comes from ten donor countries that have maintained interests on the country's development.

Figure 2.6 shows the origin of assistance to Costa Rica in the 1980s from DAC countries. Apart from the United States, only Germany appears as a major significant donor to the country. The remaining countries fall into two groups, those whose aid oscillates between O percent and 1 percent of total, and those between 1 and 5 percent.

El Salvador

El Salvador has been one of the economies most dependent on foreign assistance. Over ten years El Salvador has received more than two billion dollars in bilateral foreign economic assistance, amounting to more than three quarters of foreign capital investment, commercial loans, and multilateral assistance accounting for the rest. As mentioned before, this country has received one third of total ODA to Central America and it has been the major recipient of United States aid. As Figure 2.7 ilustrates, the amount of assistance more than tripled in the 1980s; it grew from sixty million dollars in 1980 to three hundred million in 1990, with US aid predominant.

In comparison to the rest of Central American countries, El Salvador has been the most dependent on United States aid

Figure 2.7. Bilateral Assistance to El Salvador 1980-1990.

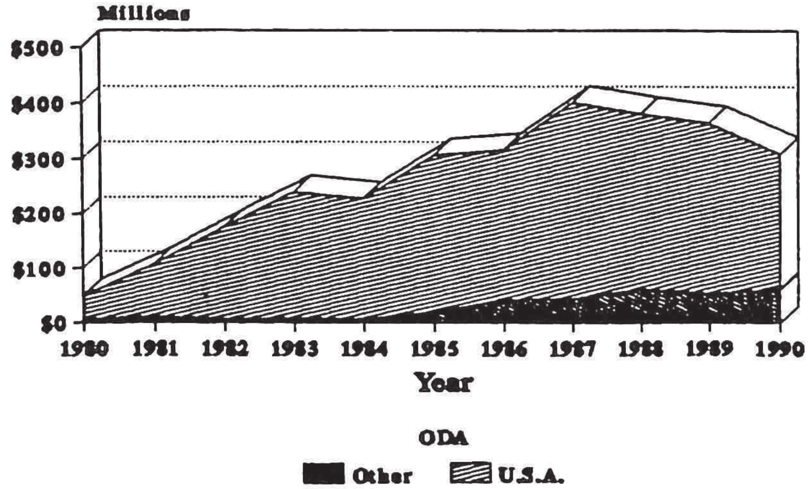


Table 2.7: « Distribution of Aid to El Salvador by Donor Country (Percent)

Year	CAN	FRA	GER	ITA	JAP	NET	NOR	SWE	WI	U.K.	USA
1980	4.50	1.25	2.94	0.00	0.17	2.12	0.00	0.75	0.00	1.47	86.8
1981	6.08	0.22	1.06	0.00	0.16	0.58	0.00	2.51	0.00	0.11	89.3
1982	0.76	0.00	0.84	0.00	-0.26	0.62	0.74	0.28	0.17	0.00	96.9
1983	0.72	0.05	1.35	0.05	0.20	0.66	0.13	0.00	0.04	0.00	96.9
1984	0.90	0.00	0.97	0.05	-0.34	0.71	0.23	0.00	0.04	0.15	97.3
1985	0.40	0.03	2.68	3.64	-1.10	0.53	0.10	0.00	0.23	0.03	93.5
1986	1.07	0.00	7.11	3.49	-0.31	1.32	0.33	0.26	0.28	0.13	86.3
1987	0.90	1.20	3.12	3.24	0.85	1.00	0.40	0.07	0.22	0.17	88.8
1988	1.01	2.35	5.51	4.22	0.57	2.06	0.23	0.10	0.27	0.08	83.6
1989	0.19	0.77	7.84	1.38	1.01	2.53	0.69	0.15	0.47	0.05	84.9

Source, OECD. Geographical Distribution of Financial Aid and author's estimates.

to Central America. Ninety percent of total aid to El Salvador is of US origin, leaving most of the remaining ten donor countries with inflows below 1 percent of the total. Only Canada, Germany, and France also contributed over 6 percent of total aid. Table 2.7 depicts how the distribution of aid during the decade was disproportionately reliant on the United States. Over the decade, aid to El Salvador became a very important US. foreign-policy issue. In fact, El Salvador is among the top four major recipients of ODA from the United States, following Egypt, Israel, and Pakistán. (11)

Guatemala

Guatemala's ODA is less than half its annual foreign capital income, and it has also received less aid than the rest of the region. In fact, Guatemala is the only country that no donor country has manifested a special preference for in giving aid. While the United States focuses on El Salvador, the United Kingdom on Costa Rica, Nordic countries on Nicaragua, and Japan on Honduras, Guatemala has no «special» donor partner. However, Guatemala still continued to receive 70 percent of its aid mostly from the United States. Another important characteristic of Guatemala, observed in Figure 2.8, is that this flows relatively increased in the last four years of the decade, this increase coinciding with the initial years of the first freely elected civilian government in decades in Guatemala.

