

Testimony of Mark L. Schneider, Senior Vice President, International Crisis Group to the House Foreign Affairs Subcommittee on the Western Hemisphere on “Foreign Assistance in the Americas”

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I want to thank the Chairman of the Foreign Affairs Committee, Rep. Howard L. Berman, the Chairman of the Subcommittee on the Western Hemisphere, Rep. Eliot L. Engel, and the ranking members, Rep. Ileana Ros-Lehtinen and Rep. Dan Burton for the invitation to offer testimony this afternoon on “Foreign Assistance in the Americas”.

We meet today on this subject at a disturbing moment.

- In the past week we have seen two distinguished U.S. career ambassadors expelled from Bolivia and Venezuela. The U.S. responded in kind with respect to the Bolivian Ambassador to the U.S. and Venezuela already had recalled its Ambassador.
- The Treasury Department then designated two Venezuelan intelligence officers and the former Minister of Interior as cooperating with the FARC guerrillas in Colombia in their drug-trafficking.
- Russia has sent strategic bombers, escorted across the Atlantic by NATO fighters, to Venezuela, and four Russian naval ships are expected sometime in November.
- Finally, Bolivia’s president has ordered martial law in one department and clashes with protestors reportedly have cost the lives of some 20 to 30 persons. Internal and external mediation efforts have yet to produce a durable solution.

Hopefully these dark clouds will pass quickly and the countries of the region can return to the fundamental development challenges still facing the hemisphere—where U.S. foreign policy and foreign assistance can play a positive role.

- The Caribbean also has endured real storms. Four hurricanes have lashed Haiti in two months and that impoverished country’s chances to move beyond its fragility have become slimmer. The UN has put out an emergency call for \$100 million in immediate life-saving relief aid but to repair, rebuild and refurbish the economic infrastructure, schools, health clinics, make up for the lost harvests, replace irrigation systems and farm to market roads, a massive recovery and reconstruction plan is required and likely to cost closer to \$1 billion. A joint Haitian-international community task force should be working as soon as the waters recede to prepare the same post hurricane donors conference that followed Hurricane Mitch in Central America—and ideally should provide support for other hard-hit Caribbean countries as well.

The Committee promises a rewrite of the Foreign Assistance Act and the reform of U.S. foreign assistance. I commend the Committee for initiating these hearings to jump-start the planned reform of U.S. foreign assistance. I would like to comment first on the critical threats facing the region where U.S. foreign aid can help and then on the lessons

learned with respect to U.S. foreign aid in the region—some of which already have been incorporated into the Social Investment and Economic Development Fund legislation.

I went to Latin America first as a Peace Corps Volunteer in 1966 in El Salvador and worked on community infrastructure and social needs in an urban barrio for the anti-poverty office of then San Salvador Mayor Napoleon Duarte. It was a military-run country where multi-party elections were still only permitted at the local level. I saw poverty, repression and the courage of the people of that nation up close. In one way or another that experience has guided me as I have had the privilege of pursuing those issues as Congressional staff, at State, PAHO, USAID, Peace Corps and now the Crisis Group.

Among the broad challenges facing the countries of the region:

Threats to democracy: corruption and gaps in the rule of law: We have seen the end—hopefully forever—of the era of military dictatorships, some of which this country supported in reacting to the Cold War. Democratic partners are the best guarantors to advance our values, our interests and our security. Yet democracy and stability are under threat in a few countries, Venezuela particularly, but also Bolivia, even if the histories of how they have gotten to this point are very different.

To some degree, both result from the failures of governance. In Venezuela, too much corruption opened the door to the populist appeal of a former coup leader to win elections. In Bolivia, almost 500 years of exclusion and discrimination barred its indigenous majority from meaningful participation in national life.

In Latin America and the Caribbean, in the past decade, we have seen 14 elected Presidents who did not finish their term of office, some removed with only minimal legal trimmings. Key elements of democracy involving pluralism, checks and balances and separation of powers are no longer assumed essential in some countries. And political parties are failing the task of representation in too many countries.

We have not paid sufficient attention to issues of governance in our foreign assistance, in strengthening public administration, independent mechanisms of anti-corruption and the civil society organizations whose fundamental objective is to promote greater transparency in government. We need to do more bilaterally as well as with institutions like the IDB, the UN, the World Bank and the OAS, the latter specifically charged with the monitoring observation of the Inter-American Democratic Charter.

