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Mr. Chairman, Members of the Committee, it gives me great pleasure to appear before the Senate Committee on Foreign Relations to discuss with you how USAID's Bureau for Latin America and the Caribbean (LAC) continues to promote the President's vision for the Western Hemisphere. The essence of President Bush's policy is that real, long term economic growth and political stability are only possible if governments consciously extend political power and economic opportunity to everyone, especially the very poor. In her January 18 confirmation hearing before the Senate Foreign Relations Committee, Secretary of State Condoleezza Rice stated that the Western Hemisphere is "extremely critical" to the United States. "With our close neighbors in Latin America we are working to realize the vision of a fully democratic hemisphere bound by common values and free trade."

The strong economic, cultural, and geographic ties between the United States and the countries of the Western Hemisphere make their political and economic stability of vital interest to the United States. Approximately 40% of imports for LAC countries come from the United States, 50% of the region's exports (\$217 billion) are purchased by the United States, and Latin America supplies more than one third of U.S. energy imports. In 2003, \$20 billion of U.S. private investment was made in the region, and according to the Inter-American Development Bank May 2004 report, an estimated \$30 billion in remittances were expected to flow to the region from the U.S. Still, the people of the LAC region suffer from huge income disparity compared to the rest of the world, and competitiveness lags behind other developing regions of the world.

The challenges remain formidable as it becomes obvious that many regional economies are not growing sufficiently fast to generate enough jobs to keep up with population growth, let alone address chronic poverty.

Mexico is the largest source country for unauthorized immigration to the United States, and of the six other countries with more than 100,000 unauthorized residents in the United States, five are in Latin America. As stated by President Bush in November 2004, "In this century, countries benefit from healthy, prosperous, confident partners. Weak and troubled nations export their ills – problems like economic instability and illegal immigration and crime and terrorism.... Healthy and prosperous nations export and import goods and services that help to stabilize regions."

The challenge ahead for the LAC region is to produce more sustainable, equitable growth, and develop diversified, broad-based economies if U.S. assistance is expected to make a substantial difference in reducing poverty. To this end, the United States can provide expanded opportunities that promote a peaceful and democratic hemisphere.

There is growing consensus that corruption is leading to a crisis for democracy in this region. Corruption is not only a consequence of weak governance, but is a barrier to economic development and growth of democratic and strong societies. The Center for Strategic and International Studies reported in 2003 that a corrupt or inefficient justice sector can slow economic development, undermine the strength and credibility of democratic institutions, and erode the social capital necessary for increased human wellbeing and the fulfillment of human potential.

Further, research by the World Bank shows that countries that effectively address corruption and improve the rule of law can increase their national incomes by four-fold over the long term, and child mortality can fall as much as 75%.

Both policymakers and the public are growing more aware that corruption has significantly increased. A 2003 survey by the World Economic Forum of business leaders in 102 countries found that seven of the ten countries with consistently high measures of political corruption are in Latin America. Growing awareness of corruption has

influenced the rhetoric of politicians, and many officials have won elections by promising to fight corruption. Similarly, civic organizations and the media are increasingly promoting transparency, lobbying for reforms, and informing citizens.

LAC countries have adopted a wide range of legal, accounting, and auditing procedures to combat corruption, and some are prosecuting corrupt public officials. The pervasive nature of high-level corruption across the region makes prosecution and punishment imperative.

In December 2003, former Nicaraguan President Arnoldo Alemán was sentenced to 20 years in prison for corruption. Accused of helping to divert nearly \$100 million of state funds into his party's election campaign and found guilty of money laundering, fraud, embezzlement, and electoral crimes. Alemán has been released from prison to serve his sentence in his home, where he continues to negotiate political deals that could result in reversing his conviction.

In January 2004, prosecutors in Guatemala initiated a formal investigation of embezzlement charges against former President Alfonso Portillo, as well as his vice president, finance minister, and three other top officials, who are now in jail. Former Costa Rican President Miguel Angel Rodriguez resigned as secretary general of the Organization of American States in October, 2004. This action followed allegations of corruption against Rodriguez who is presently under house arrest. And in Paraguay, six Supreme Court justices charged with corruption were impeached and replaced in 2004 and judges selected in an open and transparent process for the first time in Paraguayan history.

