

ASSESSING STATE CAPACITY POST-USAID IN CENTRAL AMERICA: THE CASE OF GUATEMALA, HONDURAS, AND COSTA RICA

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ABSTRACT: *Facing drastic U.S. foreign aid cuts in 2025, including the termination of USAID, this research assesses the impact on state capacity in Central America, focusing on Guatemala, Honduras, and Costa Rica. It investigates how the withdrawal of governance funding affects state capacity in the region. Utilizing frameworks of aid dependency and state capacity, complemented by historical-institutional analysis, the study argues that USAID's exit will probably influence nations in critical areas regarding governance, which had high pre-existing aid dependency and weaker institutions, namely Guatemala and Honduras. These cases reveal systemic vulnerabilities exacerbated by the funding shock. In contrast, Costa Rica, characterized by stronger state capacity and lower aid dependence, shows greater resilience. The findings underscore the critical link between international aid, endogenous state capacity, and deep-rooted institutional histories; highlighting the risks of external funding shocks for fragile states in the region, but with a minor incidence in stronger states of Central America.*

KEYWORDS: *state capacity; post-USAID; Central America; fragile states; aid dependency*

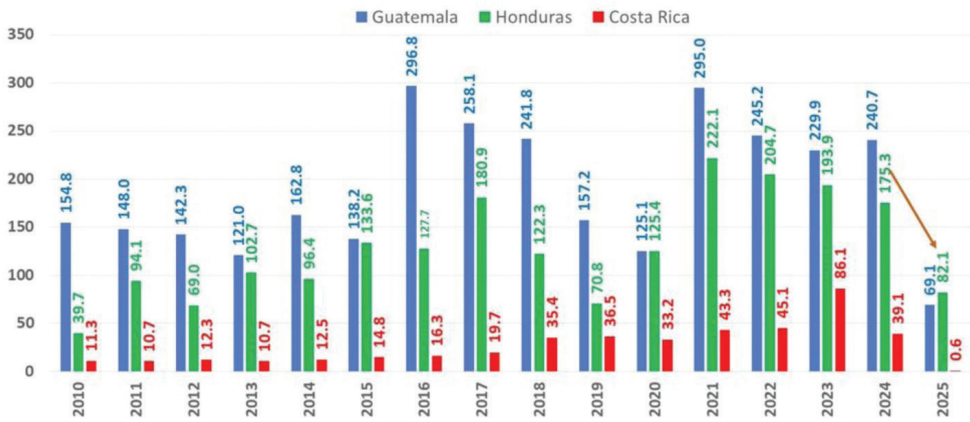
1. INTRODUCTION

The United States of America is implementing an ample cut of 84.1% to international aid in 2025 compared to 2024. The budget has decreased to US\$ 8.9 billion in 2025, with respect to US\$ 56 billion assigned in 2024. This quantity was already inferior to the US\$ 79 billion in 2023, which is equivalent to a contraction of 29.1%. Foreign assistance was handled through different US government institutions. The main institution for 2024 was the United States Agency for International Development (USAID) with 63.2% of all resources, followed by the State Department with 28.9% and the Millennium Challenge Corporation with 3%. These three institutions absorbed 95.2% of all the funds, directing them to support different critical areas of the corresponding nations, such as governance, health, education, economic growth, agriculture, infrastructure, humanitarian aid, etc.

This analysis focuses on the cooperation between north-south in the support of the governance sector by studying the cases of three developing nations in Central America: Guatemala, which was ranked fourth among countries that received aid from the United States in the Western hemisphere in 2024, Honduras, which was placed sixth, and Costa Rica, which was ranked sixteenth. Graph 1 illustrates how these nations have benefited from aid in the governance sector from the United States. The series presents the way funds

had been increased for Guatemala and Honduras, while they remained stable for Costa Rica at the end of the Obama administration in 2016-2017. Trump’s first administration reported a decrease in the funds directed to Guatemala and Honduras during 2019. Later, with the pandemic of 2019-2020 and the arrival of the Biden Administration in 2021, foreign assistance funds increased significantly for Guatemala and Honduras, while in a lesser manner to Costa Rica.