Figure 2.8. Aid to Guatemala, 1980-1990

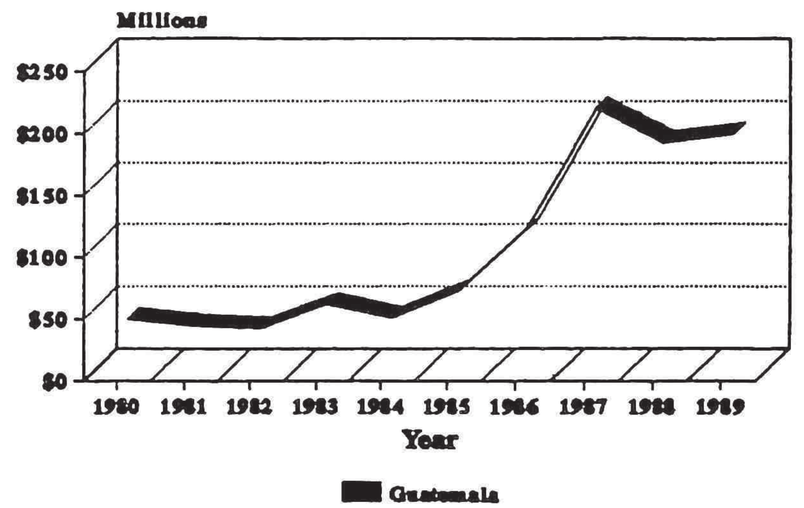
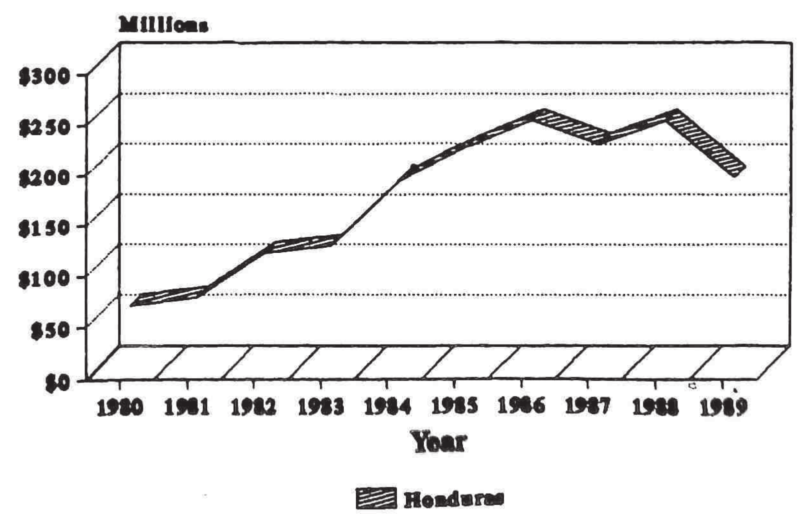


Figure 2.9. Aid to Honduras, 1980-1989



Honduras

Honduras has been particularly appreciated by countries other than the United States, Japan in particular, which provided more than three quarters of its assistance exclusively to Honduras. Aid to Honduras was greater in both gross and per capita terms. However, as Figure 2.9 shows, the levels of assistance, though they initially increased in comparison to previous years, started to fall in the last three years of the 1980s.

Nicaragua

Nicaragua is the only country for which the degree of assistance does not decline over the time (as happened in El Salvador and Costa Rica after 1987). Furthermore, Nicaragua, received more grants than the rest of the countries. This can be observed in figure 2.10. One can also observe that to a large extent Nicaragua was highly benefited by Norway, Netherlands and Sweden. France and Italy, also had an important role in assisting Nicaragua. However, in gross terms Nicaragua received much less aid than the other Central American countries, due to its differences with the United States.

