

# THE CASE FOR A SOCIAL INVESTMENT FUND FOR THE AMERICAS

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## HEARING BEFORE THE SUBCOMMITTEE ON THE WESTERN HEMISPHERE OF THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTH CONGRESS FIRST SESSION

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## **THE CASE FOR A SOCIAL INVESTMENT FUND FOR THE AMERICAS**

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**WEDNESDAY, NOVEMBER 5, 2003**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

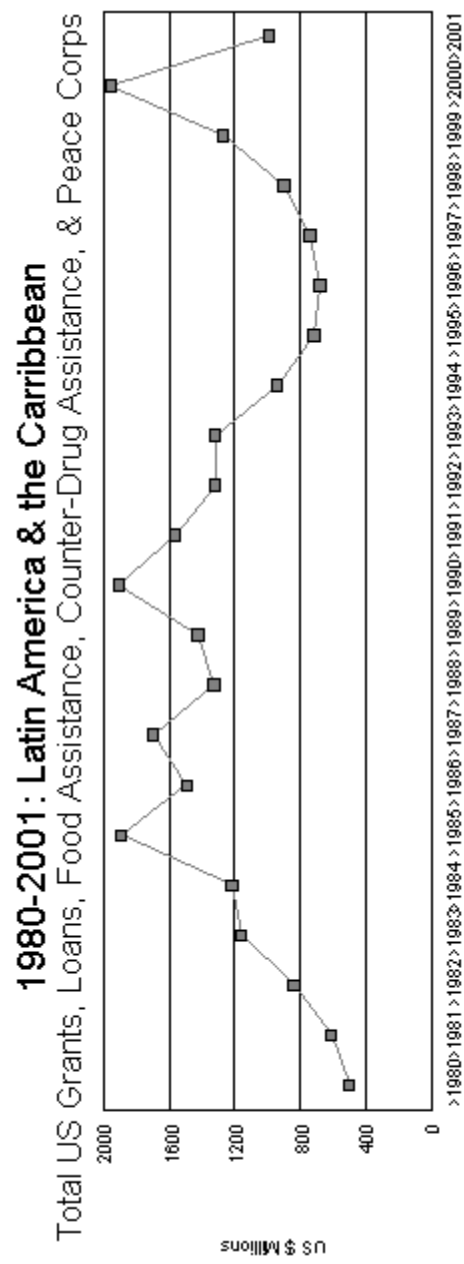
The Subcommittee met, pursuant to call, at 2 p.m. in Room 2172, Rayburn House Office Building, Hon. Cass Ballenger (Chairman of the Subcommittee) presiding.

Mr. BALLENGER. The Subcommittee will come to order.

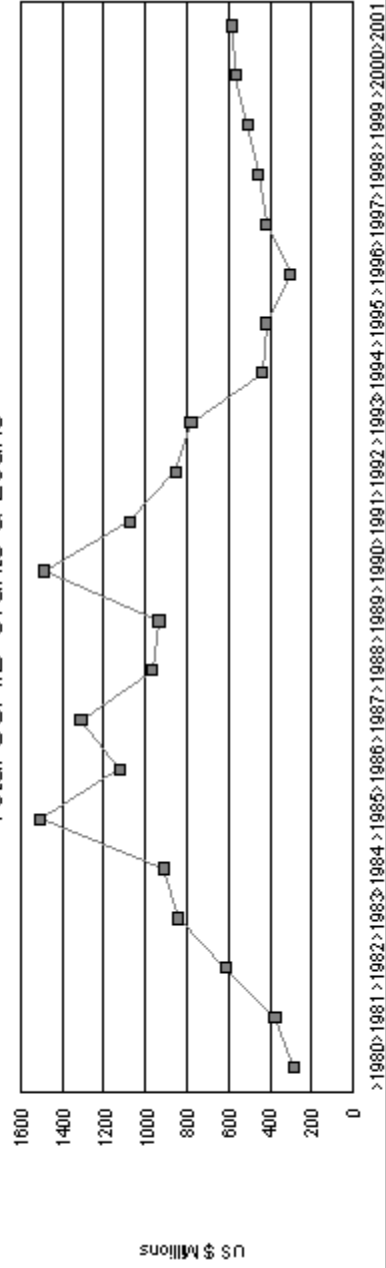
This afternoon we will hear from a panel of four private sector witnesses to examine the case for a social investment fund for the Americas. And I would like to commend Ranking Democrat Member of this Subcommittee, Representative Robert Menendez, for his leadership on this issue. As long as I have worked with him, Representative Menendez has consistently advocated for greater resources for our foreign assistance program in Latin America and in the Caribbean.

The graphics on the Committee room viewing screens show that the USAID core funding for Latin America and the Caribbean suffered significant declines after the substantial investments that our Nation made in the Western Hemisphere, especially Central America, in the mid-1980s. Aside from recent substantial increases in the counternarcotics programs in the Andes, USAID grants to the region have received only modest increases over funding levels registered in the mid-1990s.

[The information referred to follows:]



### 1980-2001: Latin America & the Caribbean Total USAID Grants & Loans



Mr. BALLENGER. Recent events in Bolivia illustrate the dangers faced by nations with large populations of poor people and stark ethnic divides. The United States is not responsible for these problems, nor can we hope to solve these problems simply, with increased aid. I do believe, however, that we need to step up to the plate and give additional tangible and sustained support to the governments and the institutions in the Western Hemisphere that are committed to the representative democracy and real reforms that give people in the region a chance to work for a better more hopeful future.

Representative Menendez is introducing a bill today to authorize a Social Investment and Economic Development Fund for the Americas, and I am pleased to be an original cosponsor of this measure. It is my intention to schedule a Subcommittee markup for this bill at an early date in the next session of the 108th Congress, and I look forward to collaborating with Mr. Menendez to further refine this legislation.

In my considered opinion, the legislation this Subcommittee develops should provide additional funds that complement existing bilateral development assistance. Also, I believe that our efforts should supplement the Millennium Challenge Account legislation which is pending final approval by Congress. And I look forward to hearing the testimony of our specialists and hope that this hearing will serve to provide important background information for our Members.

Mr. Menendez, please proceed with your opening statement.

Mr. MENENDEZ. Thank you, Mr. Chairman. I want to, first of all, begin by thanking you for holding this hearing today. We are here to discuss a truly bipartisan issue: How we can work together to create a Social Investment and Economic Development Fund for Latin America that will tackle some of the tough issues of poverty, hunger, housing and economic development. And I want to particularly thank you, Mr. Chairman, for your help and for signing on as an original cosponsor of the bill which we are dropping today. I know that you are very deeply committed to the region, and I want to thank you for all the hard work in putting this hearing together.

I also want to thank Members on both sides of the aisle of the Subcommittee who have—as well as other Members from the Full Committee and other Members of the House—who have signed on as cosponsors to the bill, and we certainly wish to welcome others to join on as well. And we look forward to the panelists to give us insights as to how we refine our efforts and succeed.

I would like to take a moment to recognize the staff, the Democratic director on the Western Hemisphere Subcommittee Jessica Lewis, who did such a fantastic job in working with us and with many entities who are concerned about Latin America. And, Mr. Chairman, on your staff I want to thank Caleb McCarry, Ted Brennan and Jean Carroll, for working with us in moving forward.

“Throughout Latin America, a continent that is rich in resources and in the spiritual and cultural achievement of its people, millions of men and women suffer the daily degradations of hunger and poverty. They lack decent shelter or pro-



tection from disease. Their children are deprived of the education and jobs which are the gateway to a better life.”

Those words are as true today as they were on the day that they were first spoken, March 13, 1961, by President Kennedy as he described the need for an Alliance for Progress for the Americas. And I know that many who have dedicated their lives’ work to the region feel the weight and the truth of these words today from their own personal experiences with the region.

So how is it that we are here 42 years later speaking the same words and having the same truth? Certainly the region has made tremendous progress in many areas. There is no doubt of that. We are now a region of overall democracy, not dictatorship, with the notable exception of Cuba. But that democracy is fragile and regional stability in Latin America and the Caribbean is threatened. A democratically elected Bolivian Government collapsed a little more than 2 weeks ago as angry mobs took out their frustration with crushing poverty and little economic opportunity, among other issues. And the incident only highlights the destabilizing impact of poverty, hunger and economic disenfranchisement. And Bolivia is only one example. Peru, Ecuador, Colombia, Guatemala, Venezuela among others remain on the verge of chaos or increased conflict or political turmoil.

So we must understand why those words are still true today. Today a staggering 43 percent of the region’s population lives in poverty. That is an estimated 220 million people, and that number is only expected to increase. And extreme poverty is growing. Fifty-nine million people live on less than \$1 a day. Eleven million more people suffer from extreme poverty today than in 1990. Today almost 55 million people in Latin America and the Caribbean still suffer from hunger or malnutrition. At the end of the 1990s, 11 percent of the population was undernourished, and almost 20 percent of children under 5 suffered from chronic malnutrition. In Guatemala, for example, children are starving, suffering from severe malnutrition. Doctors there don’t even know how to treat them because they have never seen cases this severe.

Today, an estimated 1.94 million people are living with HIV/AIDS in the region. Today, crime has reached staggering proportions. The region has a homicide rate more than twice the average of the rest of the world. And some cities report that over 61 percent of their population has been the victim of a crime. Today, African descendants, estimated at over 150 million people, comprise a large portion of the region’s poor. Marginalized groups, including people of African descent, indigenous populations, women, people with disabilities, rural populations suffer from poverty, stigma and discrimination.

So, today, we must take a clear look at U.S. policy toward Latin America and ask ourselves are we doing enough to end these problems. And, of course, I think we collectively believe the answer is no. And that is why we offer this Social Investment Economic Development Fund for the Americas. It is why my good friend Mr. Delahunt, I know, will shortly be introducing a bill to create a permanent institute for democracy in the Western Hemisphere. Combined we seek to have an effort that ultimately understands our challenges and seeks to meet them.

And we specifically—in this bill our goal is to promote market-based principles, economic integration, social development in and between countries of the Americas by nurturing public-private partnerships and microenterprise development; by improving the quality of life and investing in human capital, specifically targeting education, health, and disease prevention and housing; strengthening the rule of law through improved efficiency and transparency in government services; and reducing poverty and eliminating the exclusion of marginalized populations.

The fund will also benefit us here in the United States. It will increase demand for U.S. goods in a region of 500 million people and thereby create more jobs in the U.S. for people who produce the goods and services to be provided. It will create greater economic growth in Latin America so that people won't seek to leave their countries and their homes to find jobs. It will reduce undocumented immigration because with greater political stability and better economic growth, this fund will cure two of the main causes of undocumented immigration. It will help curb the desire to grow illicit narcotics by providing alternative economic opportunities, and it will increase security. Chaos and insecurity in our own front yard creates unwanted opportunity for terrorists and criminals throughout the region.

So I will look forward to hearing from our witnesses and learning from their experiences so that we can target the areas of need in the region and effectively use this new fund to improve the lives of average Latin Americans. There are those that have said that we have lost the battle for the hearts and minds of Latin Americans. They must see their quality of life improve. They must see the benefits of stable democracy. The U.S. must be at the forefront of the battle for democracy and development and must win back the hearts and minds of the Latin American people. It is in our national interest and our national security interest to do so.

So I look forward, Mr. Chairman, to working with you to move the legislation forward, to listening to our witnesses, to incorporating ideas, and to ultimately achieving our mutual goal. Thank you.

Mr. BALLENGER. Our Congresswoman from Florida has a word to say.

Ms. HARRIS. Very quickly. Thank you, Mr. Chairman, for holding today's very important hearing. It is of critical priority in terms of establishing a social investment and economic fund for the Americas. And I also applaud the Ranking Member Representative Menendez for bringing this very important issue forward.

Unfortunately, in recent years our neighbors in Latin America have endured severe challenges leading up to and during the relative prosperity and optimism of the 1990s. These nations have made great strides in instituting democratic and economic reforms and have yet to be rewarded in a truly sustained financial way that is commensurate with the sacrifice and effort involved.

Now domestic financial and political crises have combined with the worldwide economic slowdown to reduce standards of living as well as undermining hope for the future. The FDI flows and trade growths have lost momentum. Economic growth throughout the region declined last year to its lowest in 20 years, and, moreover, the

average Latin American citizen's opinion of the United States has likewise declined. Indeed a recent survey from a well-respected economist published recently revealed that the popular view of our country has plummeted in every Nation and subregion surveyed.

Even as the Federal Government pushes forward with FTAA and CAFTA, these initiatives in the Western Hemisphere, while promoting the Millennium Challenge Account, which primarily is now only aimed at African Nations, official U.S. assistance to Latin America and the Caribbean has fallen from its levels of the 1980s. And furthermore, the social expenditures in the region have lagged at the same time that income disparities have increased. Thus the timing of Congressman Menendez's proposed Social Investment and Economic Development Fund for the Americas could hardly be more propitious.

I look forward to working closely with him as an original cosponsor, particularly in the arena concerning the accountabilities and outcomes that are anticipated. And further, not only do I applaud our Ranking Member, but also Chairman Ballenger for their vision and foresight, and particularly for the Chairman's longstanding and very personal involvement and commitment in this region. Thank you.

Mr. BALLENGER. Thank you, ma'am.

And now to our witnesses. First of all, Brian Atwood, J. Brian Atwood, is the Dean of the Hubert Humphrey Institute of Public Affairs in the University of Minnesota. Mr. Atwood has served for 6 years as the Administrator of USAID during the Clinton Administration. Mr. Atwood's career in foreign policy dates back to 1966 when he joined the Foreign Service. Mr. Atwood was the first President of the National Democratic Institute for International Affairs, NDI, and from 1986 to 1993.

First of all, let me welcome you, Brian. It is a pleasure to see you again and have you up here before the Subcommittee. Please proceed with the summarized statement, and, without objection, your full statement and those of the other witnesses will be included in the hearing record. And I recognize you do have a 4 o'clock deadline.

**STATEMENT OF THE HONORABLE J. BRIAN ATWOOD, DEAN,  
HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS**

Mr. ATWOOD. Thank you very much, Mr. Chairman, and let me—

Mr. BALLENGER. Could you hit your microphone?

Mr. ATWOOD. I am not used to the modern technology in this room. When I testified the last time, we didn't have screens on the wall or buttons to push.

But let me congratulate the entire Subcommittee. I know that this bill was actually submitted today, and that this has very strong bipartisan support. I have to only reflect on years gone by when at times there was too much attention paid to Latin America here in Washington, and it was very partisan, and it was very divisive, and it was very emotional. And I think in recent years, unfortunately, there has been too little attention paid. And so I think you have hit it just right. It should be bipartisan, it should be constructive, and it should be the kind of philosophy that I think is

reflected in this bill, which is that you want to create a new partnership with the governments of Latin America.

And I can't emphasize the importance of that enough, because foreign aid can never be constructive anywhere unless you are working with good partners. In the history of foreign aid, probably the most that has ever been given to a country is around 7 percent of the GDP of that country. And so the investments that are made are primarily made by the governments, and those governments have to be enlightened. They have to be obviously receiving advice from outside on occasion. But this proposal that you have put forward will be very helpful to the governments that want to do the right thing for their people.

Before I say a few words in addition to the formal statement that you indicate would be in the record, I want to say that I have not had government information for the last several years, so I want to thank the Academy for Educational Development and Freedom House, I serve on the boards of both organizations, who have given me some very interesting information about Latin America and have helped me fill the gap.

I want to first say that we have gone through a period of democratization and development in Latin America. Both of those processes create change in a society. We invested a lot at USAID in empowering poor people. We invested a lot in trying to move people from the informal economy of Latin America into the formal economy. We invested in education and health care.

When you undergo that kind of a change in a society, you do create a new dynamic, and it seems to me that many governments have been under tremendous pressure in Latin America because expectations have been raised about what democracy would deliver. And in many societies the expectations haven't been met. These newly empowered people have become in too many cases the constituents for the demagogues of the region. And that has created problems, most recently in Bolivia, as Mr. Menendez pointed out, certainly in Ecuador and Venezuela, where former military leaders who led coup attempts have now been elected to office, and throughout the region this becomes a serious, serious problem.