Just and effective legal systems increase government credibility amid its citizens and bolster support for democratic institutions. The 2004 United Nations Development Program Report on Democracy in Latin America drew attention to declining public faith in democracy due to persistent poverty and governments' inability to effectively deliver public services, including security. In addition, countries with more effective and equitable justice systems provide more stable and attractive investment environments by offering legal protections for investors.

Although LAC countries have made strides to adopt procedures to make criminal justice more transparent, efficient, and participatory, much remains to be done to fully implement these reforms and provide access to justice for all. Crime and organized gangs, fueled by a combination of population density and resource conflict, rapid urbanization (World Bank estimates that 58% of Latin Americans live in urban areas) and persistent income inequality, present a growing problem that places further stress on democratic institutions. A study by the Inter-American Development Bank notes that Latin America's per capita gross domestic product would be 25% higher today if the region had a crime rate similar to the rest of the world.

Free and fair elections have become the norm in the LAC region. However, Haiti's, fraudulent parliamentary elections in 2000 led to a protracted political impasse characterized by arbitrary and authoritarian rule, lawlessness, and violence. The impasse ended in 2004 with the resignation of President Aristide. To demonstrate commitment to advance and consolidate democracy, alleviate poverty and restore stability in Haiti, the donor community pledged more than \$1 billion in short-term assistance to the interim Government of Haiti. That available funds are being utilized at a significantly slower than envisioned rate is indicative of Haiti's weak public institutions, unskilled workforce and insecure working environment-hallmarks of a fragile state.

Despite bold efforts by Colombia, Bolivia, and Peru to combat narco-trafficking, the continuing lack of state presence and weak institutions in some areas allow illegal narcotics production and armed terrorist organizations to operate. Profits from narcotics offer large trafficking organizations the means to corrupt and undermine legitimate governments, and the lack of effective rule of law threatens business interests and puts citizens and Americans at risk.

Economic growth in LAC reached 5.5% in 2004 (according to a preliminary estimate by the Economic Commission for Latin America and the Caribbean), outperforming the most optimistic forecasts. With the exception of Haiti (where GDP fell 3.0%), every country in the region posted positive growth. This growth is a reflection of improved macroeconomic policies throughout the region, including fiscal consolidation and prudent monetary management. As a result, the countries in the region were able to reverse the trend where GDP has grown, on average, by a paltry 2.0% annually for the last nine years.

The region's macroeconomic performance is closely tied to the international economy. World economic activity increased in 2004 and global GDP is expected to grow just under 4.0% (up from 2.6% in 2003), while world trade is expected to grow more than 9.0%. This international environment, especially rising prices for oil, metals, and agricultural commodities, also boosted the terms of trade in LAC. In 2003 the region marked its first balance of payments surplus in 50 years, and posted a surplus again in 2004. Importantly, this surplus is not only a reflection of

high commodity prices, with export volumes rising an estimated 11 percent last year, but also improved terms of trade and migrant remittances, which rose 16.8% over 2003 levels.

Significant challenges remain, however, to lock in this higher rate of economic growth and reduce poverty. These include putting in place the microeconomic reforms needed to boost competitiveness and productivity growth. Nearly 128 million people (about 25% of the region's population) earn less than \$2 per day and 50 million people earn less than \$1 per day. The urban unemployment rate has hovered around 10% for the last several years. External debt for the region remains a concern; since the mid-1990s, external debt as a share of GDP has risen from a low of 35% in 1996 to 43.9% in 2003. Although the IMF estimates external debt fell to 38.4% in 2004 on the back of strong fiscal performances, this level of debt is still too high. This indicator was highest for Guyana (202%), Nicaragua (162%), Argentina (130%), and Belize (90%).