The second Trump Administration, under his “America First” government (The White House, 2025), implemented an important cut in all international aid that included the termination of USAID. According to the U.S. Foreign Assistance webpage, the aid for Guatemala was diminished by 71.3% in 2025, going from a budget of US\$ 240.7 million in 2024 to US\$ 69.1 million in 2025. Likewise, Honduras has a cut of 53.1% in 2025, going from US\$ 175.3 million in 2024, to US\$ 82.3 million in 2025. Costa Rica experienced a drastic 98.4% cut in aid, with funding plummeting from \$39.1 million in 2024 to just \$600 in 2025. The following graph illustrates the data from Foreign Assistance and the changes in funding over time (Foreign Assistance, 2025).



Graph 1. United States’ financial aid from all agencies to Guatemala, Honduras and Costa Rica (US\$ millions)(Foreign Assistance, 2025)

This abrupt withdrawal raises a critical question: How does the withdrawal of USAID governance funding affect state capacity in Central America? This study employs theoretical frameworks of aid dependency, state capacity (fiscal, administrative, and legitimacy), and historical institutionalism to analyze the impacts.

The central thesis argues that USAID’s exit disproportionately destabilized countries with high governance-aid dependency (Honduras, Guatemala), revealing systemic vulnerabilities in state infrastructure, while less-dependent states (Costa Rica) exhibited resilience. The analysis contends that the consequences are mediated by pre-existing institutional strength and historical development paths. States like Guatemala and Honduras, with significant governance weaknesses and greater reliance on aid to subsidize core functions, are expected to experience more severe deterioration than Costa Rica, which possesses stronger institutions and a lower aid dependency.

This paper will proceed as follows: *Section 2* reviews the relevant literature on foreign aid, state capacity, and historical state formation in Latin America. *Section 3* provides a case example (MACCIH in Honduras) illustrating the complexities of external aid and state capacity. *Section 4* details the USAID funding landscape pre- and post-cut for Guatemala, Honduras, and Costa Rica, juxtaposing funding data with governance indicators. Finally, the paper will offer conclusions on the different impacts of the aid withdrawal and recommendations for policymakers and future assistance models.

2. LITERATURE REVIEW

The relationship between foreign aid and governance capacity has been extensively theorized through two complementary lenses: the institutional impacts of aid dependency (Knack, 2000) and the state capacity framework (Di Maro et al., 2021). While Knack's analysis of African nations establishes foundational arguments about aid's dual potential to strengthen or weaken governance, Di Maro et al.'s empirical work on state capacity provides crucial insights into how institutional context mediates these effects - particularly relevant for understanding the potential consequences of USAID withdrawal in Central America.

Di Maro et al. (2021) conceptualize state capacity as comprising three interdependent components: fiscal capacity, administrative competence, and institutional legitimacy. This framework helps explain Knack's (2000) observed positive effects of aid. In Central America, USAID programs have ostensibly targeted all three dimensions:

- *Fiscal Capacity Building*

The World Bank's Tanzania study (Di Maro et al., 2021) demonstrates how performance-based grants can theoretically strengthen local revenue systems, though with mixed results. Aid often missed to account for pre-existing institutional weaknesses. Developing countries often lack basic characteristics of state capacity. Such characteristics are the ability to collect taxes destined to fund public services, enforce contracts, and protect property rights.

- *Administrative Capacity Development*

Technical assistance programs represent a second pathway for governance improvement. Di Maro et al. (2021) emphasize that effective administrative strengthening requires alignment with local institutional contexts. Projects sometimes struggle with isomorphic mimicry, where institutional forms were replicated without corresponding functionality or adapted to local contexts (Di Maro et al., 2021, 27).