Distribution of Aid Programs to Central America

This part of chapter 3 look at the distribution of aid programs to the Central American countries. Particular attention is being paid to the last four years of the 1980s for which there is available data.

Since bilateral ODA is of a concessional character, not only does it provide a considerable percentage of the total in the form of grants, but also the grand element of these loans tends to be generous. Thus, aid can constitute a supplement to domestic savings when investment is needed for certain development activities. Unfortunately, countries like Costa Rica have experienced balance of payments deficits due primarily to amortization

Table 2.8: Distribution of Aid to Nicaragua by Donor Country.

Year	CAN	FRA	GER	ITA	JAP	NET	NOR	SWE	SWI	U.K.A	USA
1980	0.3	0.5	6.6	1.6	1.7	11.1	0.5	8.3	0.4	0.3	69
1981	10.0	2.9	19.6	12.8	0.0	24.4	0.8	8.2	1.4	0.2	24
1982	3.5	14.7	12.4	5.1	0.4	32.4	3.4	16.9	2.1	0.2	8.9
1983	10.0	15.1	10.7	6.2	0.1	25.8	3.8	19.3	4.0	0.2	4.8
1984	13.1	13.2	6.6	3.9	0.1	29.3	8.6	22.2	3.1	0.0	0.0
1985	10.0	12.2	8.0	7.9	0.2	25.3	8.5	22.7	5.0	0.4	0.0
1986	4.7	15.2	8.6	15.2	0.2	20.0	12.9	19.2	3.9	0.1	0.0
1987	1.2	10.2	6.9	11.4	0.3	22.0	16.0	28.4	3.6	0.0	00
1988	10.3	1.7	5.2	12.2	0.3	19.6	14.8	31.1	4.7	0.2	0.0
1989	3.0	2.4	7.5	10.0	0.3	16.2	14.3	40.5	5.7	0.1	0.0

Figure 2.10. Aid to Nicaragua 1980-1989 (Total Aid and Grants as Precentage)

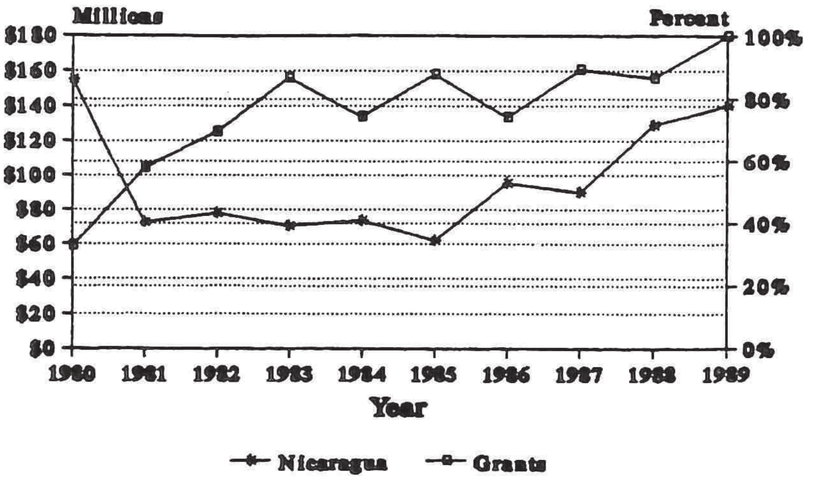


Table 2.9: Share of Assistance by Program to Costa Rica (%)

Costa Rica	1986	1987	1988	1989
a. Social	0%	8%	8%	2%
b. Infrastructure	27%	0%	27%	1%
c. Sectorial	20%	25%	5%	8%
d. Tech. Coop.	11%	18%	12%	24%
e. Macroeconomic	39%	43%	45%	62%
f. Other	1%	6%	3%	2%

Source: *Geographical Distribution of Financial Flows.* París: OECD, 1990

Note: a Social: education, health, other social infrastructure and water sanitation.

b. Infrastructure: energy, telecommunications, transportation.

c. Sectorial: agriculture, extracting industry, manufacturing, trade, banking and tourism.

e. Macroeconomic: multisector aid, programme aid, debt reorganization.

f. Other: food aid, emergency aid, unspecified.

and interest payments on previous loans, as well as to imports. This affected the economy in the early 1980s such that both donor and recipient countries are forced to invest this aid to restructure of the economy and pay of debt, rather than allow aid to contribute to domestic savings. This is shown in Table 2.9, which indicates the structure of aid by programs to Costa Rica from 1986 to 1989, for which there is available data. As can be observed, a great percentage is apportioned to the country's economic adjustment rather than to social programs. Infrastructural development and sectorial aid are very important in 1986 and 1988, respectively. .Technical cooperation follows in importance. One of the reasons for this allocation of aid is that the economic performance of the country which needs more resources for infrastructure than for social needs, such as literacy on health care.