Spurred by a growing global demand for timber and paper, illegal and destructive logging remains one of the key threats to the world's oldest forests. Illegal logging destroys forest ecosystems and displaces the poor, robs governments and communities of needed revenues, and acts as a disincentive to sustainable forest management. Only 0.5% of all forests are under ecologically sound management, as certified by independent international certification bodies.

Inequalities in access to quality health services, especially for maternal and child health, present major obstacles to achieving overall health improvements as well as economic and social development in the LAC countries. HIV/AIDS prevalence is increasing across the LAC region, with significant increases noted between 2001 and 2003 in Belize, Honduras, Suriname, and Jamaica. The adult HIV/AIDS prevalence rate in the Caribbean is surpassed only by Sub-Saharan Africa, and AIDS has become the leading cause of death in the Caribbean for both men and women aged 15-24. More than two million people now live with HIV in LAC countries. In the past year, over 250,000 people were newly infected with HIV and well over 140,000 people died from AIDS in 2004.

The increase risk of transmission stems from social patterns of early sexual initiation and multiple partners, as well as stigma and discrimination, which keep the disease underground and discourage people from seeking testing and treatment. This poses a serious threat for the security and health of the United States, given the high mobility of LAC populations region-wide for employment, education, and tourism.

The quality of primary and secondary education in LAC countries is poor. In a recent study by the Organization for Economic Cooperation and Development of math and science skills among 15-year olds in 43 countries, the five participating LAC countries ranked among the lowest. The majority of students attends weak and under-funded schools, and fails to acquire basic skills in mathematics, language, and science. Educational systems lack adequate financing, which translates into poorly trained and motivated teachers and a shortage of materials.

Rural and poor populations, the majority in most LAC countries, face many obstacles – language barriers, long distances to schools, and poorly trained teachers – resulting in very high dropout rates. Fewer than 30% of students in the region complete secondary school, and many who do finish lack the skills to compete in the workplace, especially in an increasingly competitive global economy.

## **U.S. National Interests**

As outlined in the U.S. National Security Strategy of September 2002, and the joint State-USAID 2004-2009 Strategic Plan, USAID's overarching goal is to advance sustainable development and global interests.

In LAC, the four top strategic priorities are: 1) to advance democracy and human rights; 2) to increase economic prosperity and security; 3) to combat narcotics trafficking; and 4) to address social and environmental issues. These strategic priorities give paramount importance to the implementation of policies that address the key constraints to development.

## **USAID Operational Goals for the LAC Region**

USAID's challenge in the LAC region is to continue to assist with building a hemispheric community where all governments are not only democratic, but their people are truly free. Within this environment USAID continues to target its scarce development assistance resources mainly to those countries that are making the difficult decisions to help themselves. We want to help our partners to retool their economies to take advantage of the new trade opportunities, to strengthen their social and political institutions through greater investments in health and education,

and to encourage responsible policies and effective government.

The LAC Bureau determines strategic priorities for transformational development countries (all of the 16 USAID presence countries except Haiti and Colombia- both grouped as strategic states) according to their performance against Millennium Challenge Account (MCA) indicators that reflect effective governance, economic growth, and investment in people. In low income (MCA eligible) countries where there is political will and commitment to address the performance gaps, USAID's programs are designed to improve country performance to meet the MCA assistance criteria. Three countries from our own hemisphere were among the first 16 to be declared eligible for MCA assistance: Bolivia, Honduras, and Nicaragua. Two additional countries were recently selected as "MCA threshold countries" for FY2005, Guyana and Paraguay. These countries will receive USAID assistance aimed at helping them achieve full eligibility. In both the low and middle income countries, USAID is strengthening the skills of host country government institutions and local organizations to address MCA performance gaps and ensure sustainability of development progress, as well as addressing global and transnational issues such as HIV/AIDS, conservation of biological diversity and global climate change, trafficking in people, direct support for trade agreements, and counternarcotics.