As Mr. Menendez said, there are more people living in poverty today than before, even though the percentage has decreased somewhat. And one of the difficult parts of that equation is that while of all of the developing regions the per capita income overall is higher, the fact of the matter is the distribution of wealth is worse. About 20 percent of the people hold about 60 percent of the wealth in Latin America, and it is the worst distribution in the entire world.

That is a very dangerous situation because what in essence has happened is that while you have empowered a lot of people, and those people have the vote, those people, in fact, are not part of a middle class. We know that that is how we have sustained our society for so many years, because of the strength of our middle class. So people are now enfranchised, but they are, in fact, voting for populist leaders who are leading them in many cases down a garden path. And, of course, those populist leaders are attacking the international system. They are attacking the International Monetary Fund, the trading system. And as we saw in Bolivia, even

when a sensible proposal to sell natural gas to the United States was being put on the table, they opposed it because they are opposed to this phenomenon they call globalization, not understanding it fully.

Attitudes in the region toward democracy are still barely positive. About 52 percent overall, according to a recent poll that was taken by Chilean Marta Lagos, indicates that in many countries there are growing numbers of people who really don't think democracy is serving them. This, again, is a very dangerous trend as certainly we have seen in Ecuador and Venezuela and now in Bolivia.

This investment fund is essential, it seems to me, because it will fill gaps. It can't substitute for the role of government, but it can help provide what I would call countercyclical resources during down times.

I would ask you, if you are interested in seeing a very successful development program, to look at the case of Costa Rica. Costa Rica made a lot of investments in the people of their country over a long period of time, but they also had foreign assistance to help out. And when the economy went south in Costa Rica, the government had a commitment to continuing to work on poverty eradication, and foreign aid came in and helped them fill the gap, especially during the 1970s and 1980s when they really needed that kind of help. Today in Costa Rica they have basically First World indicators on education and health care and the like, and it is, of course, a strong democracy. Even if the economy goes down, they are able to sustain economic growth and jobs, and there is really not a lot of risk that they are going to fall off the charts. But many of the countries that became democracies in the 1980s and 1990s cannot sustain economic growth, and they are at risk of losing their democracy if these trends continue.

What should be the focus, then, of the Social Investment Fund? It seems to me that bringing people into the formal economy ought to be a key focus. I am a very big fan of Hernando De Soto, and many of you know him. He—his program for entitling property and giving capitalism some meaning to poor people has been successfully put in place, most recently in Brazil, where there is a major effort under way.

What we have to understand is that in many of these societies with large informal economies, you have a lot of what Hernando calls dead capital. People own homes, but they are not registered. They can't use them as collateral. These are societies that have a lot of potential wealth, but given the lack of respect for private property owned by the poor, you can't really create wealth within the society, and you can't give the poor a feeling that they have some role to play and that capitalism will benefit them.

I also think it is very important, obviously, to augment government expenditures when needed on health, education and health care. The human capacity side of this is essential, as are programs that strengthen democratic institutions. Many of these governments still have very weak institutions. I have always felt that in emulating the American system, the checks and balances and balance of power system, these countries may have made a mistake because they had strong party systems. And so that party-based

electoral process made more sense in a parliamentary context than it did in a balance of power context.

The other aspect is that political parties have grown terribly weak because they haven't been able to deliver for their constituencies. Consequently these movements are taking over the politics of the region. So you must continue, it seems to me, to invest in democratic development, the development of the political parties across the spectrum.

It is also important—and this will be my final point—that we develop more coherence in our approach to these countries. We can do the best job in the world through development programs that help these governments with human capacity and the like, but we can't close this widening gap with USAID alone or with foreign aid alone. We also need the IMF and the World Trade Organization and other international organizations to look at these countries through a development lens. They need to be making judgments about the intentions of governments. I am not saying that they don't need to do due diligence and that they shouldn't trust governments that basically do not have reform in mind, but when there are sincere intentions to try to change the situation on the ground, the IMF and the WTO need to back off a little bit and not take a cookie-cutter approach. There has to be more of a development focus in those international organizations because if trade and finance and development aren't in sync, you are never going to achieve development.

I also want to strongly endorse the section of this bill that provides assistance through the Inter-American Development Bank. I have, because of the good work of the Academy for Educational Development, spent the last couple of days reading the strategy papers of the Inter-American Development Bank. They are outstanding. They are exactly what is needed. I have always thought Enrique Iglesias was one of the best international leaders that we have. I think that we are very fortunate that he is still there, and I think this bank is probably the best regional bank we have. And so I would defer to those papers. One is called Social Development. The other is Poverty Reduction and Sustainable Economic Growth, three papers that were really superb. And I think USAID needs to work as closely as possible with the Inter-American bank on these issues.

So I commend you, Mr. Menendez, for taking this initiative. And you, Mr. Chairman, for your support, and the support of this Subcommittee. This makes this a real bipartisan approach. I have no idea whether you have a chance of getting this bill passed. All I can say is that if you do, it will be the most positive message that Latin America has received in many years. And I would hope that not only you pass it, but that there would be an appropriation that would follow.

Thank you very much.

[The prepared statement of Mr. Atwood follows:]

PREPARED STATEMENT OF THE HONORABLE J. BRIAN ATWOOD, DEAN, HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS

Chairman Ballenger, Ranking member Menendez, members of the Western Hemisphere Subcommittee, thank you for inviting me to testify today on the proposed Social Investment Fund for the Americas. I commend you for taking this bipartisan

initiative to support the democratization and economic and social integration process in Latin America.

I have been visiting and observing Latin America since the Carter Administration, when I worked on the Panama Canal Treaty. At the National Democratic Institute, I actively participated with many of the future leaders of the democratic movement of Central and South America. No region of the world evoked such politically charged emotion as did Latin America, especially when we were opposing insurgent movements there during the Cold War. Political parties in the United States were deeply divided on how to respond to the challenge anti-democratic forces represented and on how to support the advocates of democracy.

When the Cold War ended and democracy spread across the hemisphere, political and ideological conflict in Washington began to subside. Both parties supported the democratic changes, even to the point of being highly critical of military forces and others who threatened democracy. It was then that we began to reap the benefits of many years of investment in the economic and political development of this region.

In a 1995 speech, I touted this great success story for foreign assistance, saying: "Consider Latin America; today it is the fastest growing market for American goods. This is a huge new middle class of 350 million people. It achieved this status because of investments made during the last 40 years—\$30.7 billion in economic assistance from the United States between 1949 and 1993. Yet, our exports to all of Latin America in 1993 alone were more than two-and-a-half times that amount—\$78 billion."

I went on to predict that exports could grow three-fold in the next decade. That has not happened. Worse, today, democracy itself is threatened in many countries in the region. In Argentina, Ecuador, Venezuela, and now Bolivia, populist forces with little regard for the institutions and values of democracy are tapping into the deep discontent of poor people—people who for the most part have never experienced the economic benefits of democracy.

We declared victory in this region too soon, Mr. Chairman. Elections and the creation of democratic governments only represented the beginning of the beginning of real democracy in Latin America. We ignored the troubling fact that approximately 46 percent of the people were still living below the poverty line. Many were illiterate, toiling to make a living outside the formal economy. Few had been given a real stake in democracy; fewer still in capitalism.

Foreign assistance agencies like USAID focused on the right objectives: empowering the poor, decentralizing government, deregulating markets, and thus attacking the informal economy. We preached free trade, encouraged foreign investment, and counseled macro-stability. We did all this with fewer and fewer aid resources.

In retrospect, we may have created the worst of all worlds. We empowered new voters, yet gave them no real stake in responsible politics. We created a major constituency for demagoguery. Those who wanted to play by the rules of the international community—the International Monetary Fund or the World Trade Organization—were increasingly seen as the advocates of a system that did nothing for the poor, least of all development.

Mr. Chairman, it is time to pay attention to our own backyard. This Social Investment Fund is an important step in the right direction. It is a small amount of money compared to the billions we are spending in Iraq, but it creates essential partnerships with the democrats of our hemisphere. It leverages additional resources from the nations of the region, the Inter-American Development Bank, and other donors. It is at least a recognition that we have a role to play in bringing about equitable development by helping close the gap between the rich and the poor.

If we look at the success stories in Latin America, we see that timely and strategically directed foreign assistance interventions were vital. Costa Rica is a perfect example. When economic downturns threatened social spending on the poor in the 1980s, foreign assistance provided a counter-cyclical response. Social spending on education and health care in poorer rural areas were continued, financed in part by foreign dollars. Today, Costa Rica may have its ups and downs economically, but its development indicates first-world status and its democracy is strong.

I see this fund as providing the resources needed to continue to root out poverty and to integrate the previously disenfranchised poor into the democratic system. If these people begin to have a stake in the success of democracy, they will be less likely to follow the siren call of leaders whose only interest is power.

Chairman Ballenger and Congressman Menendez, I urge you to pursue this important legislation. The people of Latin America need to know that someone in Washington understands that consolidating democracy takes time, resources, and commitment. As we have seen in places like Costa Rica, foreign assistance cannot substitute for good governance, but with good governance it can make that crucial

difference between success and failure. On behalf of Americans north and south, thank you for your good efforts.

Mr. BALLENGER. I hate to inconvenience the rest of you, but knowing he is on a short time, would you mind if we go ahead and ask questions of him; short questions, if we may, because I know he has to leave. And Congressman Weller has got to leave fairly soon, too, so we will have Congressman Weller have the first shot at you, Brian.

Mr. ATWOOD. Sure.

Mr. WELLER. Well, thank you, Mr. Chairman. I am just going to make a very brief statement because of another commitment here for which I must step out. I hope to return. But first I want commend you for holding this hearing. I also want to commend my colleague Mr. Menendez for his creativity and his leadership and the commitment we all have to move forward in a bipartisan way in developing a legislative initiative for a Social Investment and Economic Development Fund for the Americas.

You know, with the tragedies and some of the challenges we faced here in our country in just the last few years in foreign threats, our attention has been diverted from our friends in Latin America who share our values and democracy and free enterprise and so much from our cultural and historical heritage. You know, I believe that this initiative, along with what the Bush Administration and we in the Congress have also been doing to focus greater attention on important initiatives—and I certainly believe that the Social Investment and Economic Development Fund combined with what the President has already been initiating with the Millennium Challenge Account, the 50 percent increase in U.S. core development assistance that he has proposed over the next 3 years, a \$5 billion increase in assistance for Latin America and the Caribbean, is an important investment in moving forward and strengthening our friends and neighbors to the south.

I also think it is important to note that as we look for ways to encourage greater investment and economic development, that we must recognize the important role that the proposed—essentially a common market for the Americas, a free trade agreement of the Americas, Central American Free Trade Agreement, what tremendous opportunity this trade agreement offers to bring greater investment as well as economic opportunity for the people of Latin America. And we certainly—I think, as others have noted in their comments today, if you want to strengthen the institutions of democracy, if you want to address the issues of illegal or undocumented immigration, you have to address the issues of poverty.

So when it comes to the common market for the Americas, what the President has proposed, the Millennium Challenge Account and this initiative, Social Investment and Economic Development Fund, are all good ideas that I believe are going to move forward with our commitment to all of the Americas. And, Mr. Menendez, I would be happy to join with you as a cosponsor of this legislation.

Thank you, Mr. Chairman.

Mr. DELAHUNT. Mr. Atwood, it is good to see you again, and I really don't have questions. I must acknowledge that I agree with everything that you said. I think our biggest concern is this growing disparity and also a growing consensus among the people of



Latin America that the United States does not have their best interest at heart.

Let me just pose a question to you that isn't really specifically about the bill and the concept that is before us today, but I think you and others have mentioned the need for Latin American governments to invest in their people, whether it be infrastructure, health care, education, whatever. In terms of the issue of the Central American Free Trade Agreement or FTAA, what is your opinion in terms of the need, if you perceive it to be a need, for the United States to incentivize those governments to make those kind of investments? Should that be part of the agreement?

Mr. ATWOOD. I think it should be, because if trade agreements are going to work and not be forever controversial, there at least has to be movement on the other side toward the development, for example, of free trade unions, movement to try to deal with environmental issues and the like. I am a strong advocate of free trade, but you can't force companies in the United States to trade with other governments if they feel that the playing field isn't fair and equitable within that society. And so it is very important to continue to work on development.

There used to be a phrase that people used in the Clinton Administration that always made me shudder a bit. It was "trade, not aid." Well, that is the ultimate objective. We shouldn't have permanent aid by any means. And every government in the world wants trade, not aid, but sometimes you have to use aid for trade. You have to develop a society to the point where it becomes attractive to trade with that country and to invest in its economy.

Mr. DELAHUNT. Let me interrupt, because I guess what I am looking for in terms of the negotiations that are going on now, many of these societies in Latin America are polarized today. We see what is happening as we review the landscape in terms of a growing distrust of democracy and the free market. You alluded to Bolivia. We could go right down a long list. How, as a Nation, or as a policy, does the United States, as we are in the course of these negotiations, create the conditions so that those governments will invest in their own societies in terms of enhancing and encouraging education, for example, public education, health care, the kind of public policies that we as a mature democracy have embraced in one form or another through the course of our history? Because here is what I am concerned about, Brian. Clearly, trade does have benefits, but how are those benefits dispersed or allocated throughout those societies? And if we continue to see societies of have and have not, do we achieve anything other than increase the macroeconomic data, the GDP level? But do we continue to allow this, I think, increasing instability continuing in Latin America?

Mr. ATWOOD. Well, first it is clear that if a trade regime were put in place today, you would be trading with that 20 percent of the people down there that have 60 percent of the wealth, and you wouldn't be contributing much to the development of that society. It would still be very unhealthy.

I think, however, rather than setting conditions, we need to have a much more aggressive international development cooperation approach to the governments of this region. These are all democratic governments—well, with a few exceptions. Some of them are really

not very solid democracies. But there are people we should be able to talk to. So it is essential, it seems to me, that we have vehicles for discussion. And if we don't put resources behind those vehicles, we are not going to be able to have those kind of discussions. We should be promoting people in the region as Hernando De Soto suggests. He has good ideas and a platform to promote those ideas, because that is the kind of ideas that should be spread throughout the region.

Ms. HARRIS. Thank you. And welcome. I am extremely interested in this arena. I think that it is incumbent upon the United States to participate in these nations' prosperity. The same old rules don't apply, and where there is tyranny or this kind of poverty, it is going to be a seed bed for terrorism. So obviously this is critical to our security as well.

I was going to ask you, based on some of the things you had learned from the 1960s Alliance for Progress or any of these other initiatives, what kind of lessons you had learned that would be applicable to this new bill. But I think you covered some of those, such as strengthening democratic institutions, and certainly the issue of political parties not being able to deliver, so they need to be strengthened as well. So I think my question will really come back to something specifically—two things that you talked about: One, the gap, and, two, the partnership.

What specific gap do you see this filling? And by that I mean—what specific programs—yes, trade versus aid. You have to have the aid, that kind of foundational support, but it can't just be aid in terms of social welfare programs. You don't want to keep these nations and those—that 80 percent of the people subjugated, as we have done to some of our population for some time, and now they are working and productive citizens. How can we assure that it is going to turn into jobs and revenues created for that nation, and, in that same vein, that those programs are going to be accountable and measurable so we are not just throwing money at a problem as we have in the past sometimes, creating more problems than solutions? That is the first question, the gap.

The second question is how—and this partnership that we want to anticipate with these other nations, we are talking about a total of about \$2½ billion, 1.25 over 5 years, and then another for the IDB. And then I have got to ask these nations to match it. I mean, I certainly know there are certain segments of the population where you have talked about that extraordinary disparity, whether it is in Brazil, Argentina, but in some of these other nations there is not that kind of disparity, and I don't know if you can apply the same type of rule or request to those countries as we could the nations that have been larger, Chile, Argentina, Brazil, those kinds. So what type of way can we court those governments so that it can be productive and can be put together? Do you think this package is attractive enough that they will want to invest that matching 2.5 billion as well?

Mr. ATWOOD. Yes, I do. And you have to look at each country as a separate entity and each government. We have to take the measure of governments. Are they going to be good partners? Do they have good intentions; for example, to integrate their society on a social level? Do they have an education program that we think is

effective and that we should help them invest in if they don't have the resources? If they have their own resources, that is fine. And one very positive thing about Latin America is that they spend less money than any other developing country, region, on the military. There is the old saying that democracies don't go to war with one another. That is fine. They don't feel the need apparently to buy sophisticated weapons, and I would hope that we wouldn't start pushing sophisticated weapons on them, because they spend very little money on that.