However, what is worrisome is the size of the macroeconomic sector, which is basically policy-based lending for structural adjustment. The most important implication of this is that a great percentage of aid returns to the donor countries for re-payment of previus aid, thus reducing its contribution to development.

In the case of El Salvador, this country received most assistance in the form of technical cooperation and stabilization. In addition, El Salvador received more assistance for social development programs (education, health, social infrastructure, etc.) than any other country in the region, including Nicaragua. This can be observed in Table 2.10

Table 2,10: Share of Assistance by Program to El Salvador (%)

El Salvador	1986	1987	1988	1989
a. Social	22%	20%	32%	20%
b. Infrastructure	1%	1%	3%	2%
c. Sectorial	7%	9%	5%	11%
d. Tecnical Cooperation	27%	29%	19%	26%
e. Macroeconomic	37%	20%	25%	37%
f. Other	6%	22%	18%	4%

Source: *Geographical Distribution of Financial Flows.* París: OECD, 1990.

Table 2.11: Share of Assistance by Programs to Guatemala (%)

Program	1986	1987	1988	1989
a. Social	10	24	14	23
b. Infrastructure	1	10	26	8
c. Sectorial	10	2	13	11
d. Technical cooperation	32	22	15	28
e. Macroeconomic	32	30	21	25
f. Other	14	12	11	3

This aid to El Salvador's social sector concentrated on developing programs, in particular, was oriented toward the political stabilization of the country during the war period.

Guatemala, Honduras, and Nicaragua share the feature that at least one quarter of their aid came in the form of technical cooperation; Nicaragua, in particular, received one third of its aid in that form. Guatemala, as Table 2.11 shows, received near one third of its aid for macroeconomic purposes, that is, adjustment and cash-transfer programs. This country, which has had a more modern economic structure and had already embarked on economic liberalization policies, particulary in the industrial banking sector, was benefited mainly through loans.

In Honduras, however, it is observed that social programs were targeted by international aid agencies. Table 2.12 shows that 26 percent of total aid during the period 1986-1989 was destined to that sector. Honduras has been one of the poorest economies in Central America and the Carribbean, and most of its assistance has been provided directly or indirectly to benefit the population of the rural sector. Thus, the concentration of funds into social and technical cooperation programs may be explained by Honduras social needs.

Table 2.12: Share of Assistance by Program to Honduras (%)

Program	1986	1987	1988	1989
a. Social	15	34	26	27
b. Infrastructure	21	4	-	-
c. Sectorial	23	11	20	11
d. Technical Cooperation	16	20	16	40
e. Macroeconomic	18	24	32	6
f. Other	6	5	6	10

Nicaragua, on the other hand, has had aid mostly for sectorial programs. This characteristic differentiates Nicaragua from the rest of the countries of the region to the extent that the other Central American countries received less aid into this sector. In the Nicaraguan case that allocation is associated with the economic development policy implemented toward reorganizing the state and promoting agricultural development and industrialization. Table 2.13 shows that 60 percent of the aid to Nicaragua went to sectorial and technical cooperation, of which the latter has been mostly agricultural.

The degree of ODA inflow to the region during this period is considerably high, highly influenced by United States aid, and, at the same time, influenced by an array of new donor countries that were particularly concerned with assistance to Nicaragua. This first context of aid however, suggests that the presence of U.S. aid needs to be examined not only in terms of actual flows, but also in terms of the agenda behind those flows.

2. United States aid to Central America During the 1980s

There are some authors, for example Keith Griffin, (12) who do give credit to the role of politics in allocating foreign

Table 2.13: Share of Assistance by Program to Nicaragua (%)

Program	1986	1987	1988	1989
a. Social	7	7	8	12
b. Infrastructure	2	1	6	7
c. Sectorial	23	47	28	35
d. Tech Coop.	37	24	30	30
e. Macroeconomic	14	8	7	5
f. Other	17	13	21	11

assistance. In fact, one finds that aid is granted in accordance with a donor's national interest, whether the donor is the United States, France, or Norway. This form of «international relation» or cooperation has, however, greater relevance at particular historical points when aid emerges as an important component of creating of maintaining a country's hegemony.