- *Legitimacy and Citizen Engagement*

Both Knack (2000) and Di Maro et al. (2021) identify citizen-state relations as critical for sustainable governance. Endogenous trust-building processes are key to this (Di Maro et al, 2021, 6). This refers to improvements in state capacity that originate and evolve from within a country or society, rather than being driven by external aid or financial incentives. However, the historical key for state capacity building is in the hands of citizens' demands for public goods, and willingness to pay taxes to a state they consider legitimate.

The potential negative consequences of aid articulated by Knack (Knack, 2000), particularly fiscal substitution, institutional bypassing, and reform sustainability challenges, find troubling empirical validation in Central America when examined through state capacity framework (Di Maro et al., 2021). These dynamics reveal how external assistance can inadvertently undermine the very governance structures it seeks to strengthen, especially in contexts of preexisting institutional fragility.

Di Maro et al. (2021) emphasize that aid can disrupt the fiscal social contract by reducing incentives for domestic revenue mobilization. An example of this risk: during periods of direct budget support from international aid, the country's tax effort declines. This aligns with Knack's (2000) concern that aid dependency weakens governmental accountability to citizens, as rulers reliant on external funds face diminished pressure to cultivate broad-based tax compliance.

A second critical issue emerges in the realm of bureaucratic development. Di Maro et al.'s (2021, p. 13) Tanzanian case study demonstrates how donor projects often create parallel implementation structures that sideline state institutions. An example of this would be when international aid-funded NGOs reportedly attract skilled professionals away from public institutions. Such fragmentation risks perpetuating a dual governance system, one shaped by donor priorities rather than endogenous state capacity.

The sustainability of donor-supported reforms presents a further dilemma. Di Maro et al. (2021) argue that state capacity evolves through endogenous shifts in trust and legitimacy. If the state has no real interest, making these shifts on its own, aid for its development in collaboration with the state may not be sustainable. This can be better illustrated when political elites resist its anti-corruption mandates, the mechanism dissolves, leaving no durable institutional legacy. This underscores the limits of transplanting reforms without local ownership.

The interplay between aid's positive and negative effects ultimately hinges on preexisting state capacity, as highlighted by Di Maro et al.'s (2021) comparative framework. Central America's heterogeneous governance landscapes would thus respond differentially to reductions in US assistance:

- **Higher-capacity states** like Costa Rica, with a tax-to-GDP ratio of 25.5% in 2024 (OECD et al., 2024), with robust administrative and fiscal institutions, would likely absorb shocks with minimal disruption.
- **Fragile states** such as Honduras 21.4% (OECD et al., 2024) and Guatemala 14.4% (OECD et al., 2024), where USAID has subsidized core governance functions, face acute risks of regression. Particularly in the justice and security sectors dependent on external technical and financial support.

This analysis suggests that the consequences of diminished US engagement will be mediated by each country's position on Di Maro et al.'s state capacity spectrum. The most aid-dependent, low-capacity states may experience severe governance deterioration, reinforcing the need for assistance models that prioritize endogenous institutional resilience over short-term project outcomes.

The preceding analysis of foreign aid's paradoxical effects on governance capacity in Central America underscores a deeper institutional dilemma: Why are states in the region so structurally vulnerable to external shocks and aid dependency? This question necessitates a historical-institutional examination, as articulated by Mazzuca's work on *latecomer state formation* in Latin America (Mazzuca, 2021). His framework reveals that the region's governance weaknesses are not merely the product of recent policy failures but are entrenched in a 19th-century political order that prioritized territorial consolidation over bureaucratic development.

Mazzuca's central thesis distinguishes state formation, the monopolization of coercion within defined borders, from state capacity, the administrative ability to uniformly provide public goods. Latin America's divergence from the European model is striking: whereas geopolitical competition in early modern Europe necessitated both centralized coercion and bureaucratic transformation, Latin America's state formation was trade-led, lacking existential military threats. This "geopolitical bonus" allowed elites to prioritize commercial integration and short-term stability over institutional deepening. Revenue reliance on primary exports (tariffs rather than domestic taxation) enabled the preservation of local patrimonial networks, creating a governance model where oligarchic autonomy trumped centralized state capacity.