So they should be able to invest a lot of their own revenues on these programs, but they are going to have experiences such as we had when the Asian financial crisis hit where they are not going to be able to continue those programs. And so we should be identifying the good programs that their own governments are now sponsoring, and if they run into economic troubles, that is how we would help them fill the gap.

Ms. HARRIS. And that specific gap, how can we—I would like to know what you consider to be that gap and what assurances that we won't displace that kind of funding, that we are not going to replicate those other programs, and that we really are going to fill a gap that it is not just a social welfare problem. What are the outcomes that you expect to be generated in the gap that you are speaking of? What do you consider the gap?

Mr. ATWOOD. Well, every one of those societies has to be analyzed to see exactly where they are. The IMF could probably give you very good information on that. But I have just heard a story the other day—I hope it is not apocryphal—but that the President of Bolivia came here and asked for money because he felt had he a very serious gap and wasn't going to be able to continue to—you know, to invest in education and health care in his own society. Now, the problem with our government right now with respect to Latin America is that we don't have any of what I call surge capacity. We don't have any ability to move in when we think a good President with a good program really needs the help, and I think this fund would provide that. He said that he had about a \$150 million gap. Now, that would take all of the funds, and I don't think we could do that, but at least we would be able to develop a good cooperative relationship with him to try to help out.

So there are very creative strategies, plans and the like. The real question is whether or not at this point they can raise the revenues themselves to do this. And obviously, sustainable development is the goal, and not simply putting a Band-Aid over the problem. So you really have to assess whether or not there is sincerity on the part of the government and whether the programs themselves will achieve an enduring effect.

Ms. HARRIS. I am trying to look at the time, Mr. Chairman.

I just wanted to follow up with one last thing. I am not trying to monopolize your time, but I am still focused on that gap, and I guess my concern is that the social foundations, that net needs to be there whether it is health care or education, all those kinds of things. But there have to be jobs created, because they have done a lot of the homework. Some of this may only be on paper in terms of democratic institutions, but they really have done a lot of the hard work. They are not experienced in the financial remunera-

tion. So my concern is the 80 percent who don't have—of the have-nots, how are we going to engage them so that they have the benefit of some of these economic rewards?

That is the gap that I am really interested in, because I think a lot of the social progress will follow if the funding is there. The remuneration is there.

Mr. ATWOOD. As I say, a large part of it is helping a government deregulate its economy. To some large extent—and this has nothing to do with the debate that goes on in our country—but many of these developing-world countries have excessive bureaucracy and regulation. The economy cannot create wealth or jobs. So a large part of it is technical assistance to help them to do that.

Mr. BALLENGER. Congressman Menendez.

Mr. MENENDEZ. Thank you, Mr. Chairman.

Mr. Atwood, thank you for coming and for your testimony and for your previous service to our country.

A couple of questions. Some of your fellow panelists are not as charitable as you have been in your comments. Their expectations are not quite as high. So I would like to talk about some of the things that they have said, since you won't be here at that time. Questions of—well, first, would you agree with me that Chile's investment in education was one of the fundamental reasons, among others, including opening its economy, that created the opportunity for it to be a trading partner with us today?

Mr. ATWOOD. Absolutely, yes. Yes, I would.

Mr. MENENDEZ. It is important to have measurements, because you just cannot continue to fund any program that ultimately cannot achieve a standard by which you can say this is having success. And if it is having success, we seek to maybe even fuel it more significantly, and if it doesn't, then we seek to do away with it and find another vehicle that is successful. But I find us often wanting to have instant gratification. The reality is that in the development, sustainable development, process, we are going to have to understand that investments will take some time in order—like education, like Chile—to turn it around. Is that a fair statement?

Mr. ATWOOD. That is a fair statement. What we need to be doing is to help these societies create competitive industries, and I mean competitive in a global marketplace. And that takes human capacity, and that often takes a generation before you can get there.

Mr. MENENDEZ. Now, from your experiences as the former USAID Administrator—and all USAID Administrators are constrained by whatever Administration they are working under at any given time. So I will give that as a given for everybody, present, past and future. In that context it always seemed to me for the last decade or 11 years or so that I have sat on this Committee, that whenever we had an emergency in the world, the first thing we did, or one of the first things we did, is go to Latin America and take money out of Latin America and send it somewhere else. So there are some statements here that say, in essence, we are creating a set of circumstances under which we are really not going to help the hemisphere because we may allow the movements of monies, you know, for other purposes than we say are for this fund.

My focus of the fund, the way I envision the fund—and for those who dislike USAID, that is one thing, but to whatever governmental entity it is, right now it is envisioned at USAID—the reality is it is similar to the Africa Development Fund. Once you have the Africa Development Fund, you have the fund committed. I always used to tell the State Department and USAID that you tell me you are worried about creating a ceiling; well, I am just trying to keep a floor underneath my feet. And the reality is I think the fund in essence does that.

Now, I know that governmental entities don't like being constrained. Administrations don't like being constrained. But if we are serious in making a commitment to the hemisphere, then by ensuring a fund that at least has a floor and that is contained within the context of the description of the uses of the fund, which we consider microenterprises, home ownership, as well as education and other related issues, that it is going to be very difficult to deviate those monies. Would that be a fair statement?

Mr. ATWOOD. That would be a very fair statement. And I have to tell you that during my tenure at USAID, we constantly reduced the funding for Latin America. And I can remember my Latin America Assistant Administrator Mark Schneider—who is one of the more aggressive people I know—who was in my office, constantly banging the table and asking for more.

All I can tell you is that if you asked my good friend Andrew Natsios to come up here and testify on this, he would have to say that he could not support it because it was yet another earmark, but he would probably privately welcome it.

Mr. MENENDEZ. Right. I have no doubt of that.

And lastly, measurements and leverage. Congresswoman Harris has addressed some of the measurement issues with you, some of her concerns, and I understand those. Can we—can you give me a sense from your long experience, what are some things that we can establish as measurements that are reasonable in long-term, sustainable development; and also, how do we best leverage this money? You described countries that are willing and have the right political environment and political will to do some of these things. But whether it is IADB, International Development Bank, there are some who have issues with that. How do we best leverage, and what do you suggest are some of the measurements that are tangible that the Committee could consider?

Mr. ATWOOD. One of the accomplishments that I am most proud of during my tenure was to get the international donor community to begin talking about results that can be measured as opposed to just the volume of aid that each country gave. That is an important aspect of it, but you really need to have some confidence that you can measure results.

The World Bank, and the Inter-American Development Bank, have now taken very specific indicators, and they can indeed measure results. In the education field, the level of education, the median level, within a country is an indicator. Can you push up an average for the fifth grade to the sixth grade? I remember Enrique Iglesias in particular saying at a time when Latin America was doing relatively well economically that we cannot continue to see this kind of economic growth if we don't get the average education

level of Latin American students up, from the fifth grade to the seventh grade. They have done a study to indicate this. There are a lot of these kinds of studies that show what the impact of educated people is on an economy.

So there are many, many measures that now can be taken. Under the Government Performance and Results Act, USAID a few years ago was given an award, I think it was given by George Mason University, for the best reporting to Congress of all. It is kind of ironic given the criticism USAID comes under, but it is being forced to measure results very specifically. So I would think that you would want, in overseeing the way this act was carried out, to see in every case what results were achieved in partnership, obviously, with a good Latin American partner.

Mr. BALLENGER. I am going to let you go, sir, but I had one kind of statement since I was probably involved under—well, maybe before most of these folks. When President Duarte was President of El Salvador, he came up with this idea that nobody could have over—I don't know what it was—50 “munzanos” or 25 “munzanos” and so forth. And everybody went into shock, and they divided all the land up. I mean, it was a wonder they didn't have a revolution at that time. But I think Mr. De Soto's idea that all of a sudden every peon had a piece of property that he was living on and that he owned, and the title went with it and everything else, and I don't know whether it is true or not, but it is my interpretation that El Salvador has been more successful than almost all of the other ones because somebody somewhere thought enough to give each individual in El Salvador a piece of the country that he owned. Does that fit?

Mr. ATWOOD. It fits, and it was part of the ultimate peace agreement in El Salvador. So it is very interesting to go to El Salvador today. When I was USAID Director, there were three former FMLN guerillas who welcomed me with USAID hats on. They had a coffee co-op and they were selling coffee to some distributor in New York, I think.

Mr. Chairman, people are not naturally guerillas, but they are naturally entrepreneurs. If you just give them the opportunity, they will become entrepreneurs.

Mr. BALLENGER. Well, Mr. Atwood, let me thank you. I think your time has about run out, and if—let me go ahead and introduce the rest of the panel, and you have our permission to—thank you very much for coming.

Mr. ATWOOD. Thank you very much. It has been very nice to be back here.

Mr. BALLENGER. Yes, sir.

Next is—J. Michael Waller is the Lenore and Walter Annenberg Professor of International Communications at the Institute of World Politics. He has followed social and political events in Latin America since the early 1980s as a journalist and as a contractor for USAID. Mr. Waller holds a doctorate in international security affairs from Boston University.

And welcome, Mr. Waller. Please proceed with a summarized statement.

I tell you what. I am going to be a little bit tighter with everybody because we have been taking more time asking questions

than we have been getting answers. So let me just free you up, and we will try to work with this 5-minute clock to see if it works at all. But in the meantime you are free. Take it away.

**STATEMENT OF J. MICHAEL WALLER, Ph.D., PROFESSOR,  
INSTITUTE OF WORLD POLITICS**

Mr. WALLER. Thank you, Mr. Chairman, Congressman Menendez. I am here looking at the aid programs being proposed both by the Administration and by this Subcommittee as someone who was working on the inside, first as a low-level contractor on the ground, and who saw some things that really needed reforming, some rotten things in the system that need to be fixed if we are going to be spending a whole lot of money at it. The equivalent of the Pentagon's \$600 toilet seats are pervasive through USAID and many of our other programs, and sometimes people on the ground who we are trying to help see this, that it is not benefiting them, and then they get ideas of their own that we are in it only for ourselves.

So the main point I wanted to talk about, though, coming from that type of experience and working in national security area now, is that the new USAID strategy and the new national security strategy of the United States as defined by the President last year elevates international development aid as a tool of statecraft on par with traditional diplomacy and national defense. So this is a great opportunity for proponents of international development aid to really take a part, take a leading role where the—where so far no role, no leadership has been taken.

And since 9/11, when—and really since this strategy has been developed, it has been decided at the Administration level that USAID would be part of national defense, part of the war on terrorism, as it had with the Marshall Plan and the Alliance for Progress and USAID when it was originally founded. So we can never lose sight of that, because oftentimes the bureaucracy gets so large or the contractors get so large that they end up pursuing pet projects that really have very little to do with national strategy or congressional intent on other things, and they also end up pursuing certain political or social agendas or programs that a lot of people find extremely offensive, whether it is in the recipient country or whether it is here at home. Those smaller fringe projects end up undermining public support here, which is already very thin, if it really exists at all, for large-scale international development aid. So we have to be careful to maintain the integrity of these programs by keeping them narrower, keeping them focused, and keeping them so that they are results-oriented so the American taxpayer can also see results from this.

We want to ensure that the aid really gets there, and having worked in Central America and in the former Soviet Union, I can see clearly how aid not only got there, but we ended up hiring entirely the wrong people to administer it. One of the people in Moscow vetting USAID projects in which Russians should be getting USAID contracts was a judge in the secret KGB tribunals before, and so she was steering those contracts to her old KGB cronies. This was known at the USAID station in Moscow, but nobody really wanted to say anything, and the issue never occurred. But if you want to talk to the people—we are looking now today at democracy

in Russia and what has happened—the recipients of our programs then oftentimes have come out on top today, and those are not the people we wanted to help.

The other thing is with this proposed fund, as with the Administration's proposed Millennium Challenge Account, is to not reward the corrupt or inefficient bureaucracies in these governments. These Latin American governments, even the ones, the leaders, who want to change them fundamentally, are still having problems in many countries getting rid of 16th century laws and regulations. In El Salvador, for example, there are still huge folio-sized handwritten academic records of every student, and they are written in different color pen for a different page for a different year, and they are thrown into warehouses where they go back to about 1550, and there is really no reason for it. But the schools have to hire one or two full-time employees just to handle that 16th century regulation that the Salvadorans somehow forgot to get rid of. Somehow the unions have an interest in keeping one or two extra employees employed in every school, but it is not productive at all.

Being a partner with these governments also is an asset, it is a strength, but it can also be a danger. If you are too much of a partner, you are not free to criticize them, and oftentimes when there is corruption, when there is mismanagement, when there is really a willingness to say they are going to reform, but not a willingness in reality to reform, we really don't call things as we see them, and we really need to. We need to be truthful. We need to be able to make sure the aid gets there and explain to some countries, hey, we can't help your people in your country because the leadership is not committed to significant reform.

I would like to wind up, if I may, with one other statement, and that is any aid strategy—and we really are back at square one in developing a new post-Cold War aid strategy—must be coordinated or must be integrated completely with a very strong public diplomacy element. Right now we had about \$100 million a year programming going into Bolivia, and the Bolivian people didn't even know about it. You had a cocaine grower leader with his own radio station in the Chapare region. It was the only radio station in the region hyping up anti-American and antigovernment sentiment and leading the protest that overthrew the Bolivian President. We had absolutely no public diplomacy activities going on in Bolivia. We shut down much of our Spanish-language broadcasting. We shut down the entire Portuguese broadcasting to Brazil, where you have in Brazil now newspaper editors are frightened to speak out against the government or say positive things about the United States.

So all of these programs need to be targeted with a very strong public diplomacy element the way we had them during the Cold War, with some variations, but that would include strengthening NGOs, having a lot of student exchanges, more scholarships coming up here, legislative exchanges, and the whole gamut of supporting a free press and development of a free and independent media that so far we don't have the way we did before.

Thank you very much.

[The prepared statement of Mr. Waller follows:]



PREPARED STATEMENT OF J. MICHAEL WALLER, PH.D., PROFESSOR, INSTITUTE OF  
WORLD POLITICS

Thank you, Mr. Chairman, for inviting me to testify today on the subject of U.S. bilateral development assistance in the Americas. This written statement discusses the following areas:

- In the post-9/11 world, U.S. international development assistance is officially on par with diplomacy and national defense, increasing its importance and its value to the public;
- Sustained public support for increased international development aid will depend in great part on ensuring the integrity of the aid programs against political or social manipulation;
- Political, economic and social trends in Latin America and the Caribbean in general are moving in a direction unfavorable to U.S. interests;
- Congress is handicapped in its ability to ensure effective expenditures of aid dollars because the chief agency in question has no means of measuring success or failure;
- Some strong supporters of bilateral development aid are uneasy, at best, about certain social-oriented development agendas and this could risk strong bipartisan support for a substantial development aid strategy;
- U.S. aid strategy requires focus and transformation;
- Successful long-term implementation of bilateral development programs requires a parallel public diplomacy and political warfare strategy;
- In keeping with the first main point, U.S. international development programming must be integrated with the larger global war on terrorism.

By way of background, I have served as a contractor and subcontractor on U.S. Agency for International Development (USAID) and U.S. Information Agency (USIA) programming in Latin America, the Caribbean, and the former Soviet Union, and have traveled and lived throughout the hemisphere, including in materially impoverished rural and urban areas. Most recently I spent two years in El Salvador, which despite all its difficulties should be viewed as a real success story for U.S. assistance programs. El Salvador is as close as one can get to a worst-case scenario situation that was turned around completely thanks to a focused and long-term American commitment.

Bilateral development assistance to Latin America and the Caribbean, in addition to its morally correct humanitarian dimension, is an important U.S. foreign policy tool. Crafted skillfully and executed properly, it can serve the public at a time when U.S. interests around the world are being challenged at an intensity not seen since the height of the Cold War.

Since the Marshall Plan, the Alliance for Progress, and the founding of USAID, bilateral aid has been vital component of U.S. national security policy. National security has been a cornerstone of bipartisan development aid policy throughout the Cold War. Now we face a new enemy: Terrorism and its sponsors, as the administration describes it, and the White House has renewed the role of development aid as a tool in the war we face today. The president outlined his rationale in *The National Security Strategy of the United States of America*, which the White House published last year.