This is true of United States aid to Central America in the 1980s not because of its «uses and abuses,» but because historical change provided the background for using aid in a special manner. During this period, the amounts of aid significantly increased — the gross numbers do not have comparison with any other point in time. Two important historical processes explain United States aid in Central America during the 1980s and differentiate this country from the rest of the donors.

First, within Central America grassroots or civil society challenges to ruling regimes implicitly challenged United States hegemony. This means that social struggles in Central America brought the United States into the conflicts. Aid became the carrot and stick used within counterinsurgency strategy intended to return things to «normal,», by promoting «democracy and development» through AID. Second, and equally important, facing the challenge of its declining hegemony, the U.S. moves to recuperate its vigor by redefining a strategy of global development as being based on US interests. Neo-liberal, Reaganomic economic adjustment is thus endorsed by the United States and brought to Central America for testing.

From the perspective of the United States, foreign policy was shaped by a bipolar, cold-war context. Specifically, the US considered Central America to be undergoing a series of undesirable political and social changes, mainly inspired by «communist» conspiracies. (13) Within this context, policy on Central America in the 1980s was oriented toward securing US interests and client states. In principle, policy on Central America had two objectives toward fostering political stability by promoting stability: on the one hand, it was concerned with promoting stability in those countries friendly to the United States, and, on the other hand, it was concerned with instigating instability in countries that were not allies or opposed the US. (14)

The Kissinger Commission's Report on Central America laid the grounds for this policy at the economic and political levels. But the consolidation of a global strategy, such as the Low Intensity Conflict, (LIC), based on military, economic, diplomatic, and political fronts, developed the way in which foreign economic assistance would be channeled. Thus, stabilization and de-stabilization are LIC goals which were implemented in Central America. Foreign aid, military and economic, has, then, been defined in terms of security and development assistance, while economic support funds (ESF), that account for more than one third of total US aid, are considered as security assistance, although their objective is economic and aims to achieve balance of payments stabilization via cash transfers. (15)

Thus, the politics of US foreign aid operate in the framework of security interests, particulary where the hegemony of this country has been challenged. Therefore, when the salvadoran economy was weakening during the civil war, the United States rushed into the country to provide assistance in order to stabilize and reconstruct the economy. (16). At the same time in 1983, it suspended economic aid to war-ravaged Nicaragua. The politic-economic platform on this strategy focused on assisting other countries friendly to the US wich the objective of maintaining their stability. This is the case of Honduras and Costa Rica, who were not only friendly with the US. but also played an important role in the development of the «contra» war against Nicaragua. Together, the three countries maintained a unified triangle of opposition to Nicaragua. Is this framework, then, the societies of Central America are transformed into «subsidized and geopoliticized» economies, turned from banana republics into AID republics. (17) The major consequence of this process, initially based on a political strategy, has been the perpetuation of dependence on the United States.

United States foreign aid to Central America was not only «political» in terms of what it wanted to achieve in the relationship between the states, and how it wanted to influence the states internal ideologies. It was also political in terms of what it wanted to achieve economically. The United States provided specific frameworks for aid allocation based on a goal oriented toward structural reform of the state. AID in Central America, as well as in other parts of the world, provides funds and implements its programs based upon the agreement of the recipient government to change its economic policies to a neo-liberal style. Conditioning aid on policy changes in the 1980s was the new AID strategy that occurred in coordination with multilateral assistance offered by international institutions like the World Bank.

As Margee Ensign argues, «The main goal of US foreign assistance in the 1980s is once again macroeconomic reform within the LDCs (less developed countries). (18) This reform, based on market-oriented policies, has concentrated on providing assistance in the form of cash transfers, sectorial assistance, food-aid, and commodity import programs. This new trend has reduced the size of the traditional «development assistance» sector that AID employs for education, health, and infrastructural development programs.

The effect of this new focus on Central America has been twofold. On the one hand, while these countries underwent severe social, economic, and political crises the kind of US assistance needed for social progress was limited. On the other hand, conditionality was cross linked to World Bank and International Monetary Fund approval and to political «correctness» in relation to United States standards. The problem, however, was that what one could see as the «right» strategy in terms of combining the two characteristics of aid (strategic arm for stabilization and an agenda for market economics) did not fully realize a goal of growth.