Nowhere is this dynamic more pronounced than in Central America, where the collapse of the Central American Federation (1823–1839) exemplified the region's trajectory of fragmentation and institutional underdevelopment. Fiscal scarcity and localist resistance fractured the Federation, as regional elites, exemplified by figures like Guatemala's Rafael Carrera, prioritized personalist rule over collective state-building. Ports, critical for customs revenue, remained under local control, and the marginal profitability of 19th-century exports rendered even basic federal governance unsustainable. This legacy of hyper fragmentation entrenched *lord-driven* governance, where weak central institutions coexisted with entrenched subnational patronage networks.

The implications for contemporary governance are profound. Central America's historical institutionalization of patrimonialism explains its persistent struggles with uneven service provision, "gray areas" of limited statehood, and presidential dominance, all of which exacerbate aid dependency. Mazzuca's concept of "strong antibodies against state capacity" clarifies why externally originated reforms often collapse when political incentives shift. The region's foundational bargain, exchanging centralized capacity for elite stability, created a path-dependent weakness that endures in its reliance on external aid and resistance to sustainable reform.

This historical analysis reframes Central America's governance challenges as path-dependent outcomes, not merely contemporary policy failures. The region's vulnerability to aid volatility and institutional fragility is, in essence, the modern manifestation of a centuries-old institutional order designed to resist centralized state capacity, a reality that demands reevaluating external assistance models to address these deep-rooted constraints.

3. EXAMPLE: HONDURAS AND MACCIH

A renowned public case that illustrates the lack of state capacity and the undermining of international funding is Honduras' Mission to Support the Fight Against Corruption and Impunity (MACCIH). This mission, which was operating within the context of systemic corruption and organized crime, led to the deformation and the capture of a Honduran state institution (Centro de Estudios Latinoamericanos & Latinos de American University, 2018, 3). The mission was terminated as there was no renewal of its agreement, reflecting both the symptoms and consequences of democratic backsliding and the enormous lack of state capacity from Honduras.

Honduras' institutions that were designed to protect public goods, have usually been captured by entrenched power groups that serve their private interests rather than public welfare. The way these power groups have captured institutions has enabled the persistent plundering of public resources and has plagued even the highest political posts. International cases with judicial testimonies revealed drug trafficking networks involving senior military, police, and political leadership, illustrating the depth of state penetration by criminal structures (Centro de Estudios Latinoamericanos & Latinos de American University, 2018, 9).

The massive social protests against corruption in 2015, known as "las antorchas", led to the emergence of MACCIH. This protest erupted after the revelation of \$300 million embezzlement from Honduran Social Security Institute which were allegedly used to finance political campaigns (Navas Álvarez, 2020). The Organization of American States (OAS) and Honduras reached an agreement in April 2016 finally establishing the institution, receiving the support of the G-16 donor group and the U.S. Embassy (Navas Álvarez, 2020, 8). They recognized Honduras challenges with regard to poverty, violence, and migration. The mission counted with the newly created Special Prosecutor's Unit Against Impunity (UFECIC) within the Public Ministry and was staffed with international experts. During the operational period of MACCIH/UFECIC, the institution brought 14 cases to trial showcasing the systemic corruption mechanisms functioning in broad daylight (Navas Álvarez, 2020, 3). While citizens struggled, officials diverted public funds to private accounts and to political financing. Yet in 2020, due to the elite's consolidation of power, it was decided that there would not be a renewal of these institutions. The government even replaced the UFECIC with a domestic-only unit, which made more evident the re-institution of political control over corruption efforts (Navas Álvarez, 2020, 8).

This case exemplifies the complicated relationship between international assistance and governance in fragile states. The mission did help compensate for Honduras' deficient institutional capacity, its external funding and mandate created dependencies vulnerable to geopolitical changes and domestic resistance. It was a clear example of how deeply entrenched corruption networks and historical patterns of state formation in Latin America, where states developed as patronage systems rather than public service providers, create persistent obstacles to anti-corruption methods. A sustainable reform needs endogenous political will and citizen engagement, and not only external support, as portrayed by MACCIH's legacy despite technical achievements.