In Haiti, a top hemispheric priority country, USAID's core program focuses on humanitarian assistance and support to the interim government in its efforts to re-establish political stability and improve economic performance, implement justice and police reform, and hold free and fair elections. To implement these activities, USAID is requesting additional resources from the planned Transition Initiative Appropriations account to fund the creation of short-term employment, environmentally sound agricultural production, improving access to micro-finance, primary education, justice, human rights protection, and civil society strengthening. The USAID program in Colombia, another Presidential priority country, is designed to attack narcotics trafficking. Other strategic program goals in the region include implementation of the Peru/Ecuador Peace Accords, bolstering security in the Caribbean and building international solidarity for human rights activists, especially strengthening the voice to Cuba's independent journalists.

In the Caribbean, USAID provides significant humanitarian assistance to countries recovering from several hurricanes and tropical storms which caused significant human suffering and economic loss in September 2004. Grenada, Haiti, and Jamaica were particularly hard hit. Following the disaster relief phase, the economic recovery program has drawn on lessons learned from post-Hurricane Mitch reconstruction efforts in Central America to implement community infrastructure rehabilitation and economic revitalization, including targeted assistance to particularly damaged economically important sectors, such as the tourism, agriculture, and fishing industries to create employment and revitalize economic growth.

## **Democracy and Governance**

Justice sector modernization remains the largest focus of USAID governance programs in the LAC region. USAID is advancing criminal justice reforms, strengthening judicial independence, expanding access to justice, and improving administration of justice. Criminal justice system reforms developed and enacted over the last decade are making an impact through improved access to courts; more transparent, efficient, and participatory processes; faster resolution of cases; and increased citizen confidence in the integrity of the process.

USAID has also made significant progress to provide alternative case resolution mechanisms, including the establishment of 61 mediation centers in eight countries. In addition, 61 community justice centers bring together a variety of justice-related institutions and services in a single location, often in areas where no access was previously available to justice. USAID plans to make operational 15 additional mediation centers and 15 additional justice centers by the end of 2006. These and other justice reform efforts will reduce the time to process cases in eight target countries by an additional 20% by the end of 2006 ( for Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and Peru). New efforts in justice reform will target crime prevention and commercial codes.

USAID's governance programs promote accountability and transparency in national and local government institutions, strengthen civic organizations to advocate for citizens' rights, and increase the skills of national and local governments to manage resources and provide services. We can see the results of electoral reform in Honduras, where for the first time in history, citizens were able to vote directly for representatives, rather than for a party slate. Anti-corruption programs, such as establishment of transparent management and recordkeeping systems or auditing agencies, improve citizen oversight and build local capacity to address issues of weak governance, entrenched political institutions, and poor public sector management.

USAID investments since 1990 have encouraged adoption of national-level integrated financial management systems by all USAID presence countries in LAC, bringing transparency to national budgets for the first time. USAID plays an active role in anti-corruption efforts. At the local level, technical assistance and training for municipal leaders improves coverage of basic public services and infrastructure, transparent financial administration, and public participation in decision-making.

USAID collaborates with U.S. Government agencies in planning and managing the biennial Global Forum against Corruption, and convenes the Donor Consultative Group for Latin America and the Caribbean. The Agency advises the State Department in the work of the committee of experts for the implementation mechanism of the Inter-American Convention Against Corruption by involving USAID missions and civil society in the review process.

## **Economic Prosperity and Security**

USAID is assisting LAC countries to enact legal, policy, and regulatory reforms that promote trade liberalization, hemispheric market integration, competitiveness, and investment. USAID was instrumental in providing technical assistance and public outreach in Central America and the Dominican Republic during negotiations for the U.S. - Central America Free Trade Agreement (CAFTA), which was signed by five countries in 2004. USAID continues to help countries meet new standards for rules of trade, such as customs and rules of origin, sanitary and phytosanitary measures (animal and plant health and food safety), and intellectual property rights. In addition, USAID assistance helps smaller economies benefit from a global trading system by addressing longer-term challenges, such as rural economic diversification and small and medium enterprise development and competitiveness.