El Salvador, for example, received 44 percent of total US aid to Central America, as part of the counterinsurgency project. AID's objetive was to of reform the state and encourage the private sector. In both cases, AID was successful, it reshaped the state toward a neo-liberal form and made sure the private sector was the greatest beneficiary of the assistance. The problem, however, was that the private sector did not transmit the benefits of aid to the rest of the population. Cuenca's estimates on aid to El Salvador show that 42 percent of cash transfers went to support the private sector through credits and subsides. In addition, contracts for infrastructure projects were shifted to the private sector from the state's hand, thus reducing the state to compete with the private sector in construction projects. (19) With such scenario it is difficult to attribute the deterioration of the economy, employment and income distribution, to the civil war alone. The amount of aid sent to El Salvador could have provided resources for building of new schools and health centers across the country. Instead, foreign assistance stimulated the traditional private sector of El Salvador, guaranteeing stability for their business, but not to workers. (20) The employment rate fell during the decade, wages declined, and the government's budget for social programs decreased.

Finally, ad significatily at an institutional level, AID has designed new policies not only for those programs directly associated with structural adjustment, but also for food aid and other development aid. The difference between AID in the 1980s and before hast been that, the 1980s, USAID operated as a parallel state, or as a state within the state, in the sense that the policies and conditions attached to aid exerted enough pressure on the recipient countries that in many cases economic decisions were not made previous consultation with AID officials. The margin of maneuverability of these recipient countries is so small that the state often does not have the bargaining power needed to achieve AID agreement for certain policies and therefore make them effective.

Food aid policy, PL-480 Title 1 in particular, is an important example of what AID's programs can do to recipient countries. Ten percent of United States aid to Central America goes in the form of food aid, eighty percent of which (PL-480 Title 1) is sould through soft loans with long grace periods and low interest rates. The initial impression that AID gives is that it provides a genuine program targeting the most needy.

However, there are at least three aspects that interrupt such welfare. In the first place, PL-480 T1 is used in conection with Economic Support Funds as strong bargaining tools by AID in orden to force governmental policy changes to take place. The costs of the conditions attached to this form of aid are greater than the cost of the program. The conditions involve first, the IMF's approval of government policies and second, cuts in food subsidies, or a raise in the price of electricity bills. (21) Second, the kind of food aid received involves the sale of wheat rather than corn, the major staple of the poor sector. Although sales of these commodities, such as milk, vegetable oil, and chicken, help to bring prices down, the sector most benefited by this aid is the middle class who have more use for these items than do the poor, whose diet is mostly corn, beans, and rice. Third, small farmers who produce corn and other basic products have been affected by these food-aid programs because of price competition. In Costa Rica, for example, AID in coordination with the IMF and World Bank has been able to reduce certain basic agricultural prices for the urban population, which then effects the campesino producers who are forced to produce other commodities. While the peasants are hurt by such measures, big food industries, receive credits as part of private enterprise development and still do not reduce prices as expected to help poor families. (22). Finally, but not last, if the food aid programs are government to government contracts through which the recipient government sells the goods to the local businesses. Since the softness of the payment facilities are advantageous to the recipient country, they have allowed local Central American governments to maintain a profit from the sales of the goods provided for financing programs. Garst and Barry argue that the local currency generated from the sales, which represents, on average, 3 percent of the government's budget, has not been sufficient for providing social services and instead has further worsened these countries' debt. (23) In summary, US economic and political intentions expressed through foreign assistance have proved to not promote the welfare of large sectors of the population, but rather the traditional elites protected by the United States.

This section has attempted to cover certain aspects relating to United States aid, though it not looked toward an exhaustive analysis of the topic given the complexity of this area and the purpuse of this chapter. However, it did intend to look at the double role of United States' economic aid, that is to recuperate regional and global hegemony under question in the 1980s by using aid as an instrument of power.