The administration's *National Security Strategy*, an annual report required by Congress, is remarkable in that it elevates international development assistance on par with diplomacy and national defense as a tool against the terrorists. This is a historic first.

The second chapter of the *National Security Strategy* states in its title that the U.S. will "Champion Aspirations for Human Dignity." This, too, is a landmark in the nation's national security doctrine, and one in which bilateral development aid can be a major player.

Unfortunately, while the administration called for "transformation" of the military and intelligence establishments, it did not call for "transformation" of the Department of State and USAID. However, in its 2002 report titled *Foreign Aid in the National Interest*, USAID described how it was integrating itself into the national security triad.

In short, the old-think of a scattergun approach to bilateral development aid, in which the U.S. had the brief luxury of experimentation with social engineering, with few if any considerations for national security priorities, is gone.

The administration has attempted a new approach with a Millennium Challenge Account (MCA), designed to create a multiplier effect by linking aid with private

capital. That linkage is intended to reduce waste and create incentives for difficult reforms. Under the MCA, “The U.S. will channel these funds only to developing countries that *demonstrate, not promise*, a strong commitment to:

- “ruling justly (e.g., upholding the rule of law, rooting out corruption, protecting human rights and political freedoms)
- “investing in their people (e.g., investment in education and health care)
- “encouraging economic freedom (e.g., open markets, sound fiscal and monetary policies, appropriate regulatory environments, and strong support for private enterprise).”

The MCA is designed as a lever to encourage governments to pursue sound economic policies that allow people to be entrepreneurial: “we will reward nations that have more open markets and sustainable budget policies, nations where people can start and operate a small business without running the gauntlets of bureaucracy and bribery.”

*Maintaining public support for bilateral development aid*

A strong public understanding of the importance of bilateral development aid is crucial for the U.S. to take the needed long-term approaches to helping improve life in the Western Hemisphere. That is one reason why most bilateral development aid must be integrated into the country’s national security strategy: it helps people abroad while helping the American people at home.

As much as public understanding, it is important that foreign aid programs not be captive of special-interest groups that have contentious political or social agendas. To allow foreign aid to continue financing, promoting, or even forcing such agendas risks undermining public support for foreign development assistance entirely. Likewise, bilateral development programs must never, in practice or appearance, become extensions of domestic political battles, especially where:

- they contain aspects that are morally or socially offensive to the people in the recipient countries;
- they promote social programs that the terrorist enemy can use as examples of the United States’ degeneracy or ill-intent;
- they promote agendas that a significant portion of the American public finds to be offensive or wrong.

*Unfavorable general trends*

Is Latin America better off today than it was a decade ago? Let’s look at the general trends:

- Levels of public corruption are generally at the same levels as before.
- Heavily centralized and bureaucratized national governments flourish with relatively few meaningful checks and balances.
- Crony capitalism remains buttressed by international loans, while keeping much of the populations out of the economy.
- Business and investment climate is generally less appealing to those with the capital to provide jobs and build infrastructure.
- Economies are depressed and even collapsing.
- Some populations show growing disillusionment with democracy and free markets.
- Weak law enforcement provides havens for smugglers and terrorists.
- Anti-U.S. populism becomes increasingly militant and self-confident.
- Mob action increasingly threatens rule of law and democratic governance.
- Political extremists and terrorist groups meet annually in an axis against the United States.
- Islamist terrorist support operations show increasing penetration and activity.
- New actors are emerging as hemispheric troublemakers.
- The successful inter-American security relationship is disintegrating.
- Illicit narcotics production is making a comeback in areas where it had been almost eradicated.
- Certain Latin American governments view the United States as an escape valve for their demographic and economic pressures, and as a permanent source of expatriate cash.

- An increase in economic dependency on Washington.

Within these general trends are pockets of real accomplishment that are testimony to the skill and dedication of U.S. aid workers as well as to people and officials in recipient countries. However, USAID lacks a means of measuring progress, making it impossible for Congress to determine the adequacy of programming and funding levels.

*Are USAID programs really monitored for success or failure?*

Should Congress spend more foreign aid money when its own auditing arm says that present expenditures are not monitored for success or failure?

From my own personal experience on contract with USAID programs a decade ago, the aid organization tended to measure its success more in terms of the dollars it spent and the number of programs it sponsored, rather than the results it achieved. USAID contractors were told to write progress reports stressing the number of dollars spent and the quantity of certain programming, rather than measuring the quality and usefulness of the results.

Investigative data published in 2003 confirms my impressions of 1993. According to a January General Accounting Office (GAO) report, USAID remains structurally and procedurally incapable of providing Congress with adequate assessments of its programming. The GAO report stated:

USAID faces difficulties in identifying and collecting data that would enable it to develop reliable performance measures and accurately report the results of its programs. USAID has taken several steps to try to overcome these difficulties, such as holding training seminars in field missions. However, although USAID has made a serious effort to develop improved performance measures, it continues to report numerical outputs that do not measure the impact of its programs.

If Congress cannot presently gauge how taxpayer foreign aid dollars are currently spent, why would it consider increasing expenditures at a time of extreme deficits during time of war?

*It is urgent to establish an effective and credible metric.* Without one, it will be impossible to determine what is working, what is failing, where to cut back, and where to channel more funds.

*What is "social development" and who carries it out?*

Metric or no metric, one should be leery when government planners create "investment" funds, or when well-meaning proponents call the unmonitored expenditure of tax dollars an "investment." One should also be cautious when political leaders, cause-driven non-governmental organizations (NGOs), and bureaucrats speak of using such "investments" to promote "social development" abroad.

Such jargon reminds one of the great failed social engineering experiments of the past. Will a new "Social Investment Fund for the Americas" really reap a return on its investment that would satisfy most taxpayers? Or will it become a new means of financing domestic and foreign political and social movements that many in Congress and in the public would find objectionable—thus undermining the already soft public support for foreign development aid?

Will a "Social Investment Fund for the Americas" promote the self-sufficiency and productivity that so many people in the hemisphere desperately need? Or will it make those people even more dependent on constant handouts from inefficient bureaucracies and corrupt political machines? Is it designed to force those inefficient bureaucracies and corrupt political machines to open up, reform themselves, and break the cycle of political dependency at home? If so, what political and diplomatic tools are included in the package? If not, will it bolster those same bureaucracies and political machines and even make them become wards of USAID?

Will a "Social Investment Fund for the Americas" become another program that subsumes the U.S. national interest to the political or social agendas of well-meaning aid workers and special-interest groups? Will it become another foreign extension of domestic political and social battles? Will it promote practices that are morally or socially offensive to significant portions of the population in the recipient countries—to say nothing of the taxpayers at home?

*Toward focus*

The United States' well-intentioned bilateral aid programs for the hemisphere continue to be a mishmash of soundly-devised initiatives combined with the illogically truncated remains of old programming combined with pet projects and feel-good headline grabbers. Taken together, they have not been conceived and constructed in ways that would maximize the impact of each assistance dollar. Many are driven

by inertia from the past instead of forward-looking leadership. Others are driven by squeaky wheels at home.

Before Congress appropriates more aid dollars for Latin America, it should study the effectiveness of monies already spent, and ensure that any future resources are expended wisely. Some points to consider:

- *Measure progress.* Congress should demand that USAID provide a credible means of evaluating and accounting for its programs.
- *Avoid dependency.* Aid must be used sparingly so as to avoid a dependency relationship.
- *Avoid crony contracting at home.* With foreign aid such a huge business, there has been a tendency toward cronyism in the contracting process—not in Latin America, but here in Washington. Large companies, built solely to subsist on USAID and related contracts, have mastered the Byzantine process of working with the federal government where smaller companies have not. It appears to the outsider that requests for proposals (RFPs) are rigged in advance to the advantage of the large firms, some of which act as aid mills that carry out the letter of the contract, but not congressional intent.
- *Be more aggressive against waste, fraud and abuse.* USAID programs are riddled with the equivalent of the Pentagon's fabled \$600 toilet seats. All programming and practices must be cleaned out if the public is to support sustained development assistance.
- *Dollars don't tell the story.* Spreadsheets and dollar amounts seldom determine success. Some infusions of money can create impressive temporary results, but mean little for the long-term. Economic aid, healthcare projects, and environmental programs at the humanitarian level do little to help a society become self-sustaining.
- *Structural reforms require sustained support.* Some structural reform projects with promise have died on the vine for want of long-term funds or commitment.
- *Assistance must be directed to where it does good.* That means careful support for governments that have proven a commitment to reform, and non-support to the others. It also means well-targeted assistance to help empower non-governmental organizations, especially in countries where they would run afoul of the local government.
- *Ensure that foreign aid works in the national interest.* Our foreign aid program was developed as a policy tool to stave off and ultimately defeat Soviet expansion around the world. No less so today must it be utilized as a tool in the global war on terrorism.
- *Integrate bilateral development aid with other tools of statecraft.* Those tools include traditional diplomacy, public diplomacy, and in tougher cases, economic and political warfare.

*Strong public diplomacy and political warfare component required*

Political and social trends in much of Latin America and the Caribbean appear to be headed against the long-term interests of the United States. This challenge may be ameliorated by a combination of development assistance, public diplomacy, and tools that would allow policymakers to exert greater political leverage.

Organizations and governments hostile to the United States are operating throughout Latin America and the Caribbean to radicalize and organize groups and populations against pro-U.S. governments.

As the president's *National Security Strategy* suggests, one cannot expect bilateral development assistance and related programs to succeed without strong public diplomacy and political warfare components. In the Americas, as elsewhere around the world, the United States has allowed its once-effective public diplomacy machinery to disintegrate. Some of the disintegration has been willful, with unimaginative foreign policy leaders making conscious decisions to terminate important public diplomacy initiatives.

Consequently, in Latin America and the Caribbean, as elsewhere around the world, the U.S. has lost much of the leverage and human networks it had built for decades through its successful public diplomacy programs. The U.S. did away with crucial broadcasting, citizen exchanges, media services, cultural diplomacy, labor and entrepreneurial exchanges, and other education and training programs that had served the national interest so well in previous decades.

Two years after 9/11, the present administration has done a poor job of reviving public diplomacy—one would have to give it a failing grade—and has ceded the ground to the nation's adversaries and enemies. Examples in the Arab and Islamic

worlds are well-known, but significant examples in the Western Hemisphere illustrate that the U.S. is losing the war of ideas because, to put it plainly, it has chosen not to engage.

The one-sidedness of the present war of ideas has allowed modestly funded extremist groups and movements to dominate public debate because the U.S. was not on the playing field. As Marcela Sanchez recently observed in the *Washington Post*,

Throughout the hemisphere, new leaders are promulgating a kind of rhetoric about U.S. imperialistic ambitions eerily reminiscent of Cold War conspiracy theories of a generation ago. Such theories are not new. The problem this time around is that Washington is doing little to improve its image in the region and to counter such notions and the fears they engender. That leaves a vacuum too easily filled by the free flow of information—and disinformation—fueling anti-American sentiment in even the most distant corners of the continent.

Many U.S. policymakers don't take the threat seriously—and that is a danger to the national interest, Sanchez argues:

Most in Washington dismiss such theories as hogwash that gives more credit than is due to a U.S. government absorbed in a new and formidable anti-terrorism war that has pushed Latin America backstage. But ridiculing this kind of theorizing as foolish or anachronistic ignores the fact that it is finding fertile ground among traditionally disenfranchised groups in the region whose destabilizing power is growing and whose leaders are gaining prominence.

For groups as diverse as the *piqueteros* in Argentina, *cocaleros* in Bolivia, landless workers in Brazil, the Pachakutik indigenous movement in Ecuador and the Bolivarian Circles in Venezuela, there is one common thread: The belief that the U.S. role in the region is pernicious.

And the U.S. isn't attempting to counter them. Brazil, for example, has dispensed with its historically moderate foreign policy and now seeks a path of its own, leading other governments—as well as extremist and even terrorist organizations—in anti-U.S. coalitions. President da Silva's Forum of Sao Paulo is an annual networking meeting of most if not all the hemisphere's radical political parties, hung-over communist parties and former Soviet-backed guerrilla groups, and even terrorist organizations. Last year it met in Guatemala, with delegates and observers from the Irish Republican Army, the Popular Front for the Liberation of Palestine/General Command, the Saddam Hussein regime in Iraq, the Qaddafi regime in Libya, Castro regime in Cuba, and the Kim Jong-il regime in North Korea.

The failure to stem the new paranoid populism has allowed the movement to spread across the region and to begin toppling friendly, democratic governments. First was Argentina. Bolivia is the latest case in point. While working with the Bolivian government to eradicate coca production in the 1990s—a successful project that eradicated about 90 percent of the country's coca crops—the United States government shut down its public diplomacy programs in that country.

For more than two decades, the United States sent substantial assistance to the Chapare region of Bolivia. Recently, Bolivia has been the recipient of USAID programs worth \$100 million a year to help farmers transition out of coca production and into legitimate commercial crops. Yet aid workers report that the Bolivian people knew almost nothing about the American assistance, or about U.S. intentions.

Meanwhile, a radical activist tied to the coca growers, Evo Morales, ran the only major radio station the remote Chapare region, broadcasting inflammatory messages all day, every day. No other general broadcasting services operated in Chapare, so Morales dominated the airwaves—without any counter-programming. An American development professional wrote yesterday, "We have no effective public information campaign about U.S. objectives in the country."

Morales and the leader of the coca growers' union took advantage of economic dislocation and led the *cocalero* protests that forced President Gonzalo Sanchez de Losada from power on October 17. President Sanchez had been a key ally of the United States in the eradication of cocaine production. Yet he was ousted in a movement reportedly supported by European activists and Venezuelan President Hugo Chavez. The coca growers union leader then told Sanchez's vice president and successor, Carlos Mesa, 90 days to implement the *cocaleros'* agenda to resume large-scale production of the raw material for cocaine. The union leader threatened to continue a wave of violence against Bolivian society and the government if newly-installed President Mesa failed.

*Integrate bilateral foreign development aid with the global war on terrorism*

One might easily conclude that the United States has no effective security strategy for Latin America, and that it has willfully abandoned the tools it needs to in-

fluence the political climates in the region, while simultaneously not cultivating and supporting many of its friends and allies. It appears that the aid programs hemisphere-wide are uncoordinated and bound by little if any strategic vision. Policy priorities appear to be one-dimensional, in the case of counternarcotics and trade, and obsolete in such areas as military and police security, while development aid continues in isolation of pressing U.S. national interests.

The Americas is already a significant front in the global war on terrorism, and trends indicate that not only the narcoterrorists but Islamist terrorists from elsewhere in the world will increasingly use countries in the hemisphere with weak or corrupt institutions as bases of operation.

Bilateral development assistance must reward friends and punish enemies. It must never reward enemies or, through lack of full commitment or resources, end up punishing friends. Those approaches only strengthen our adversaries and weaken and alienate those who would be on our side. Aid also must be utilized as a means of reaching segments of society that may become valuable in penetrating, disrupting, uprooting, and destroying terrorist and terrorist-support networks.

We have far to go—far beyond social investment funds. As Stephen Johnson has observed, “Today, counternarcotics and counterterrorism are the main security concerns in the region, and the Department of State—with no apparent resources, training, doctrine, standardized procedures, or evaluation mechanisms characteristic of the U.S. military—is the lead agency.”

Mr. BALLENGER. Next we have Patrick M. Cronin, a Senior Vice President and Director of Studies at the Center for Strategic and International Studies. He served as Assistant Administrator For Policy and Program Coordination at USAID. During the current Administration Mr. Cronin was selected by the White House to chair an interagency task force to design the Millennium Challenge Corporation. Mr. Cronin earned a doctorate and a master’s degree at Oxford University and is a graduate of the University of Florida.

Welcome, Mr. Cronin, and please proceed with your summarized statement.

**STATEMENT OF THE HONORABLE PATRICK M. CRONIN, SENIOR VICE PRESIDENT AND DIRECTOR OF STUDIES, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**

Mr. CRONIN. Thank you very much, Mr. Chairman. It is an honor to be here. I certainly welcome this opportunity to follow up with what I started when I joined the Bush Administration, which was to figure out how to effectively double our development assistance around the world in exchange for making it more effective. And that is really the challenge we all face, I think, today because our spending on foreign affairs remains, from my perspective, dangerously low. Our spending on development continues to lag behind every other major donor, and useful international metrics such as the millennium development goals will not be met by 2015 based on current trajectories.