Implementation of CAFTA will continue to be a major priority in 2006, along with increased efforts to negotiate other free trade agreements, including a U.S. - Andean Free Trade Agreement. USAID will continue to play a vital role with the United States Trade Representative and partners in the Andean region in trade negotiations with Colombia, Ecuador, and Peru. Our work related to CAFTA and in the Andean region is expanding as we partner with different governments, producers, associations, non-profit organizations, think tanks and especially corporations to promote an enlightened dialog about the role trade can play in stimulating economic growth.

USAID will continue to support development of regulatory frameworks and innovative approaches to widen and deepen financial intermediation in the small and microenterprise sector to give marginalized business people greater access to borrowing capital. USAID plans to train an additional 10,000 people across the region in trade-related areas in 2006. USAID is also supporting cutting edge efforts to increase the developmental impact of remittances, which were estimated at \$38 billion in 2003- more than all other development assistance combined.

## **Andean Counternarcotics**

Narcotics trafficking, guerrilla and paramilitary violence, human rights abuses, corruption, crime, and a lack of effective government presence in the coca-growing areas in the Andes pose a threat to democracy in the region. The Andean Counternarcotics Initiative has three goals: 1) disrupt the production and trafficking of illicit drugs in the Andean region; 2) strengthen law enforcement and judicial institutions that combat narco-trafficking; and 3) develop viable alternatives to illegal drug production. Working in partnership with the leadership in the Andean region, USAID's assistance has helped to expand state presence, strengthen democracy, create licit economic opportunities, improve social conditions, and provide assistance to internally displaced people. For example, in Peru from 1995 to 2001, the alternative development program contributed to a 75% reduction in the hectares under illicit coca. Today, the legal agricultural economy in the coca growing regions is larger than the coca economy.

In his remarks at an international donors' conference for Colombia held February 3-4, 2005, in Cartagena, Colombia, USAID Administrator Andrew Natsios noted the Government of Colombia's political will and commitment to coca eradication and asserted that the global community, by working together, can provide the appropriate types and levels of assistance Colombia needs to end the drug trade and strengthen "legitimate" state institutions in a manner that protects the rights and freedoms of its citizens. He added that the United States will continue to provide assistance on alternative development programs to expand opportunities for social, economic, and democratic progress by farmers "caught up in illicit drug cultivation." Social and Environmental Issues

USAID programs in the health sector are improving access to and quality of health services offered by both private and public sector care providers. USAID assistance has directly contributed to important advances in detection and cure rates for tuberculosis, significantly raised vaccination coverage rates, and helped reduce or eliminate major childhood illnesses, such as measles in LAC countries. While progress is being made to lower maternal mortality and apply proven, cost-effective methods to combat malaria and other contagious diseases, infection rates remain

unacceptably high.

In the LAC region, the HIV/AIDS epidemic is largely concentrated in high-risk populations. Under President Bush's Emergency Plan for AIDS Relief (PEPFAR), USAID assists in two focus countries (Guyana and Haiti), sub regional programs in the Caribbean and Central America, and 12 non-focus countries. These 12 "non-focus" programs are extremely important in combating the epidemic since they not only cover non-USAID presence countries (such as Costa Rica, Belize and nine Eastern Caribbean countries), and Panama, but they also engender economies of scale in cross-border initiatives. For example, the Central America program saves money by negotiating regional prices for media programs across Central America.

In addition, these programs ensure effective collaboration with and among regional bodies working to fight HIV/AIDS. In the Caribbean, for example, USAID helps support the Caribbean Epidemiology Centre in its HIV/AIDS surveillance activities, and PANCAP (Pan-Caribbean AIDS Program), which was the first regional program to receive a Global Fund grant. Regional programs are also effective at leveraging other donor resources. In the past two years the Guatemala-Central America Program has leveraged 7.6 million Euros from the Germans (KFW) and an \$8 million World Bank grant to complement USAID regional program efforts.

Across the LAC region, USAID activities have resulted in a significant decrease in risky behavior and an increase in protective behavior, a substantial increase in access to treatment and diagnosis, and a marked improvement in the quality of care and support available for people living with HIV/AIDS.

USAID education and training programs develop innovative and more effective service delivery models, many of which are being expanded by host governments and multilateral development banks. USAID programs support the following: improved testing and student assessment; development of school level report cards; management information systems to help Ministries of Education make targeted investments in low-performing schools; and greater parental and community involvement in education.