3. Structural Adjustment and Multilateral AID

The previous two sections have dealt with bilateral assistance levels and US trends and politics. Although it is not the subject to our analysis, a complete overview of foreign assistance must include the role of multilateral aid in Central America. As it was mentioned earlier in the first chapter, multilateral development assistance is given by international organizations such as the World Bank (WB) and the European Economic Community (EEC), regional organizations such as the Interamerican Development Bank (IDB) and to a lesser extent the International Monetary Fund. (24) In Central America the important source of multilateral financing has been the World Bank. In addition, the EEC and IDB have also been additional sources of financing. This section will particulary concentrate on the role of the World Bank in multilateral assistance in Central America within the context of policy based lending as a strategy in the 1980s to reform the state in these countries.

The World Bank and Policy Based Lending

Although Central American countries had maintained regular relations with international organizations such as the WB, the impact of the economic crisis, reflected in the increases in the external debts, inability to pay interests, and balance of payments deficits, led these countries to seek financial assistance from these organizations in a more disadvantageous way due to the fact that private financing had decayed and desperate need of cash transfers was required. Central American economies entered phases of economic adjustment just after the economic crises during the period 1978 to 1982. As Bulmer-Thomas says, these were adjustment phases without conditions from abroad. After 1982 and until 1986, however, the Central American governments enter into a second adjustment phase in which IMF balance of payments financing is conditioned to changes in current national policies. (25) In both cases, the adjustment processes oriented toward a stabilization of the balance of payments required changes in budget deficits and improvements in terms of trade.

The conditions recommended by the IMB involved reduction of budget deficits not only via employment and food subsidy cuts, but also increases in public-service rates, as well as relaxation of exchange rates and import policies. Also, the conditionality, considered as a bargaining tool between lender and borrower, developed another dimension; AID's, IDB's and WB's financing was tied to the conditions attached by IMF, Thus, a process of cross conditionality occurred between these international organizations and Central American governments, toughening their bargaining power. (26)

Table 2.14: Types of policy measure requested in return for SAL finance, 1980-1986.

Measures	% SALs subject to condition in this area
Trade Policy	
Remove import quotas	57
Cut tariffs	24
Improve export incentives, etc.	6
Resource mobilization	
Reform budget or taxes	70
Reform interest rate policy	49
Strengthen management and external borrowing	49
Improve financial performance of public enterprice	73
Efficient use of resources	
Revise priorities of public investment programme	59
Revise agricultural prices	73
Dissolve or reduce powers of state marketing boards	14
Reduce or eliminate some agricultural import subsidies	27
Revise energy prices	49
Introduce energy-conservation measures	35
Develop indigenous energy sources	24
Revise industry incentive system	68
Institutional Reform	
Strenghthen capacity to formulate and implement public investment programme	86
Increase efficiency of public enterprises	57
Improve support for agriculture (marketing, etc.)	7
Improve support for industry and subsectors (including prices controls)	49

Source: Mosley, Paul. *Conditionality as Bargaining Process: Structural Adjustment Lending, 1980-1986*. Princeton, N.J.: Princeton Essays in International Finance, n. 168. Table 2, p.5.

Since World Bank's increasing assistance was oriented not only toward balance of payments stability, but also to infrastructural and social development, and given that Central America's level of indebtedness was dramatically increasing, the WB's leading role re-emerged in the mid eighties with revived impulse. In addition, the WB's change of lending

Table 2.15: Multilateral Assistance to Central America (Million of $US dollars).

Country	1980	1081	1982	1983	1984	1985	1986	1987	1988	1989
COSTA RICA										
World Bank	$29	$22	$20	$24	$36	$ 84	$ 55	$10	$5	$43
Total	$97	$76	$49	$70	$85	$162	$119	$65	$87	$82
WB/Total	30%	29%	40%	34%	43%	52%	46%	15%	5%	52%
EL SALVADOR										
World Bank	$10	$15	$11	$7	$11	$14	$3	$3	$14	$1
Total	$36	$75	$70	$124	$67	$77	$44	$35	$54	$78
WB/Total	29%	20%	16%	6%	16%	18%	8%	10%	25%	1%
GUATEMALA										
World Bank	$39	$35	$23	$20	$8	$49	$17	$12	$7	$14
Total	$77	$99	$99	$53	$77	$138	$69	$28	$105	$86
WB/Total	51%	35%	23%	39%	10%	35%	25%	42%	6%	17%
HONDURAS										
World Bank	$24	$30	$ 48	$ 58	$61	$45	$33	$25	$53	$2
Total	$113	$96	$ 96	$127	$161	$160	$77	$54	$129	$57
WB/Total	22%	31%	49%	46%	38%	28%	42%	47%	41%	3%
NICARAGUA										
World Bank	$12	$32	$17	$22	$20	$0	$0	$0	$0	$0
Total	$90	$128	$52	$70	$47	$16	$33	$24	$13	$4.
WB/Total 13%	25%	33%	31%	44%	1%	0%	0%	0%	0%	