I have raised a number of questions about the proposed fund, and I want to just restate them very briefly here because I think they still apply, notwithstanding the excellent remarks that have been made this afternoon. I do fear that regardless of the actions of authorizers, that appropriators will not see fit to add additional money. I was at USAID. I ran the budget. I know what it is like to be given the phone call from OMB, from State Department, from somebody else to say, take it out of hide. And we end up taking other good programs that have been thought through out of hide. I don’t think USAID should have to do that. I don’t think the 150 account should even have to do that.

Secondly, I think the fund does represent yet one more separate program with what is already a confusing patchwork quilt of programs. I think you gentlemen, ladies know this. This is a problem with the U.S. Government foreign assistance program. I think we need to work in a national dialogue on how to review our entire Foreign Assistance Act. I know that is for another day, a big, big issue, but it is very important. Even our—when we were peer-reviewed by the OECD Development Assistance Committee, of which I was the leading member for the U.S., they critiqued our programs and said, get your act together. There is no policy coherence. You have got 50 offices, departments, agencies all doing development assistance. I was in the place that was supposed to be coordinating these, and let me tell you, it is out of control. So this is one more additional layer to that. I am worried about that.

We even have a fund in the Americas that does social work in small programs. Yes, we do. But it does microenterprise. I mean, we interviewed them as part of the Millennium Challenge Account because we compared it to the African Development Fund, and we worked with this Americas fund as well. It needs more money in their approach.

I applaud what you are doing, but I am raising real concerns about how to make this effective. I am very concerned about building in the lessons of past experience. Carol Graham has some excellent lessons in her testimony and paper that is coming. Mine was more general. And we are trying to build these into the Millennium Challenge Account.

Obviously the governance matters, including the government's capacity-building, as well as the social capacity; I certainly agree with education and health building social capacity. Nobody is arguing that. We need very careful monitoring. Again, I was responsible for the monitoring in the U.S. Government. We don't do it nearly well enough.

One of the things we were building into the Millennium Challenge Corporation, if this gets stood up, is the best practices from the private sector, from government's bilateral programs, multilateral programs, on how to do monitoring evaluation. We deserve no less. The taxpayers deserve no less. And I think it is the only way to get a bipartisan consensus in this country about providing more development assistance for knowing what we are getting. We have done it selectively on programs, but we haven't done it very well especially at the country level, and I think that is what we are trying to get.

And this is another issue when you have separate programs, are you achieving something that—at a country level. Let me give you an African example. Since the independence of Senegal, a relatively good performer, the United States, our tax dollars, we have put about a billion dollars into Senegal. Well, what is the GDP per person in Senegal relative to independence more than 40 years ago? Well, it has declined. We have not achieved success even in the relatively successful good-performing country in terms of promoting the social welfare overall. It doesn't mean we haven't done good things on the ground, but we should all be striving to get that bigger assistance advantage.

I am worried about obviously making sure that others match our contributions. I think that is probably a shared concern. I am trying to get the Inter-American Development Bank to make sure that other donors will match so that we don't unilaterally do this.

And finally, I am concerned about the contradictions between our trade and development policies. It is critical to understand our strategic catalytic effect of aid, because it really is dwarfed by trade and investment, and we have to use this in tandem with free trade agreements like CAFTA and FTAA. I recommend in my statement immediately authorizing funding the Millennium Challenge Corporation. The House International Relations Committee has already overwhelmingly passed authorization. I think we need to finish the job. Four out of the five Latin American countries that would be eligible in year 1 under the Administration's proposal would probably qualify. If you were to accelerate the year 3 eligibility to year 1, you would have 15 countries competing from Latin America and the Caribbean.

These are very good neighbors and they would do very well in this competition. We would be giving a lot of resources and we could still follow a lot of this into the social development. Health and education are part of the productivity drivers built into the Millennium Challenge Account. I think we also need to strengthen USAID. I am a supporter of USAID. We need to find a way for USAID to perform itself while also picking up on some of these principles of economic growth in the best practices of development assistance.

Thank you very much.

[The prepared statement of Mr. Cronin follows:]

PREPARED STATEMENT OF THE HONORABLE PATRICK M. CRONIN, SENIOR VICE PRESIDENT AND DIRECTOR OF STUDIES, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Chairman Ballenger, Ranking member Menendez, members of the Western Hemisphere Subcommittee, thank you for inviting me to testify before this distinguished body on important issues of public policy regarding the western hemisphere. I have been asked to comment on how to forge effective strategies to help nations in Latin America and the Caribbean improve social development and provide broader, more equitable opportunities for their citizens to participate and prosper in the globalizing economy.

After two years of helping to shape our government's development policies and observing our work on the ground around the world as the Assistant Administrator for Policy and Program Coordination at the U.S. Agency for International Development, I have some thoughts about how to pursue successful economic growth and poverty reduction. In particular, my role in leading an interagency working group to help establish a Millennium Challenge Corporation has left a deep impression on me regarding the need to not knowingly repeat the mistakes of the past and the felt need to incorporate the best practices and lessons learned into our development policies. This experience, I believe, has direct bearing on development policies around the globe, including Latin America and the Caribbean.

Please permit me to begin by characterizing the challenges we face in our own hemisphere with respect to development. The fact that the vast majority of countries in our region are classified by the annual United Nations Human Development Report as having "medium" rather than "low" development, masks both the pervasiveness of poverty and the opportunity to advance democracy and economic growth.

#### *Western Hemisphere at a Glance*

At the macro level of public policy, the Latin America and Caribbean region faces ongoing development challenges that threaten the national security and economy of the United States. Contracting economic growth rates, extensive poverty, unemployment, the skewed distribution of income, crime and lawlessness, a thriving illegal



narcotics industry and a deteriorating natural resource base continue to undermine the stability of the region. The region's Gross Domestic Product (GDP) shrank by approximately 0.8 percent in 2002. This represents the region's worst economic performance in two decades. In 2002, inflation reached 12 percent after eight years of steady decline. Mediocre economic performance has caused per capita income in this region's countries to decline significantly since 1998, while poverty has been on the rise. These challenges have brought discontent and political turbulence, and they have shaken citizens' faith in democracy, investment priorities, social sector policies, and the benefits of a decade of liberal reforms. The effects in the poorest countries, such as Haiti, and even in regions of countries with generally solid economic performance, such as northeast Brazil, have been more disheartening.

Still, it is important not to portray the region in an entirely negative light. Overall GDP is expected to grow by 1.5 percent in 2003, and inflation is on track to return to single digits this year.

The United States now imports \$240 billion in products from Latin America and the Caribbean annually. In addition, our direct investment in the region totals about \$270 billion. Remittances flowing from the United States to the region amount to another \$25 billion. All told, that income and investment is 120 times the total U.S. economic aid to the region—something to bear in mind as we think about leveraging aid programs. Foreign aid, no matter how plentiful, must be used as a strategic catalyst if it is to have the most benefit.

#### *U.S. Development Focus*

The U.S. Agency for International Development (USAID), the principal governmental agency providing development assistance to the region, is working closely with the State Department, and to varying degrees with other parts of the U.S. government and multilateral institutions, on three priorities: (1) promoting democracy and combating corruption; (2) supporting trade-led economic growth; and (3) reducing illegal narcotics trafficking. These key themes give paramount importance to the implementation of sound policies that address the principal constraints to development, with the overarching goal of furthering U.S. foreign policy.

The USAID Latin America and Caribbean Bureau's strategy is being carried out through three major programmatic and management approaches, one for each of three sub-regions: the Central American and Mexico (CAM) Regional Strategy focuses on trade-led development and the Central America Free Trade Agreement (CAFTA); the Andean Counterdrug Initiative focuses on counternarcotics; and programs in the Caribbean region combat HIV/AIDS and promote growth and diversification in small island economies. Because countries within each of the sub-regions face similar key development challenges, USAID is developing regional strategies to provide a single framework for both regional and country-level programs. In Central America and Mexico, USAID has already launched a new joint regional strategy focused on three goals that mirror the main themes of the Millennium Challenge Account: transparent governance, economic freedom, and social investment.

In addition to country-specific and regional activities, USAID is addressing critical transnational issues such as HIV/AIDS, a deteriorating natural resource base, trafficking of persons, and inefficient education systems. USAID is also committed to mobilizing resources from and fostering alliances with both the public and private sector.

#### *The Social Investment Development Fund*

At a basic human level, compassionate Americans cannot but be moved by the crying need for humanitarian assistance in Haiti (one of the few countries in the region that ranks below Sudan and Congo in human development). Similarly, ample are the heart-wrenching stories about the destitute Bolivian mother bereft of resources for her children, or the well-meaning local official in Honduras lacking the means to keep children in school (where 25 percent of "adults" over 15 are illiterate). While ultimately our development programs must be measured against tangible human progress, the fact that policy makers focus on larger public policies does not make them any less passionate about progress; instead, general policy initiatives must be understood as an attempt to address systemic and underlying problems and to find ways to break the cycle by promoting economic growth and therefore sustainable development.

It is this two-level approach—wanting to improve the lot of those in our hemisphere and desiring to create lasting solutions—that causes me to have mixed reactions to the proposal for a new Social Investment Development Fund for the Americas. On the one hand, I applaud those who are not satisfied with the status quo and seek action on behalf of the poor in underdeveloped countries in our region.

Similarly, I welcome the notion of adding more resources to our spending on foreign affairs, including development in general. On the other hand, this proposed fund falls far short of incorporating the lessons of the past to ensure that tax money leads to sustainable development, thus breaking the vicious cycle of poverty. Here I must question whether the social fund as proposed would represent new and additional resources or simply detract from other priorities; whether it would be a more effective way than proposals already on the table—namely the Millennium Challenge Account—to promote social and economic development in this and other regions; and whether this proposal represents the best way to work with the interagency and the international community to promote coherent and effective development policies based on past experience.

#### *Five Problems with the Proposed Fund*

There are five interrelated problems with the proposed fund.

1. *The first problem is that the funding for a new social investment fund is likely to come at the expense of other development and foreign policy priorities.* Private financial flows, trade, and investment dwarf development assistance. Aid, in fact, is better suited to being a catalyst than a stand-alone fund trying to tackle the enormous challenges of under development by itself. Within USAID, if the fund were to lead directly to an increase in the Latin American and Caribbean Bureau, this would be a good thing. However, having had responsibility for the USAID budget, I fear the funds would simply be subtracted from or offset by cuts elsewhere in the 150 international affairs account or cuts elsewhere from the USAID-managed accounts. Thus, in the name of helping development, this proposal could have the unintended effect of undermining poverty-reduction strategies in the poorest countries on earth or other pressing foreign policy interests. Because we have important global interests, including the current need to focus on post-conflict reconstruction in Afghanistan and Iraq, and to think through long-term approaches for countering international terrorism, we must make the most effective use of our relatively scarce development funds.
2. *A second drawback to the proposed fund is that it would further confuse an already convoluted and fragmented bureaucracy for delivering foreign aid.* When the OECD Development Assistance Committee undertook its most recent peer review of U.S. development assistance programs last year, it concluded that some 50 departments, agencies and offices claim authority for foreign aid programs. In the past three years, the Bush Administration has tried a two-prong approach to repairing the problems of cross-cutting lines of authority and ambiguous accountability: it has pulled USAID into a closer relationship with the State Department; and it has created new coordinators (as for HIV/AIDS or Afghanistan) and new entities (as with the Global Fund for AIDS, Tuberculosis and Malaria or the proposal for a U.S. Millennium Challenge Corporation whose CEO would report to the Secretary of State as chairman of an interagency board) in order to ensure accountability and overcome an accumulation of bureaucratic obstacles that prevent the delivery of effective aid in the field. While I believe the Nation must move even further than this and consider, at the appropriate time and with a thorough national dialogue, the rewriting of the 1961 Foreign Assistance Act, I would also refrain from adding to this confusion by establishing a fund that would lack the monitoring and evaluation measures and transparency envisioned in the Millennium Challenge Corporation. Furthermore, I would also be wary of the shortcomings of any Technical Review Committee, whose members would not be free from vested interests. One of the problems we face now in development is that so much of our money goes through the “usual suspects” rather than through the partner institutions best poised to deliver aid effectively. Effective aid delivery includes not simply inexpensive delivery, but also the ultimate impact left behind, including the building of an indigenous capacity.
3. *Thirdly, the proposed fund would perhaps help address specific social needs, but it would do little to ensure aid effectiveness on the basis of experience.* Development specialists generally acknowledge that aid works best where there is political will and a favorable policy environment defined largely in terms of political and economic freedom. This was recognized at the United Nations conference on “Financing for Development” held in 2002, when President George W. Bush elaborated on his proposal for a Millennium Challenge Account. Moreover, the President not only built in selectivity to help ensure poverty reduction, he also sought to ensure that MCA grants would help

focus on a finite set of issues intended to remove major impediments to productivity, thus leading to sustainable economic growth. As President Bush said in May of 2003 during his commencement address to the U.S. Coast Guard Academy, "The lesson of our time is clear: when nations embrace free markets, the rule of law and open trade, they prosper and millions of lives are lifted out of poverty and despair." The proposed social fund, in stark contrast, would use no criteria for deciding where to invest scarce development resources; this is the old model of aid that both developed and developing countries rejected in Monterrey, where they reached a new consensus rooted in the notion of "more aid for better governance." Incidentally, of the five countries from the region that would be eligible for a Millennium Challenge Account grant in fiscal year 2004, four are extraordinarily strong contenders. Only Haiti clearly falls short of the mark; the rest seem to confirm that the Millennium Challenge Account is geared to better performing states like those of our neighbors.

4. *A fourth problem with the proposed social fund is that it would fail to help mobilize other donors.* Congress should not put half a billion dollars in the Inter-American Development Bank (IDB) to be distributed by the Board in the absence of firm agreements from other donors to at least match the U.S. funds. The idea of the multilateral development banks is to promote burden sharing, and unilateral U.S. contributions do not accomplish this. For instance, it is worth noting that under the Multilateral Investment Fund at the IDB, the United States and Japan each committed up to half a billion dollars, and the Europeans contributed about \$280 million among them; in short, the United States leveraged a lot of money for a good purpose, such that we were comfortable with turning over control over U.S. funds to someone else. Once again, in contrast to the social investment fund proposal, which would be seen as one more disconnected fund, the Millennium Challenge Account would help to restore U.S. leadership in international development. Moreover, the MCA's strong intellectual foundation built on lessons learned would, if given a chance, resonate with most other bilateral and multilateral donors. Indeed, there is ample evidence that both the World Bank and other bilateral donors are rushing to demonstrate their similar desire for economic growth, private sector development, and results-based management.
5. *Fifth and finally, the social fund would do nothing to remove the contradictions in our development, economic, and trade policies that work at cross-purposes with respect to helping under-developed countries.* These countries generally seek broader access to U.S. markets. Thus, those who oppose liberalized trade should think twice about their positions against CAFTA/FTAA because it means protected U.S. sugar markets and protected textile markets (while quotas get removed on the rest of the world, including China). As the American Textile Manufacturers Institute has shown, we must consider the damage done to U.S. national security when we think of jobs saved in the United States at a very high cost to the American consumer and the economy at large

#### *Some Alternatives*

Rather than pursue the proposed fund, I would recommend considering the following ideas:

- *First, support the immediate authorization and funding for a Millennium Challenge Corporation, giving it broad flexibility in exchange for transparency, accountability and measurements.* The Congress should exercise critical oversight with respect to the MCA contract, investments and performance, ensuring transparency throughout the process. If the desire is to provide money to more countries in the region, then Congress could consider enlarging the pool of eligible countries to the number envisioned in 2006—a move that would more than triple the number of countries eligible from the western hemisphere.
- *Second, strengthen the ability of USAID to follow the lead of the Millennium Challenge Corporation with respect to a fresh approach to development.* Foreign assistance achieves results in those countries committed to progressive economic policies and strong democratic institutions. Based on a subset of the criteria of the MCA, USAID's regional bureau has revamped the way it allocates resources based on performance. It has also set up a performance fund. USAID LAC Bureau requested \$25 million for fiscal year 2004 that would be allocated to a small set of countries based on the subset of MCA criteria (12

out of the 16 indicators). Congress should consider a way to provide funding for this complementary initiative, but at a level not likely to be detrimental to other urgent programs. By linking the USAID more directly to the concepts underpinning the Millennium Challenge Account, one can bring about badly needed positive reforms within USAID.