4. USAID'S 2024 CONTRIBUTIONS

The United States Agency for International Development (USAID) was established in 1961 through Executive Order 10973 under President John F. Kennedy, merging several preexisting U.S. foreign assistance programs, including the Marshall Plan (1948–1951) and the International Cooperation Administration (1955–1961) (Tarnoff, 2018). As the primary U.S. government agency for international development, USAID was created to administer economic and humanitarian assistance, with an initial focus on promoting modernization (Latham, 2011).

During its early decades, USAID's work in Latin America was closely tied to the Alliance for Progress (1961–1973), a regional initiative aimed at fostering economic growth, social reform, and democratic governance (Rabe, 1999). Over time, the agency's priorities shifted in response to changing geopolitical dynamics. In Central America, USAID has implemented programs across sectors such as governance, economic growth, health, and education, often in partnership with host governments and local organizations. While some evaluations highlight its contributions to infrastructure and institutional development, others note challenges related to sustainability, coordination with local actors, and the tension between development objectives and geopolitical priorities (Knack, 2000).

Since 2017, USAID has operated under the *Journey to Self-Reliance* policy framework, which prioritizes institutional capacity-building and the gradual reduction of aid dependency in partner countries (Runde et al., 2021). This approach reflects broader theoretical debates in development economics regarding the tension between short-term humanitarian assistance and long-term structural resilience, a central concern in contemporary foreign aid effectiveness literature.

However, this trajectory was disrupted in 2025 when the Trump administration issued its first Executive Order, freezing foreign assistance funding and mandating a comprehensive review of USAID's global operations (Debusmann, 2025). Subsequent efficiency measures led to the termination of approximately 82% of the agency's programs worldwide, with particular consequences for Central America. The funding cuts created significant challenges for recipient nations, especially in sectors where USAID had been a primary financier. Governance systems, which historically received the largest share of USAID allocations in the region, faced immediate destabilization, while public health systems lost access to essential medicines previously supplied through USAID-backed initiatives (Congressional Research Service, 2021). The impacts varied considerably across countries due to differing levels of institutional capacity and aid dependence.

For example:

- **Costa Rica**, with stronger domestic institutions, received no governance-sector funding, and its limited USAID allocations were supplementary rather than structural.
- **Honduras and Guatemala**, where USAID programs accounted for 12-18% of annual public institutional budgets (OECD, 2020), experienced acute contractions in judicial reform, anti-corruption efforts, and rural healthcare delivery.

In the following paragraphs, we will conduct a comparative analysis of pre- and post-2025 funding patterns, examining how the abrupt withdrawal will probably affect governance quality and public service provision across Central America’s heterogeneous institutional landscapes.

A. GUATEMALA

USAID Guatemala in 2024 granted \$161.7 million, from which \$50 million (31%) were destined to Governance programmes. Within the Category of “Governance”, \$11 million were destined to “Conflict, Peace and Security” initiatives. Meanwhile \$38 million were destined to “Government and Civil Society” that has even more subsections: “Public Finance Management” received \$820 thousand, “Human Rights” received \$1.3 million, “Legal and Judicial Development” received \$11 million, and “Democratic Participation and Civil Society” \$30 million.

The total USAID funding drastically changed in 2025, by shrinking to \$44.28 million. 27% of the prior year’s sum. Nonetheless, “Governance” still had the largest amount of funding with \$12 million. This was distributed in two main categories, “Conflict, Peace, and Security” \$520 thousand, “Governance and Civil Society” \$11 million. This last sum was distributed in the categories of “Public Finance Management” \$120 thousand, “Legal and Judicial Development” \$1 million, “Human Rights” \$1.3 million, and “Democratic Participation and Civil Society” \$9.1 million.