In direct response to the poor quality of primary and secondary educational structures in LAC countries, USAID will train an additional 5,500 teachers and administrators in 2005 and 2006 through the Centers of Excellence for Teacher Training (CETT), a Presidential Initiative to improve the quality of reading instruction in the 1st through 3rd grades. USAID also supports advancements in workforce training and higher education to help young adults prepare to enter the workforce.

USAID's environment programs protect the region's natural resource base and biodiversity, and reduce environmental hazards. As part of the Global Climate Change Initiative, USAID strives to improve land use and management of scarce biological resources, and promote the transfer and wider adoption of clean energy technologies. Through the Initiative Against Illegal Logging, USAID attempts to reverse the sale and export of illegally harvested timber products and assist countries to establish and strengthen enforcement of laws related to forest management, strengthen protected areas management, and promote good business practices, transparent markets, and legal trade. Under the Clean Energy Initiative in Mexico, USAID supports clean energy production and promote energy efficiency concepts to selected municipalities.

USAID is also continuing efforts to improve the management of water resources and accelerate access to clean water in support of the Water for the Poor Initiative. A regional strategy for biodiversity conservation in the countries comprising the Amazon Basin will improve the capacity of indigenous communities and local law enforcement agencies to protect the biodiversity of indigenous peoples' reserves. As part of the work USAID conducts in this sector, an additional 1.5 million hectares (bringing the total to 19.5 million) will be under improved management for biodiversity conservation and an additional 5.3 million hectares (for a total of 23.5 million hectares) will be under increased protection and sustainable management of forest ecosystems by the end of 2006.

## **Management Efficiency and Effectiveness**

To improve management efficiency and ensure that operating expense and staff allocations respond to priorities, the LAC Bureau has undertaken Mission Management Assessments in all 16 missions. These assessments have helped the Bureau streamline management support operations, focus program portfolios, reduce management units, identify efficiencies in procurement, and broaden the functions of its regional platforms throughout the region. The LAC Bureau continues to work on finalizing the regional services platforms for Central and South America. The bureau is defining core staff requirements (technical and management support) for small, medium, and full-sized missions, and redefining the roles of U.S. direct hire staff, as well as the missions' program delivery models.

The Program Assessment Rating Tool (PART), a component of the President's Management Agenda, focuses on assessing whether goals, indicators, and targets are in place and used to determine whether a program achieves results. The original assessment found that while strategic planning and performance evaluation were effective at the level of USAID's individual operating units (the 16 country programs), the LAC Bureau could not assess regional level progress due to the lack of regional performance measures and targets. To facilitate regional performance monitoring, the LAC Bureau in collaboration with the Office of Management and Budget undertook an extensive effort in 2004 to develop a set of contextual and regional indicators that would provide valuable performance information to managers in the field and in Washington. The Bureau's long-term goals are now supported by annual outcome and/or output-related regional performance measures which the Bureau will use to assess program progress.

## **Other Donors**

Official development assistance across the LAC region by all donors totaled just over \$5.2 billion in 2002 (latest available figures compiled by the OECD). Bilateral donors accounted for about 86% of this assistance and multilateral donors the remaining 14%. The largest multilateral donor is the European Commission, followed by the International Development Association and the Inter-American Development Bank.

The United States has been the largest bilateral donor since 2001, topping Japan, which was the largest donor for six years prior to 2001. U.S. assistance in 2002 totaled more than \$1.2 billion in grant funds, followed by Japan and Spain. Germany, the Netherlands, and the United Kingdom are also active donors in the region. According to OECD, nearly 60% of the assistance to the LAC region was geared toward social (health, education, water, housing, employment) infrastructure and services; approximately 14% was focused on economic (transportation, energy, and business development) infrastructure and services; and 12% on improved economic production (agriculture, industry, trade, and tourism).

Mr. Chairman, this concludes my statement. I welcome any questions that you and other Members of the Committee may have. Thank you.