- *Third, direct the State Department and USAID to collaborate on a single report that charts the contributions of U.S. tax money, at least, toward accomplishing the goals of the Millennium Declaration goals in general and in the western hemisphere in particular.* While UNDP charts these internationally, we should know what part the U.S. is contributing, too. No one in the U.S. Government currently tracks this systematically, although I launched a process within USAID to do this before I left. The information in the report could provide a valuable basis for public debate about future assistance to the developing world.

#### *Conclusion*

We would all like to see enhanced funding levels for Latin America and the Caribbean, and I fully support the proposed objectives set out in the draft. But the resources desired will compete with other priorities and approaches, the proposed fund further confounds the desire for clarity with respect to accountability and effective implementation, other donors would have few incentives to follow our lead, and the problem of policy incoherence would not be improved. For all these reasons, I recommend that we embrace other models for effective aid delivery and U.S. leadership in development. Above all else, we should move forward to authorize and fund the President's proposal for a Millennium Challenge Corporation.

In contrast to the proposed social investment fund, the Millennium Challenge Corporation would allow the American people to support the efforts of developing countries in raising their standards of living and reducing poverty. Furthermore, the Millennium Challenge Corporation would focus on the most promising partnerships: viz., countries that govern justly, invest in their citizens, and encourage economic freedom. These are policies and practices that so many countries in our region share, and providing the best performing countries with additional assistance would not only provide further incentives to promote the rule of law, root out corruption, protect political freedoms, and invest in education and health care, but also encourage open markets, sound fiscal and monetary policies, and private enterprise. Because the Millennium Challenge Corporation would work with each country on its vital development needs, it would build in partnership and local ownership.

We share a common challenge in helping the under-developed world achieve greater prosperity and opportunity for all their citizens. I look forward to supporting you in any way that I can as you continue to help the Nation think through creative and constructive policies for grappling with these challenges. Thank you.

Mr. BALLENGER. Fascinating. Next we have Ms. Carol Graham. She is Vice President and Director of Governance Studies at the Brookings Institution. She has previously served as a Visiting Professor at Johns Hopkins University and as Special Advisor to the Deputy Managing Director of the International Monetary Fund, a Special Advisor to the Executive Vice President of the Inter-American Development Bank, as a Visiting Fellow at the World Bank and as Assistant Professor at Duke University in North Carolina. I hope your basketball team does well. Ms. Graham earned a doctorate at Oxford University, a Master's Degree at the School of Advanced International Studies of Johns Hopkins and a degree at Princeton University.

Welcome, Ms. Graham, and please proceed.

#### **STATEMENT OF CAROL GRAHAM, Ph.D., VICE PRESIDENT AND DIRECTOR OF THE GOVERNANCE STUDIES PROGRAM, THE BROOKINGS INSTITUTION**

Ms. GRAHAM. Thank you, Mr. Chairman. I am wrapping up after a long panel so I will try and be brief.

It is a real honor to discuss the proposed Social Investment and Economic Development Fund for the Americas, and I feel the pro-

posal has a great deal of merit. Like Patrick, I share some concerns about duplicating other efforts, and so my remarks, the second part of my remarks are designed to suggest some avenues where the fund could create the greatest value added by doing some novel things. My first objective though is to present some findings from my research which I think help establish a rationale for the fund.

Latin America's potential is jeopardized by its vast and unmet social needs, and I think most people speaking today share that view. Long gone is the optimism about its turn to the markets and accepting or taking on democratic government. And instead the 21st century has opened with news accounts of one crisis after another, beginning with Argentina's complete collapse in 2001 and now fears of a populous backlash in a much broader set of countries and by weak growth performance even in the star performers like Chile. Most recently, as has been mentioned today, one of the region's most committed democratic reformers, Gonzalo Sanchez de Lozada, was forced to resign as President of Bolivia amidst a wave of popular protest against market policies and also quite a bit of anti-U.S. sentiment, I might add.

Nor have the region's preexisting problems gone away, and its weak public institutions are ill-equipped to solve them. It has the highest inequality rate in the world, as Mr. Atwood mentioned, relatively weak social indicators and high rates of poverty, violence, crime and corruption. Most Latin American countries have very large gaps in the standard of living between the very wealthy and the rest of society. The inequality that Mr. Atwood mentioned, if you really break it down, is driven by differences in income between the top half of the top decile and the rest of society. If you look at the other 9 deciles in Latin America, they are not that different from European countries or the U.S. So it really is gaps between the very wealthy and the rest.

These inequalities have been exacerbated by the region's integration into global markets, as skilled labor has been the beneficiary of the opening to trade and capital markets. So we have a mismatch between public expectations about what reforms and the opening to global integration would bring, and the ability of both economic growth and public policy to address these gaps, and I think this often results in significant public frustration and even public instability in some countries.

My research seeks to explain the determinants of economic opportunity in countries in the process of entering the global economy and, in turn, the effects of these processes on public perceptions. As part of that effort, we have developed a data set which links detailed information on economic progress and income mobility with perceptions data. And the case where we have the most detailed information is Peru, which is a middle income country in Latin America. For some of our questions, however, we are able to impute more regionwide trends using data for the whole region.

Our most remarkable finding in Peru, and I think one that surprised us and in fact frightened us, is that roughly half of the respondents that have made the most income gains, okay, the people that are doing the best with a turn to the market, think that their situation is worse now than it was in the past. So these are not the very poor. These are people in the middle.

Our frustrated achievers, as we call these respondents, also perceive lower prospects for their own future mobility and have a higher fear of being unemployed in the future. They are less satisfied with the market process and with democracy and more likely to want to restrict the incomes of the rich. Indeed, by all kinds of other indicators we know these people are very concerned about inequality. A lack of adequate social insurance and insecurity is another explanation for the frustrations and it is supported by the respondents' higher fear of unemployment.

Only one country in the region has a viable unemployment scheme, and that is Chile, and even there it is a very, very minor scale and it is very new.

Looking more broadly regionwide at some of these same questions, we find that respondents that report less frustration with their economic situation are more likely to support market policies, to be satisfied with how democracy is working, and to prefer democracy to any other system of government, to have higher prospects for their own and their children's future mobility, and to be more likely to believe the distribution of income is fair. In contrast, the frustrations that we find are consistently linked with higher fear of unemployment, concern about inequality and less satisfaction with market policies and with democracy.

Do these results suggest that the region is turning away from markets and to authoritarian regimes yet again? It has a very cyclical path of doing this. Our results suggest that probably not but there is cause for concern. My research finds that respondents' satisfaction with how democracy and the market are working in their countries has dropped markedly in the region for the past few years. At the same time preference for democracy as a system of government has increased as has support for the market as a system. So I think—and these trends are most notable in the crisis countries. So that the respondents are making a distinction between democracy and market systems as something that is preferable and how these systems are working in their countries, and they are very dissatisfied with that. And these trends are actually the sharpest in the crisis countries, the countries that are experiencing a supreme crisis.

So our finding suggests that Latin Americans continue to value markets and democracy at least in theory, but they are very frustrated with how they are working, and these frustrations are largely driven by insecurity and inequality. Obviously stable markets and democracy are central to our interests in the region, but it is difficult to imagine such stability with insecure and frustrated middle and working sectors, particularly if their frustrations are driven by the constant threat and the experience of falling into poverty.

We find that people move in and out of poverty a lot. Being middle class today does not mean that you are middle class tomorrow. Protests which have topped governments meanwhile, ranging from de la Rúa's in Argentina to Sanchez de Lozada's in Bolivia, were driven by workers and middle class urban populations concerned with insecurity and frustrated with inequality, not by the extreme poor.

Addressing the root causes of the concerns of the working poor and middle classes are as important as addressing those of the ex-

treme poor, and this warrants not only the attention of social policy experts but also those with stakes and sustainable democracies, market economies and a stable world trading system.

So I welcome the attention of this Committee on the problems in the region. So this brings me to the fund, and just to say a few words about that before concluding.

A U.S.-led effort to address some of the pressing social problems in the region could have important symbolic effects as well as genuine impact at a timely moment. The U.S. has been remarkably complacent about the region since September 11. The Argentine crisis was resolved with very little U.S. input. Policy toward Venezuela is indecisive at best. Sanchez de Lozada's cries for assistance in Bolivia at a critical moment fell on deaf ears, as Mr. Atwood mentioned. And the promised Free Trade Area of the Americas is really very far from reality.

In a number of countries democracies are being shaken to the core and insurgent or anti-system movements are on the rise as in Colombia, Bolivia and possibly even in Peru, my own country of origin, where there are credible reports that Shining Path is coming back in pockets of the country.

Our image has also suffered in the past year. A recent poll of Latin American elites, those who have typically supported the United States, found that only 12 percent rated President Bush's performance in Latin America as positive and the poll also found significant unease about who stands to benefit from a Free Trade Area of the Americas. This is a poll of Latin American elites and not of the frustrated poor and working class.

The launch of a fund would demonstrate some new interest, renewed commitment to the region, and that in and of itself could be a positive thing. But I think it is important to note that to launch such a fund would generate numerous and competing complaints for the fund's resources and attention, and thus I think the structure and priorities of the fund need to be clearly established in advance and based on a technically sound analysis of where the most value added can be generated.

As stipulated in the proposal, I think the fund should accept proposals from a range of actors, ranging from local governments to NGOs to partnerships between public and private sectors. But I think before accepting a flood of proposals, it should establish clear guidelines in priority areas through a process of consultation with the national government and with international agencies. Particularly as has been mentioned in the discussion in the Inter-American Development Bank that has made tremendous strides in the region in terms of establishing clear priorities and trying to understand some of the social problems in the region.

But the most critical issue is the substantive areas where the fund chooses to operate. The fund should avoid duplicating the vast number of donors and agencies, which include the World Bank and the Inter-American Development Bank, already working in standard line ministry activities. By these I mean health and education. There is a tremendous amount already going on in these areas by large donors with resources that bring much more to bear. And also even of the many actors already involved in the provision of micro

credit. They are numerous and lots of them out there, Accion, the Banco Sol and Mi Banco. They are endless.

Needed in the region is an order of magnitude greater than the amount of resources likely to be at the fund's disposal. In my view, the greatest value added from such a fund would come from giving priority to the testing of new programs and approaches to unresolved problems in the region. The fund could support activities and novel approaches to poverty reduction and to developing better social insurance mechanisms.

As I mentioned, only one country in the region has a viable unemployment insurance mechanism. If such activities are supported and rigorously tested by the fund so you test a range of approaches and prove successful, then they could be adopted on a much broader scale by the public sectors in the region. Supporting the development of a successful new approach to safety nets or unemployment insurance in one country is something that could be replicated regionwide and have very large multiplier effects.

The PROGRESA program in Mexico is an example of a program that began on a pilot basis and has become an extremely successful nationwide program, but after refinement and testing. A similar approach could be developed for the provision of social insurance in the region, an area where there are large gaps.

A few countries such as Chile have experimented with unemployment insurance. There are lessons from matching individual contributions with employer contributions, really developing pooled risk sharing mechanisms which reflect the limited amount of public sector resources and the large informal sectors in these countries. Again, there is a lot of room for testing and trying out new approaches, and it is something, given the scale and scope of the fund and the huge amount of need, that could be, I think, the greatest value added that could be brought.

And I think the fund should focus on novel approaches to poverty reduction, to the reduction of insecurity and to tackling the inequality problem in the region.

[The prepared statement of Ms. Graham follows:]

PREPARED STATEMENT OF CAROL GRAHAM, PH.D., VICE PRESIDENT AND DIRECTOR OF THE GOVERNANCE STUDIES PROGRAM, THE BROOKINGS INSTITUTION

Mr. Chairman:

It is an honor to testify before the House Subcommittee on Western Hemispheric Affairs, and to discuss the proposed Social Investment Fund for the Americas. I believe that the proposal to create a fund has a great deal of merit. My remarks are organized around two objectives. The first is to present findings from my research in the region which contribute to the rationale for the fund as stated in the proposed amendment. These findings highlight the need to address pressing and unresolved social welfare and income distribution issues. The second objective, based on the stated rationale for the fund, is to provide some suggestions for structuring it and for establishing priorities for the activities it should invest in. It will be important to be selective, given the scope of the region's need and the necessarily limited scale of the fund.

PUBLIC FRUSTRATION AND REFORM FATIGUE: A RATIONALE FOR A SOCIAL INVESTMENT FUND FOR LATIN AMERICA

Latin America is a region with great potential. Yet that potential is jeopardized by its vast and unmet social needs. Long gone is the optimism about Latin America's turn to the market and establishment of democratic government. Instead the 21st century has opened with news accounts of one crisis after another, beginning with Argentina's economic collapse in 2001, and now followed by threats of defaults



in Uruguay and Brazil, by fears of a populist backlash in a much broader set of countries, and by weak growth performance even in the strongest economies; Chile, Latin America's tiger, is slated to grow at only 2.5% in 2003 and unemployment—at 9.5 %—is higher than it has been in two decades. Most recently, one of the region's most committed democratic reformers, Gonzalo Sanchez de Lozada, was forced to resign as president of Bolivia amidst a wave of popular protest against market policies.

Nor have the region's age-old problems gone away, and its weak public institutions are ill equipped to solve them. It has the highest inequality in the world, relatively weak social indicators, and high rates of poverty, violence, crime, and corruption. Progress has been made in some countries in the past decade in improving some of these problems. In others they have gotten worse and, most recently, are being exacerbated by the current crisis. During financial market crises, for example, wealthy consumers who hold assets abroad are much more protected than those at low and middle income levels, as the latter have no alternatives to fragile domestic banking systems. It is well established that when such crises result in poor macro-economic performance and in particular high inflation, the poor are least able to protect themselves.

The region's participation in the integration of global markets, meanwhile, has been accompanied by a marked increase in the availability of information for the average citizen, which among other things has raised expectations for many. Most Latin American countries have large gaps in the standard of living between the very wealthy and the rest of society, gaps which pre-date the current wave of global integration. These inequalities were exacerbated by integration into global markets as skilled labor in the region benefited disproportionately from the opening of trade and capital markets. Narrowing such gaps, which usually requires expanding the pool of skilled labor, is likely to take years and even decades. This mismatch between public expectations and the ability of both growth and public policy to respond often results in significant public frustration and even political instability in many countries.

#### *Findings from Survey Research*

My research seeks to explain the determinants of income mobility in countries in the process of integrating into the global economy, and the effects of these processes on public perceptions. Stefano Pettinato and I developed a data set which linked detailed longitudinal data on income mobility with perceptions data for the same respondents in Peru. For some of our questions, we were able to impute more general, region-wide trends using a larger, Latin America-wide sample, which is a large cross section survey of respondents in 17 countries (but unfortunately does not have longitudinal data for the same respondents).

In Peru, we re-interviewed a sub-sample (500) of respondents in a large, nationally representative panel for 1991–2000, and asked a number of questions about perceptions of past progress and future prospects. The most significant and surprising finding was that almost half of the respondents (43%) with the *most* upward mobility reported that their economic situation was *negative* or *very negative* compared to ten years prior. We conducted a similar analysis based on comparable data for Russia in the Russian Longitudinal Monitoring Survey (RLMS), and found an even higher percentage (71%) of frustrated respondents—or “frustrated achievers” as we now call them. **In both cases, the remarkable finding was that roughly half (or more) of the respondents that have made the most income gains with the turn to the market think that their situation is worse now than it was in the past.**

A closer look at these frustrated achievers (FA's) shows that they are at or about average income (and therefore not the poorest in the sample), and slightly older than non-frustrated respondents with upward mobility. Our frustrated achievers scored lower on several perceptions questions, such as their perceived prospects of upward mobility, and had a higher fear of being unemployed in the future. In addition, they were more likely to want to restrict the incomes of the rich, and were less satisfied with the market process and with democracy.