An examination of Guatemala’s governance indicators from the World Bank (World Bank, 2023) reveals a challenging governance landscape. Key indicators demonstrate significant shortcomings: Control of Corruption is notably low at 14.15%, as is Rule of Law at 15.57%, and Government Effectiveness at 18.40%. Voice and Accountability also presents a concern with a score of 33.33%. While Regulatory Quality 41.51% and Political Stability and Absence of Violence/Terrorism 36.97% fare somewhat better, these figures underscore the need to consider these factors.

In summary, the drastic reduction of USAID funding in Guatemala, from \$161.7 million to \$44.28 million, represents a significant shock to the country’s development assistance, with governance programs experiencing a notable decrease. While “Governance” remains the priority sector in the reduced budget, the sharp decline in funding across critical areas such as “Public Finance Management” and “Legal and Judicial Development” raises concerns about potential setbacks in institutional strengthening. These funding cuts take on added significance when considered alongside Guatemala’s 2023 World Bank governance indicators, which reveal substantial weaknesses in key areas: Control of Corruption 14.15%, Rule of Law 15.575, Government Effectiveness 18.40%, and Voice and Accountability 33.33%. The combination of diminished external support and pre-existing governance deficits suggests that Guatemala faces a heightened risk of governance deterioration in the wake of these funding reductions

B. HONDURAS

The total USAID funding in 2024 for Honduras was \$170,26 million. From which \$64 million were allocated to “Governance”. This was distributed in other three categories: “Other Social Infrastructure and Services” \$5million, “Conflict, Peace and Peace” \$9.3 million, and “Government and Civil Society” \$50 million. This last category was split into other subcategories: “Public Sector Policy and Administrative Management” \$230 thousand, “Democratic Participation and Civil Society” \$820 thousand, “Elections” \$1 million, “Anti-corruption Organizations and Institutions” \$4.6 million, “Legal and Judicial Development” \$10 million, and “Decentralization and Support to Subnational Governments” \$33 million.

In 2025, USAID Honduras only managed to defund 25% (\$42,93 million) of its previous year funding before its programme suspension. The “Governance” category received \$14 million, which were distributed between “Conflict, Peace and Security” \$240 thousand, “Other Social Infrastructure and services” \$250 thousand, and “Government and Civil Society” \$13 million. This last category, distributes the funds between “Public Sector Policy and Administrative Management” (\$300 thousand), “Democratic Participation” (\$1,1 million), “Anti-corruption Organization and Institutions” (\$4.1 million), and “Decentralisation and Support to Subnational Government” (\$7.5 million).

An examination of Honduras’s governance indicators from the World Bank (World Bank, 2023) reveals a similarly challenging governance landscape to Guatemala’s, with some areas of even greater concern. Key indicators highlight significant shortcomings: Rule of Law and Control of Corruption are notably low, both registering at 15.09. Government Effectiveness also presents a substantial challenge with a score of 22.64, and Political Stability and Absence of Violence shows a weak score of 27.96. Voice and Accountability 35.29 and Regulatory Quality 32.08 are slightly higher but still indicate considerable room for improvement in the country’s governance framework.

The precipitous decline in USAID funding for Honduras, plummeting from \$170.26 million to a mere \$42.93 million in 2025, signifies a drastic reduction in external support, particularly for governance initiatives. While governance remained a priority in the diminished budget, the substantial cuts across critical sub-sectors like “Legal and Judicial Development” and “Decentralization and Support to Subnational Governments,” which previously received significant investment, pose a considerable risk to ongoing institutional strengthening efforts. Juxtaposed with Honduras’s weak 2023 World Bank governance indicators, especially concerning scores in Rule of Law and Control of Corruption both 15.09, this withdrawal of aid suggests a heightened vulnerability to governance erosion and underscores the challenges ahead for sustaining progress in key areas (World Bank, 2023).