Source: World Bank. *World Debt Tables in Diskette*. New York: World Bank Publications, 1992. Note: Totals reported in million of dollars.

policies by conditioning assistance on policy reform in the recipient countries, thereby introducing program lending strategies based on structural adjustment and sectorial adjustments to the borrowing countries, introduced a new phase in the relations with this organization.

The WB employed structural adjustment loans (SALs) as a means for policy reform; at least fifteen policy conditions were attached to loans to «buy» structural reforms in every loan package. The reforms intended were initially based on the assumption that developing countries' current account deficits were a consequence of subsidies and constraints to the market forces that restricted «natural» prices setting. (27) The «practical» objective in the end was to liberalize the economies of these countries to the best possible outcome.

Table 2.14 lists the number of policy conditions that could be «available» in any loan package. As can be observed, most of the measures requested in exchange are related to trade liberalization and reform of the public sector. In Central America, WB's loans were extended within this context of conditionality particularly in three countries: Costa Rica, Guatemala and Honduras. However, not always were the conditions part of structural adjustment requested by the World Bank: only Costa Rica and Honduras signed SALs.

Structural Adjustment in Central America and the World Bank

As mentioned before, World Bank lending did not necessarily occured within the context of structural adjustment programs, thought it conditioned its assistance to policy reforms. Costa Rica and Honduras, however, in the second half of the 1980s signed SALs as part of the tightening of their policy reforms, as well as, pressures from institutions like AID, IDB, and IMF. Guatemala on the other hand, maintained a policy of liberalization and structural adjustment as part of its negotiations with the IMF. What takes place, then, is a process in which cross conditionality operates as the main force of structural adjustment, whith countries' compliance would increase their bargaining power to negotiate more loans with the World Bank.

The countries that received most financing from the World Bank were Costa Rica, Guatemala, and Honduras with annual disbursements below fifty millions dollars. El Salvador and Nicaragua, on the other hand, received less financing. El Salvador, in particular, received less financing due to AID's preference for this country and its own stabilization program directed to that country. Nicaragua, howeer, by 1985 stoped receiving disbursements of assistance from the World Bank altogether, mainly due to United States pressures to cut aid to this country. It is not until the new government is established in Nicaragua, in 1990, that the World Bank resumes its financing for the country. Table 2.15 summarizes the flow of multilateral assistance to Central American countries.

Although the flows of World Bank assistance were lower than those from AID, it is clear that this international organization had financed at least forty percent of total multilateral assistance, particularly to the two countries that implemented structural adjustment programs in the second half of the 1980s, whith Costa Rica as the greatest recipient, followed by Honduras.

The existence of policy-based lending on the side of international organizations such as the World Bank, IMF, and AID, as well as the main objetive of the policy reform, economic liberalization, have carried within themselves a debate on the costs of SALs and/or World Bank lending for the economies of Central American countries and their societies. Buttari, for example, argues that the liberalization process in Central America (Nicaragua excluded) has raised the rate of growth of their economies (28) By supporting the neo-classical monetary, fiscal and institutional policy shifts, that countries like Costa Rica, El Salvador, and Guatemala, Buttari argues, have been able to increase the rate of production of non-traditional products as a strong reaction to favorable exchange rate reforms and to renewed exports incentives. Also, he adds that, in response to the changes to the exchange-rate and financial policies, producing favorable climate for private investment, the share of domestic investment in the GDP for Costa Rica and Guatemala was encouraging and «moving upward in both countries.» (29) This basic line of approach-the trickle down view of growth defended by AID and WB officers—has been widely challenged by scholars who argue that the impact on the social sector has been mostly negative.

Arias Penate, makes a case for the «simplicity» and incompleteness of WB's diagnosis of the economic problems of Central American countries and the solutions proposed based on leaving the market forces to act alone. One of Arias' criticism of WB's policies in Central America lies on the policy of trade liberalization that encourages comparative advantages. (30) Such approaches cannot fully address the problem of the uncertainty of markets and real competition, by which small countries are forced to «specialize» in primary exports.

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