What explains these frustrations? Relative income differences could certainly be a plausible explanation. Both Peru and Russia have high degrees of inequality. The FA's were more likely to place themselves lower on a notional economic ladder representing their country (ELQ) than were their non-frustrated counterparts at similar income levels. They also compared their situation to others in their community and their country more negatively.

In Peru the frustrated achievers started from lower income levels, on average, even though they were not the very poorest in the sample at the time that they answered our survey. Thus even large percentage increases in their incomes may seem

insufficient to reach the levels of wealthier groups. The FA's were also more likely to be urban, and therefore more informed about the lifestyles of others, including those of the very wealthy.

A lack of adequate social insurance and insecurity could be another explanation for the frustrations, and is supported by the FA's higher fear of unemployment. Even though the FA's are doing well by objective income measures, they may perceive that there is no guarantee of stability or maintaining their earnings level. This is not surprising, given that both surveys were conducted in very volatile economic contexts.

The mobility data, meanwhile, reveal a remarkable degree of vulnerability. A higher percentage of respondents went from "rags to riches"—or from the bottom to the top quintile in a ten year period in Peru (5%) than in a similar period in the United States (1%), for example. Yet a surprising 11% of respondents in the middle of the distribution (quintile 4 in Peru) fell back all the way to the bottom quintile during the same period, which is analogous to falling from the middle class into extreme poverty. These temporary drops into poverty often have permanent costs for the families involved, such as when children are pulled out of school to earn additional income.

Most FA's had average levels of education, which is relevant to mobility. In Latin America, with the opening of trade and capital markets, those with higher levels of education are gaining high marginal returns compared to the rest of society, while those with secondary education are seeing decreasing marginal returns compared to those with primary education.

Lastly, it is quite plausible that some of the frustrations that we find are behaviorally driven. There is probably some percent of every sample that will always be negative or unhappy, regardless of objective conditions. That led us to ask if our sample populations were significantly different from other population samples.

We compared the determinants of reported well being or "happiness" in Latin America and in Russia with those of the United States. We find a remarkable degree of similarity: there were similar age, income, education, marriage, employment, and health effects. In all contexts, unemployed people are less happy than others. **The bottom line is that the frustrations that we find in Peru and Russia are not caused by some inherent behavioral difference.** This allows us to impute certain variables from the smaller, country level samples to our region-wide survey for the purposes of more general comparison of public attitudes.

#### *How Do The Findings Apply to the Region as a Whole?*

We found that in both Latin America and Russia less frustrated—or happier—people were more likely to support market policies, to be satisfied with how democracy was working, and to prefer democracy to any other system of government. Happier people, on average, had higher prospects for their own and their children's future mobility; were more likely to believe that the distribution of income in their country was fair; placed themselves higher on the ELQ; and had lower fear of unemployment. In contrast, the negative perceptions of our frustrated achievers in Peru and Russia are correlated with lower life satisfaction (happiness) scores; lower ELQ scores; lower perceived prospects of upward mobility; higher fear of unemployment; and less satisfaction with market policies and a lower probability of preferring democracy as a system of government. In sum we find public frustration which is linked to concerns about income inequality and unemployment, and to reduced support for markets and democracy.

Do these results suggest that Latin Americans will turn away from markets and to authoritarian regimes yet again? In a recent paper based on more recent Latinobarometro data (April 2002), Sandip Sukhtankar and I find that respondents' *satisfaction* with how both democracy and the market are working in their countries has dropped markedly in the region in the past few years. At the same time, *preference* for democracy as a *system of government* has increased, as has support for the *market as a system*. Those trends are most notable in the "crisis" countries, simply defined as countries with negative GNP growth in 2002. Respondents are increasingly distinguishing between democracies and markets as systems on the one hand, and how they are operating in their particular countries or contexts on the other—clearly a positive sign. Yet even that positive note must be interpreted with a caveat, as trends since April 2002 have been mixed at best for the region, and unrest has increased in some countries.

Rather remarkably Latin Americans also remain as optimistic as before about their children's chances of getting ahead, demonstrating remarkable resilience. And—surprisingly—responses to a question about support for "lower taxes even if welfare spending suffers" are *negatively* correlated with wealth, suggesting that the

wealthy in the region may be starting to see the merits of progressive taxation for social service provision.

**Our findings suggest that Latin Americans continue to value markets and democracy, at least in theory, but are very frustrated with how they are working in practice (a frustration which has increased markedly since our survey data was taken in some cases like Bolivia). Insecurity and inequality are driving those frustrations.**

In the end, stable markets and democracy are central to the United States' interests in the region. It is difficult to imagine such stability with insecure and frustrated middle and working sectors, particularly if their frustrations are driven by the constant threat and the experience of falling into poverty. These frustrations could erode public support for markets and democracy to an extent that results in damaging policy reversals via the ballot box or even in social unrest.

Protests which have toppled governments—ranging from de la Rúa's in Argentina to Sanchez de Lozada's in Bolivia—were driven by workers and middle class urban populations concerned about insecurity and frustrated with inequality, rather than by the extreme poor, who are typically consumed with day to day survival. Addressing the root causes of these concerns warrants the attention of social policy experts, as well as those with stakes in sustainable democracies, market economies, and a stable world trading system.

#### *Can a Social Investment Fund Help?*

A U.S. led effort to address some of the pressing social problems in the region could have important symbolic effect as well as genuine impact at a timely moment. The U.S. has neglected the region since September 11. The Argentine crisis was resolved with little U.S. input. Policy towards Venezuela is indecisive at best. Sanchez de Lozada's cries for assistance in Bolivia fell on deaf ears. And the promised Free Trade Area of the Americas (FTAA) is nowhere in sight. In a number of countries, democracies are being shaken to the core, and insurgent or anti-system movements are on the rise, as in Colombia, Bolivia, and possibly in Peru. The U.S. has demonstrated remarkable complacency in the face of these trends.

Not surprisingly, there is a great deal of latent public frustration in the region, even among individuals with economic opportunities. Our image has also suffered in the past year. A recent poll of Latin American elites found that only 12% rated President Bush's performance in Latin America as positive. The poll also found unease about who stands to benefit from an FTAA. This contrasts with 2000 and 2001, when support for free trade was remarkably strong in the region, and linked to higher levels of income and education. **A new effort to pay attention to the region's pressing social needs could be a timely and strategic way to correct course.**

#### PROPOSED STRUCTURE FOR THE FUND

The launch of a social investment fund for the region would demonstrate new U.S. commitment to the pressing needs in the region, something which in and of itself could alleviate public frustration. Yet such a launch would generate numerous and competing claims for the fund's resources and attention. Thus its structure and priorities should be clearly established in advance, transparent to the public, and based in a technically sound analysis of where the most value added can be generated.

In the past decade, there has been wide experience with social investment funds in Latin America and beyond, although most of it has been at the country rather than at the regional level. The **advantages** of the social investment fund approach are many. These include:

- the ability to respond to bottom-up local level demands and thereby avoid mismatch between central government-led objectives and local priorities
- a lean administrative structure that can manage a large number of activities; freedom from strict and cumbersome public sector regulations
- the ability to support both private and non-government sector projects and public sector ones

The **disadvantages** of the social fund approach are:

- limited ability to establish priorities at the central government level;
- heterogeneity in project outcomes; and
- little impact on permanent operations of the public sector.

A region-wide fund will face similar constraints and challenges, some of which will be compounded by its being a supranational organization attempting to reach out to micro level actors. At the same time, it will have the advantage of learning

from accumulated experience as well as the ability to circumvent national level politics and partisan pressures.

As is stipulated in the existing proposal, **the Fund should accept proposals from a range of actors, including local governments, non-government organizations, and partnerships between public and private sectors.** However, it should first establish clear guidelines and priority areas for the kinds of projects and activities it will fund. This will entail consultation with the national governments involved and with the international agencies, such as the Inter-American Development Bank, as well as with outside experts. National level priorities should be taken into account via a clearing house process. While national governments should not make decisions on proposals or prevent their submission to the fund, they can provide a score or ranking of how they fit with national policies in the social policy and the poverty reduction arenas. The Global Fund to fight Aids, Tuberculosis, and Malaria provides one model of such a clearing house process.

Another important issue is the **management structure** of the Fund. To the extent possible, the Fund should maintain a small and lean but well paid administrative staff. Having at least some managers with private sector experience has proven to be an effective way to increase the efficiency of social policy projects in many countries. In addition, the staff should NOT design and implement its own proposals, but rather respond to proposals from actors in the countries. Fund staff should select proposals on the basis of need and merit, under the umbrella of the established operational guidelines. These priority areas, as well as the criteria used for selection, should be broadly communicated and as transparent as possible. Finally, a minor, but perhaps symbolically important point would be to house the Fund's management staff in a Latin American country rather than in Washington.

**The critical issue is the substantive areas where the Fund chooses to operate and support projects.** The Fund should avoid duplicating the vast number of donors and agencies (such as the World Bank and the Inter-American Development Bank) already working in the standard line ministry activities, such as health and education, and of the many actors already involved in the provision of micro-credit (such as Accion, the Banco Sol, and Mi Banco). While health and education are without a doubt priority areas, their resolution must inevitably involve the public sector—and the central line ministries—in a central manner. This is not the kind of activity that is ideally suited to a decentralized, bottom up social investment fund. Micro-credit, meanwhile, is an area which is already populated by a host of actors.

Need in the region is an order of magnitude greater than the amount of resources likely to be at the fund's disposal. **In this author's view, the greatest value added from a fund of this size would come from giving priority to the testing of new programs and approaches to unresolved problems.** The Fund could support activities in novel approaches to poverty reduction and to developing better social insurance mechanisms. If such activities are supported *and* rigorously tested by the Fund, and prove successful, they then could be adopted on a much broader scale by public sectors throughout the region.

Supporting the development of a successful new approach to safety nets or unemployment insurance, for example, in one country is something that could be replicated region-wide and have very large multiplier effects. The PROGRESA program in Mexico is a good example of a program that began on a pilot basis, with control and intervention groups, which was then refined and implemented at the national level. It is now one of the most successful anti-poverty programs in the region, with part of its success hinging on the linking of benefits to parental investments in child health and education. Other countries now look to PROGRESA as they design their poverty and safety net programs.

A similar approach could be developed to the provision of social insurance. As is suggested by the above results, insecurity and volatility are major concerns for the population in the region. Yet the challenge of providing workers in the region with any sort of unemployment insurance is daunting, in no small part because of the large number of workers in the informal sector and also because of the limited resources available to most governments.

A few countries, such as Chile, have experimented with unemployment insurance which relies heavily on individual contributions as well as employer contributions. Ultimately, such systems are risk-sharing schemes. The Fund could support novel approaches to the development of such schemes for informal as well as formal sector workers, and include in the support package small amounts of working capital to set up the insurance funds, which would be matched by worker contributions, as well as funds to test the effectiveness of the programs a few years after they are implemented.

Addressing distributional issues in the region is a much more difficult and complex problem, and there are less easily identifiable programs that the Fund could support. In this area, given the changing attitudes on distribution that we have found in our research, the Fund might support analytical work—conducted by *local* scholars—which compared and contrasted the distributional effects of various tax schemes. These could serve as alternatives to the strict reliance on the VAT by most countries in the region, which is far from a progressive approach to fiscal policy. In addition, new proposals for implementing progressive taxation schemes could be supported on a pilot basis in willing countries. (In these instances, the Fund's support would have to be direct to the governments involved).

**In sum, the Fund should distinguish itself by supporting novel approaches to the reduction of poverty, insecurity, and inequality, as well as by testing the effectiveness of those approaches.** If, in the end, a small number of very effective programs result, which can then be duplicated across countries throughout the region, the Fund will have invested its resources widely and in a manner that achieves significant economies of scale in a region where the scope of need is too great to be addressed by any one external assistance effort.

Mr. BALLENGER. Thank you, ma'am. And let me quickly say that, Mr. Cronin, your critique—I am sitting here looking at some of the questions they gave me to ask you, but what I like about your thing is that you did a definite critique of the system the way it operates. And I notice you have been writing a lot. Is there any likelihood that you might have put down some of that stuff where you could give it to us? I know we could talk for a half hour, and knowing my age and remembrance, I might not be able to carry that.

Mr. CRONIN. I will be happy to follow up with your staff, as you desire, to send more. I am writing a book on fixing foreign aid over the next year, among my many other duties, and I am doing this in the belief that we do need to fix foreign aid in a positive way. We need to get a handle on it again and go forward. It is a critical policy tool for this country and this region and around the world. And we need to make it work as effectively as it can and not duplicate what other donors are doing. Make it work effectively with the donor community, with the recipient countries, and hopefully achieve both social impact and lasting impact to make it sustainable. So yes, sir.

Mr. BALLENGER. Let me turn it over to you.

Mr. MENENDEZ. Thank you, Mr. Chairman, and I want to thank everybody for their testimony. I just primarily want to make some observations. In the question of is this a competition for money and are we going to ultimately, as you suggest, Mr. Cronin, have funding for the investment fund come at the expense of other development and foreign policy priorities, I think that is our whole focus. Our focus is not to have it in opposition to that or in contradiction or in competition to it. It is one of the problems of Latin America. It always seems to be the stepchild in that context, and that has been the reality in the decade I have sat here. I have heard person after person come before us and give us all the reasons why we can't. Yet we are going to spend \$20 billion in Iraq for 25 million people. We are talking about a little over \$2 billion over 5 years for 220 million people. So it is hard for me to accept that as a barrier.

I also think that in terms of whatever is convoluted in the fragmented bureaucracy for delivering foreign aid that is far beyond even the issue of a fund. If one doesn't believe USAID does a good job and you said you are a supporter of USAID, or Mr. Waller had

in his comments suggested that USAID is not a good vehicle or in need of reform, it is in need of reform whether or not there is a fund.

So the question is having a fund within an existing—we are not creating a new government entity. We are looking at an existing government entity. Whatever reforms that government entity may need, the fund could avail itself as well of those reforms. But at the end of the day, the creation of the fund in my mind ultimately goes to the very effort that we want to see in the hemisphere.

And, Mr. Waller, I was reading your testimony as you were orally giving aspects of it and you conjure in it the great failed social engineering experiments of the past. Well, not everything that is called a social investment fund is social engineering. Micro enterprises is not social, unless you think it is social engineering. Home ownership, which the Chairman asked us to include in this, is not necessarily social engineering. Education, as Mr. Cronin said, is one of the productivity drivers, I think were your words. And certainly Chile is an example of that and those countries that invest in their workforce.

If you don't have a workforce that has human capacity and intellect to do a job that is of greater consequence, then ultimately you are going to have some significant challenges in that society.

So I don't think that this is about social engineering. I do think it is about economic development and finding ways within a social fabric on education, on moving toward home ownership and a variety of other things to achieve that goal.

And I appreciate Ms. Graham's comments about maybe working in innovative experiments to see how we in fact find that social fabric in some countries, like in the context of unemployment and whatnot, can have models that work when they work and their work be replicable so we don't have to start all over again.

And certainly whether it is the question of criteria and mobilizing other donors, I think everybody wants to see how we leverage the funds. Whether the funds are donated in the IADB, and are there some who have problems with the IADB or whatever language we ultimately include in the bill, we must ensure that the funds are leveraged. We can leverage, but I have a real problem.

And lastly, I love your comment about the MCA. The problem is that was rejected by the International Relations Committee and by the Administration from going ahead and accelerating it so that more Latin American countries—the reality is, which is one of our frustrations here, we thought MCA would be a real opportunity and MCA ended up for the hemisphere for the most part, certainly the beginning and even in other respects, not being able to accomplish very much for Latin America and our effort to accelerate that was rejected. So it might have been a good idea, but you know it is not flying anywhere.

So in view of all of that reality, it seems to me that our only opportunity to focus on the hemisphere, to, yes, enhance our trading abilities with countries and to enhance that part of trade just simply we will not deal with. If anyone comes before the Committee and tells me that trade alone is going to achieve the course of events of what we need in Latin America, I don't care if they have a Ph.D. Or what they have, it is not going to happen because so

far it has not happened. And so we need to match our trade, which should be very vigorous and as broad as possible, but at the same time the resources to understand that whether it is that middle class that is frustrated or that 220 million people who are nowhere near the middle class or the belief that one thing is—the theory that these entities, as Ms. Graham said, work and there is that belief in Latin America.