C. COSTA RICA

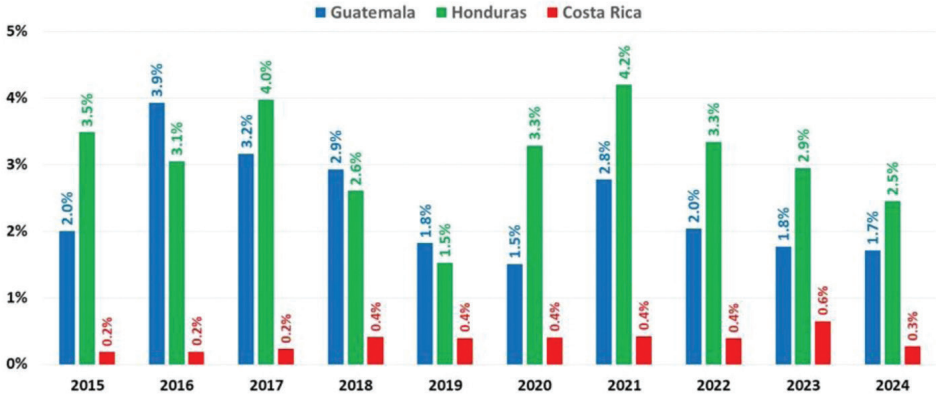
In contrast, Costa Rica’s 2023 World Bank governance indicators (World Bank, 2023) paint a picture of relatively strong governance. The country demonstrates robust performance across several key dimensions: Voice and Accountability is high at 81.37, as is Political Stability and Absence of Violence at 83.89. Government Effectiveness

60.85, Regulatory Quality 69.81, Rule of Law 60.38, and Control of Corruption 72.64 also indicate a well-functioning governance system compared to its Central American neighbors. These figures suggest a significantly more resilient institutional framework in Costa Rica, further underscored by the fact that USAID's limited funding in 2024 and 2025 was primarily directed towards administrative costs rather than direct governance program support (Foreign Assistance, 2025).

It is important to take into account that U.S. foreign assistance was focused on supporting poverty reduction, civil insecurity, immigrant support, combating international narco-traffic, tending natural disasters, food scarcity, strengthening civil society, institutions, and democracy, among others. These areas of public policy in Central America had little to no resources allocated by governments, especially in Guatemala and Honduras. Therefore, as the United States limited its aid, there are few possibilities for central governments to allocate funds to these areas, mostly due to financial restrictions on public finance or because the same governments limit the resources aiming at strengthening civil society, transparency and accountability, as well as democracy.

The financial aid from the United States as a percentage of government revenue of Honduras' central government represented 2.5%, Guatemala 1.7%, and Costa Rica was 0.3% (see Graph 2). In 2021, after the pandemic, it registered the largest participation of foreign assistance: Honduras 4.2%, Guatemala 2.8%, and Costa Rica 0.4%. This aid was key to the correct management of vaccines against COVID-19 helping medical staff to efficiently reduce infection rates and deaths in Guatemala and Honduras. These two countries had previously experienced serious corruption cases during this period of time: Guatemala struggled with the purchase of Sputnik vaccines (Pérez Marroquín & Sánchez, 2024), and Honduras struggled with the acquisition of seven temporary hospitals that didn't fulfill healthcare requirements and represented a significant investment (González, 2021). If aid hadn't been available, a large number of citizens would have been affected by these.

The historical overview of USAID's engagement in Central America reveals a long-standing commitment to supporting various critical sectors, including governance. Notably, in Guatemala and Honduras, U.S. financial aid constituted a significant portion of government revenue, particularly evident in the aftermath of the pandemic. This external aid played a crucial role in addressing public policy needs often underfunded by national governments, as illustrated by the support for COVID-19 vaccine management. The documented corruption cases in Guatemala and Honduras during this period further highlight the potential ramifications of reduced external oversight and financial assistance, suggesting that the withdrawal of U.S. support could exacerbate existing vulnerabilities in these nations, given their limited domestic capacity and, at times, lack of political will to prioritize areas like civil society strengthening, transparency, and democratic accountability.



Graph 2. US financial aid as a percentage of central government tax revenues (Foreign Assistance, 2025)(Consejo Monetario Centroamericano, 2025)

5. CONCLUSIONS

- Varied Impact Based on State Capacity: Costa Rica, with its stronger domestic institutions and lower reliance on U.S. aid, is expected to be more resilient to these funding cuts. Conversely, Guatemala and Honduras face a high risk of regression in governance, justice, security, and public service delivery.
- Vulnerability due to Aid Cuts: The drastic reduction in U.S. foreign aid, specifically the termination of USAID programs in 2025, poses a risk to governance stability and development in Central America. Guatemala and Honduras are particularly vulnerable due to their historically high dependence on this aid for core functions and their weaker institutional frameworks compared to Costa Rica.
- Future assessments of prospects for enhancing the effectiveness of foreign aid: Previous foreign aid, while sometimes beneficial, has also exhibited drawbacks. It occasionally fostered dependency, bypassed or weakened national institutions by creating parallel structures, and resulted in reforms that lacked sustainability due to insufficient local ownership and political will. The MACCIH case in Honduras serves as a stark example of how external initiatives can falter without deep domestic commitment.
- Deep-Rooted Institutional Weaknesses: The region’s vulnerability owing to Guatemala and Honduras is not solely a result of recent events but stems from historical patterns of state formation that prioritized territorial control, democratic weakness, and elite stability over building strong, centralized, and efficient institutional capacity. This legacy makes states susceptible to external shocks, and resistant to sustainable, internally driven reforms.
- Emergence of a “Governance Vacuum”: The withdrawal of significant external funding and technical support, particularly in areas previously under-resourced by national governments (like judicial reform, anti-corruption, civil society support),

risks creating a “governance vacuum”. This could lead to deterioration in the rule of law, increased corruption, and diminished public services, impacting especially Guatemala and Honduras.

6. RECOMMENDATIONS FOR CENTRAL AMERICAN GOVERNMENTS (ESPECIALLY GUATEMALA AND HONDURAS):

- **Strengthen Domestic Resource Mobilization:** Prioritize enhancing national fiscal capacity through improved tax administration, collection, and public finance management to reduce dependency on volatile external aid, and the impact of its recent ample cuts, and build a stronger fiscal social contract with citizens.
- **Invest in National Institutions:** Focus resources on building the capacity, transparency, and accountability of core state institutions: judiciary, public administration, security sector.
- **Enhance State Legitimacy and Accountability:** Actively work to improve state-citizen relations through effective and equitable service delivery, anti-corruption measures, and meaningful engagement with civil society.
- **Strategic Resource Allocation:** In the face of reduced aid, governments must strategically allocate limited domestic resources to critical governance functions and essential public services. Countries should also promote more regional collaboration and increase cooperation with other international partnerships such as the European Union, Japan, United Kingdom, Canada, etc.

For International Donors (Future U.S. Engagement or Other Partners):

- **Adopt Sustainable Capacity-Building Models:** Strengthen aid strategies towards long-term support for endogenous institutional development, focusing on strengthening state capacity (fiscal, administrative, legitimacy) in ways that avoid creating dependency or undermining national systems.
- **Contextualize Interventions:** Promote more programs tailored to the specific historical-institutional context of each nation, recognizing the different capacities and challenges (e.g., Costa Rica vs. Guatemala/Honduras). Avoid imposing external models without adaptation (isomorphic mimicry).
- **Ensure Predictability and Long-Term Vision:** Avoid sudden, large-scale aid withdrawals that destabilize fragile states. Commit to predictable, long-term partnerships that support sustainable institutional change.
- **Prioritize Local Ownership and Political Will:** Emphasize support for reforms that demonstrate domestic leadership and broad-based buy-in. Support civil society organizations working to promote accountability and transparency.
- **Improve Donor Coordination:** Enhance collaboration among international donors and with national governments to ensure aid is coherent, avoids duplication, and effectively supports national priorities.

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