But if the practical application of free markets and democracies in the average Latin American's life is that it is not working, even if in theory they believe that at the end of the day, that is a tremendous threat to instability in the hemisphere and instability to us as well. So I appreciate the comments and look forward to continuing to work with people to further refine it, but I don't believe this is about social engineering. I don't think it is about not leveraging, and I don't think it is not about at the same time ensuring that we don't find innovative or replicable ways in which we can meet some of these challenges.

Thank you, Mr. Chairman.

Mr. BALLENGER. Congresswoman Harris.

Mrs. HARRIS. Thank you so much for your testimony. It was incredibly enlightening, particularly since you have been so engaged in this arena and to the people. Everyone here is very passionate about Latin America and the Caribbean. I think what I would like in the future, and maybe not here, if you could take a look at Representative Menendez's bill and say not what is wrong with it, but if it were yours how would you tweak it. All we care about is how we can best help Latin America.

And one of the earlier questions was how can we best help Latin America and one of the earlier questions was how can we best help Latin America politically, but I don't think that that is the issue because I think if we help them economically, that is going to be the most extraordinary thing we can do in terms of support politically. And then as far—and the reason I think economics is so important is when the Chicago boys came into Chile, they didn't start out with a plan and say educate and then we will figure out the economy. They figured out the economic agenda and then that drove that strong social development side. In order to accomplish it, they would have to educate and have to deal with the health care and some of the private property rights, whatever it were, to deal with it.

So after MCA I was immensely frustrated because I was very engaged. I thought that was going to be the answer and it may be the answer for Africa, but Africa has other things. And Latin America has other initiatives too, but I would love to have something, as Representative Menendez said, that we knew wasn't going to be drained. They are our neighbors in the Western Hemisphere. We share families and cultures and histories with them. But if that is not good enough because they are not getting the economic benefits—and it is absolutely critical in this hemisphere that that occur. I came back and I really wanted to create a Latin America MCA. I think Representative Menendez has gone much farther and put so much effort in this over the years, and through his efforts I really hope we can springboard from there.

And if you could help us. You know, you talk about the matches and all the different issues that you think are critical and your concerns. But I think to the core, each one of us wants—what we want to have come out of here is something that is going to dramatically impact Latin America for the future, that is going to raise the standard of living, elevate people out of poverty, and there are many different social means to get there, but I think an economic plan helps to set the pace and then from there we can have the other items. We are committed to try to have something accomplished for the nations, and we hope you will help us achieve that. Thanks.

Mr. BALLENGER. Congressman Delahunt.

Mr. DELAHUNT. I want to associate myself with the remarks of Mr. Menendez. And what I have seen has been almost an exclusive reliance on trade by the Administration in terms of forging a Latin American policy. And again alluding to the observations of Mr. Menendez, the reality is that I don't really see a positive response coming from Latin America relative to regional, whether it be CAFTA or FTA or any sort of regional trade agreements, and I think we have to operate on the premise that the poll—and I presume, Ms. Graham, the same poll was used by a reporter writing in the *Wall Street Journal* on October 28 when it was stated in an opinion piece that just 18 percent of respondents want their economies more integrated with the U.S. Most prefer integration with other Latin American countries or Europe. That is the University of Miami Business School poll.

So while we can continue to talk about trade being an essential ingredient, if you will, in a policy that will improve stability and economic conditions within Latin America, I am not particularly hopeful and I don't know if any one of you see that as a near term reality. Any comment?

Ms. Graham.

Ms. GRAHAM. Could I respond to Congressman Delahunt and also to Congresswoman Harris' points because in a way the point is how much can fixing economies do and how much can trade do in terms of getting Latin America out of its current situation. For those of us who have been involved and followed the whole effort to implement market reforms in the region for over a decade, there has been a certain amount of frustration and disappointment because the region has made milestones in terms of getting its macroeconomics right. Most of these countries manage their macroeconomics as well as could be expected given the constraints, and what they are running up against is institutional constraints. Chile has done so well because it had preexisting institutions that were sound and strong in the tradition of investing and everything from safety nets to mother and child nutrition to education. Granted they have had to revamp that.

So you had a combination of dramatic economic reforms, a focus on free trade, but also sound institutions and investments on human capital. What many of the other countries have done is reform their macroeconomics and they started from a much lower base in terms of public institutions that function in terms of investments in human capital, and so they are running up against institutional and human capital constraints.



One of the things that surprised observers is that with the opening to free trade in the region, it wasn't this abundant unskilled labor that benefited from trade, it was the people with skills and university education. So they have benefited a lot compared to everybody else, and the average guy hasn't seen any great benefits from free trade. The track record across countries across time is that economic growth is essential to reducing poverty. Trade is an important engine of growth for developing countries and very much linked. But the problem isn't Latin America. All these other unresolved constraints which I think underlie the objectives of this fund, the fact that the region is so weak on the institutional, human capital front, high levels of inequality and high levels of poverty, means that it is much more difficult to get the benefits that it would otherwise get from free trade save that all these free trade agreements were in place.

Mr. DELAHUNT. I concur with your observations. But my point is in terms of United States policy vis-a-vis Latin America and from the lenses that I wear, an almost exclusive reliance on trade as the panacea. I don't see the political support for FTAA and other regional trade accords in Latin America, at least based upon the poll that was reported just within the past week.

Ms. GRAHAM. On the question of this poll and support for trade in Latin America, I concur with you completely that trade alone is not a sufficient policy and we haven't been graded fairly.

Mr. DELAHUNT. And that is why the Menendez proposal through social investment—by the way, to answer some of your questions, we are also working on another concept that would deal with governance, the issue of nurturing and strengthening democratic institutions, because clearly that is part of this piece. We are hoping to come forward with an idea that I refer to as a center for democracy, which would draw from all over the hemisphere. Clearly there are multiple ingredients. But just focusing on this one for a moment, earlier I think it was Mr. Cronin that talked about his frustration in seeing moneys drained from Latin America when someone came in. And I think Mr. Atwood also referred to it, that the truth is Latin America has become the orphan, the orphan in terms of support by the current as well as previous Administrations. And we are now finding ourselves at a moment in time where I believe that we are truly, and this is an overused term, at a crossroads where Latin America is particularly vulnerable. I think we are in a crisis. I think Latin America is in full-fledged crisis mode. I have said it so often, I don't even have to refer to my notes. The middle class disappeared in Argentina overnight. We know what is happening to Bolivia and Peru, Colombia, Venezuela, Brazil. In Brazil criminal syndicates have taken over the major cities.

So I guess what we are saying is this is a fund, and you referred earlier to symbolism and I think that is very important. I think we have got to get the message to those people in Latin America that we are back probably for the first time since the Alliance for Progress. We are back and we are engaged and we will treat you with respect and we don't have all the answers, but we understand that Latin America, this hemisphere has to be given a priority. I think the symbolic message that the Menendez proposal sends is

absolutely critical, because otherwise we are going to see government after government fall in Latin America.

Mr. BALLENGER. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman. I don't have much new to add. I just concur very strongly with Mr. Menendez in the Social Investment and Economic Development Fund for the Americas. I think it is pretty clear that we do know that there has been a lessening of attention given not only for aid but just engagement in general. I think it is a sad mistake. You mentioned—and one thing I think that is unhealthy is that when we tend to pit two regions of the world, both in serious need of assistance, like Africa and Latin America and South America, that you see the competition between those two areas sort of fighting for the crumbs that fall from the table rather than looking at the pie as it is on the table and try to distribute it more equitably rather than the crumbs that have to be battled over, as we see in the MCA suggested programs.

I think that it is very difficult to evaluate programs. You mentioned that a billion dollars have been spent in Senegal and they are now worse off. I am not so sure that that is a very good analogy. We have invested a lot of money in education in the United States of America. Don't you know that the test scores this year are less than they were 10 years ago? So I guess you would therefore conclude that the tens of billions of dollars invested in education in this country, if you use the same analogy, was wasted because the scores are less and therefore you could conclude that we are worse off. You might throw an analogy in that if things are worse in Senegal after a billion dollars, I wonder how it would have been if we didn't put the billion dollars in. It is the way you look at things.

The way I look at things, I don't try to impose my views on other people because I would have very few that would accept them. But I think we need to take a real look at equity. There has been a lack of equity, parity. There has been no parity. The only time we got very interested in Latin America is when we were fighting the Cold War and it was whether Contras or anti-Contras or trying to defeat the Communists, and that is fine. When that threat is gone, then we have no interest in an area.

Now it is terrorism and we are going to simply put money in where terrorist activities happen to be. If it happens to be in the Middle East, more or less, we don't look at Latin America as having extreme terrorism—terrorists that are going to attack the U.S. So therefore I guess Latin America will fall further behind because there is no imminent threat perceived by the majority of administrators.

In conclusion, I just think that we have not really done enough. Trade is not the panacea.

Mr. DELAHUNT. Would the gentleman yield? I think it is important, Mr. Payne was talking about analogies and I guess the one that comes to mind to me is that in the aftermath of the Soviet Union's departure from Afghanistan we walked away. We walked away. We made no effort whatsoever, and that is the reality that today, unfortunately and tragically, has brought us to another moment in our history where we are now expending in excess of \$1

billion a month in Afghanistan. And I wonder what would have happened if we had stayed and made an effort. I wonder if 9/11 would have happened. I don't know and I don't think anyone else knows the answer to that rhetorical question. But I think when we talk about the moneys that we are spending and what we are trying to do, clearly I think that Mr. Waller, your point about using these dollars effectively in a coherent way, as Mr. Cronin suggests and Ms. Graham suggests, makes sense and we want to do that, but if we just keep on talking we are going to find ourselves with an Iraq and an Afghanistan to ourself.

Mr. PAYNE. And I will conclude by saying that I think the points are certainly well taken where we have a priority, where we have to do things. We simply do it and make no bones about it. We did \$67 billion in March for the emergency in Afghanistan and Iraq, we did \$87 billion last week, \$154 billion this year. And in addition we had a \$360 billion budget, \$514 billion becomes a billion a week if we look at defense in one area and is something we have to do. I think we can do things that feel we have to do, but we never felt we had to do anything seriously in Latin America.

And if anyone wants to comment, I see some consternations or looks, or comment on my numbers. Thank you very much.

Mr. BALLENGER. Mr. Cronin.

Mr. CRONIN. I would like to address the resource issue because we agree that there are still not enough resources that we would essentially call development assistance resources. What has happened even under the increases in the Bush Administration, most of them have gone to health accounts in fighting the pandemic of HIV/AIDS, which we all would probably agree is an important issue as well. The big development assistance dollars that are on the table are mostly still proposed and they are in the form of this Millennium Challenge Corporation. If that were to come to fruition and if you were to put \$5 billion a year, fenced off from the security considerations because you are focusing on objective criteria of good governance, Latin American countries would do extraordinarily well, Africa would do very well also. So you would be adding the development tool and policy instrument using best practices on these countries. And so that is not what has had a chance.

If you are putting that aside and you want to go with this region by region, that is a different way to go. We are still trying to achieve the same thing and we are trying to achieve development assistance in an effective way for this region and other regions.

Mrs. HARRIS. I honestly agree. I wish in some ways—as Representative Menendez knows, we were disappointed in the way the criteria was set for the countries in terms of the wealth scenario because it wasn't just according to each nation, since there is such a gigantic disparity in Latin America that disqualifies so many nations, when it would have been so much better, we thought, if you could concentrate on some subregions.

I just wanted to go back to one of the comments you were discussing when you were talking about foreign assistance, and you said it was a patchwork quilt, that there really was no policy coherence and it is out of control. Was there any analysis when you left? Could CRS do an analysis? I guess my question is as we are moving forward with this—and it is not to replace MCA. MCA hasn't

had the chance to work. I think it will work well. I like all the things that are in place except for the criteria. But I think in terms of the assistance, the accountability, all those kinds of things are critical. But in moving forward, if you are looking at an overarching foreign assistance package to say this is the way it should be planned instead of so piecemeal—as it has been done for always—as opposed if there was some general principles that have been incorporated in MCA obviously, but that you really saw that if there were a systemic overhaul, I want to make sure that if this does move forward, something very positive for Latin America does move forward, that it is in the spirit. In other words, if the whole system were overhauled, we would be able to be dovetailed into that kind of mainstream that would have that consistency and have a coherence in the future.

Mr. CRONIN. Footnote on the eligibility. Nothing is done yet on the Millennium Challenge Account. So when you say it has been done, Representative Harris, that remains to be seen what will be done by the Congress. The Congress still has to speak, I believe, on authorization of appropriation. So it may be that in the appropriation. There is authorization that changes the eligibility. I don't know. I am no longer part of the Administration, so I can tell you frankly that there are those who are not opposed to seeing the eligibility expanded earlier.

On the issue of coherence, yes, obviously let us make the best we can of any short-term program decisions to make them as coherent as possible. I think in my statement I praised the work of Adolfo Franco and the other hard working members of the Latin American-Caribbean Bureau of USAID. They are looking at a fund that is of a similar notion. It could strengthen the ability of the bureau within USAID to work on principles similar to MCA and yet also to fund through a number of creative investments in health, education and other social areas, including micro finance and small business.

So there is a way to do this. But what we have been doing as a government, we have basically been patching along the system. The system has economic support funds. Those are largely our security funds. Those are going to war on terrorism and largely to support other political issues. State Department needs more of those because we are in a post-9/11 world and they need funds like that. But those are different from development assistance funds, different from the health funds that we need as well, that are much longer term instruments of our policy, and that is what the Millennium Challenge Corporation is trying to get a handle on.

Eventually I think this all should be merged very effectively, and that would take Congress reviewing and having a national dialogue, in the Foreign Assistance Act. That is ultimately where this Nation needs to go in the next months or years. In the short term, yes, a social investment fund could work, could work through USAID, could still be coordinated with State, USAID, and inter-agency. It could do some good. Would it send the same symbolic signal to have a \$5 billion a year Millennium Challenge Account? I don't know.

Mr. BALLENGER. Congressman Menendez.

Mr. MENENDEZ. Mr. Chairman, I don't want to belabor the point, but I don't want to let the record go without this clarification. You know, I support at the end of the day the MCA, but as it relates to Latin America when those participants are selected based on a Country's performance on 16 economic and political indicators divided into three clusters corresponding to the three different policy areas of economic governance, economic policy and investment in people, eligible countries have to score above the median on half of the indicators in each area. When you add that all together, the reality is that the only countries that would ultimately, at least under the present state of circumstances, have any possibility would be Bolivia, Honduras, Nicaragua in the 1st year, the same in the 2nd year, and in the 3rd year Belize. When you add all the indicators, if you want to just talk about income, yes, there are a couple of other countries that would be added to that list, but that is it.

So the reality is we can talk about a \$5 billion Millennium Challenge Account. The reality is that when it comes to Latin America, which is what Ms. Harris has pointed out as well, it just didn't cover Latin American countries and hence, I would have loved for that to have been a vehicle where we could have ultimately achieved this goal. It just simply is not there.

And I thank the Chair for the hearing and thank the gentleman for his courtesies.

Mr. BALLENGER. I would like to thank the three of you considering, first of all, that you had to let one individual go forward with you all having to sit here. But the truth of the matter is, as you can tell, we are kind of feeling our way around and trying to use your education and your knowledge to help us. We have a bill and I think it is pretty well aiming in the right direction, but what it is going to take, whatever little bit kind of change we can make to make it work obviously—then we have to have a bill and then we have to sell it to whoever happens to be the Administration. If I win, it will be up to me. If he wins, it will be up to him. You know as well as I do it is important. I have been involved in Central America for 35 years and we have not done a great deal of assistance there. We did pour money in during the great Cold War and I was not involved in that. These people deserve help and millions of them are actually coming to this country now because we are not being successful in the efforts that we are doing there. Somewhere along the line I think it would behoove us all to recognize that these people would rather stay home. And if all of a sudden we are going to make only legal aliens available here, it is very difficult to find a whole bunch of those where I live in North Carolina. We have a ton of illegals, so please don't send any Federal people to look because we need them if you don't mind.

Anyhow, let me thank you all for coming and I greatly appreciate your education to us. As you might gather, we are trying to get an education as to what we are doing. And we all have our opinions and working together in a bipartisan effort because we all think it is important to the future of our country to do something in Central America.

[Whereupon, at 3:55 p.m., the Subcommittee was adjourned.]

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