Despite the adoption of the Inter-American Convention Against Corruption in 1996 and follow-up mechanisms, in 2005, the Latinobarómetro, a hemisphere-wide poll, found that more than 68 percent of respondents believed that their public officials were corrupt, ranging from 41 percent in Uruguay to 82 percent in Ecuador.¹

¹ Corporación Latinobarómetro. *Informe Latinobarómetro 2005: Diez años de opinión pública, 176.554 entrevistas, 10 mediciones en 18 países*. Santiago, Chile. 2005; p.28.

Related to the issue of corruption is the sense of impunity that convinces many in the region that the elites in their countries fail to pay their taxes, fail to treat their employees with dignity, receive favored access to contracts and pay their way out of any brush with the law. The belief that those with power have impunity from the fair enforcement of the law undercuts the democratic ethos. It violates the social contract. A few years ago, a poll found that 66 percent of Latin Americans stated that they had little to no confidence in their judicial system.²

Response: Strengthening the rule of law has to be a high priority concern of anyone interested in political stability, in sustaining economic reform policies and in strengthening social cohesion. It also is critical to addressing underlying causes of conflict in many of the countries of the region. There is a need for more competent police, an impartial judiciary and access to justice for the poor.

We have not been well organized to provide that kind of integrated assistance in countries before conflict occurs and even less able in the aftermath of conflict. Nor have we managed to bring the IFI's on board fully when it comes to helping countries invest in police, in criminal justice reform or in prison construction and correction services. Democracy, stability and economic development require a functioning, fair and independent criminal justice system.

A second challenge is to expand growth and reduce continuing high levels of Inequity and Exclusion:

The economies in the region have shown steady growth, averaging 5.3% since 2003, far below Asia's 9%. (GDP per capita is still down around 3%.) The *Economic Survey of Latin America and the Caribbean 2007-2008*, released in August by the Economic Commission on Latin America and the Caribbean (ECLAC) shows growth dropping to 4.7% this year, and 4.0% next year. Of the 20 countries surveyed, 16 show declining growth and eight see their GDP drop 2% to 4% since 2007.

Poverty rates still are over 36% and extreme poverty is just below 15%, according to ECLCA, better than 5 years ago but still not good. Those numbers translate to 194 million people living on less than \$2/day and 69 million living on less than \$1/day. That means that under democracies today, more people are living in poverty and extreme poverty than under military regimes in 1980. Part of the reason for some of the earlier drop in poverty rates were income transfers from relatives in the U.S.—remittances estimated by the IDB at \$45 billion in 2007. But this year, 25% fewer individuals are planning to send money this year as a result of U.S. economic woes.

On the equity side, we can see virtually no change with respect to income disparity. Latin America remains the most unequal region of the developing world. The CIA World Book has 11 of the 18 worst countries in income inequality measured by the Gini coefficient coming from Latin America. UNDP and CEPAL report that the top 10 percent on average capture 48% of national income, the bottom 10 percent 1.6%. Recalling

² Ibid, p. 24.

Bolivia, the richest 10% receive 70% of that country's income and the bottom 40% share barely 10% of national income.

A linked phenomenon to the challenge of reducing poverty and inequity is the growing realization that indigenous peoples and Afro-Latin-Americans still are discriminated against on a daily basis. The World Bank study found indigenous men earning 65 percent less than white in seven countries with the highest numbers of indigenous among its population. Indigenous women also have the least access to potable water, education and employment in the hemisphere.

Response: There are three areas of action where foreign aid reform in the region can make a major attack on inequity and exclusion; expanding help for rural development and small farmers, expanding quality education and encouraging tax reform. Support for these activities in the FY2009 budget request of \$2 billion in military and economic aid for the region was less than \$100 million.

It is in the rural areas where there can be the greatest direct impact on both growth and poverty reduction through investing in physical infrastructure, income generating opportunities, and social services. The World Bank Development report on agriculture this past year and the earlier "Beyond the City" report spotlighted the drag of rural poverty on national economies. With food prices rising, the benefit of stimulating food production among poor rural farms is self-evident.

Yet in the FY2009 U.S. foreign assistance request, the amount sought for support of agriculture in the region was only \$47 million, apart from alternative development funding in four countries. That failure goes back through several administrations in terms of the tendency to disregard the importance of reducing rural poverty and supporting small farmer agriculture.

Much is known on how foreign assistance can help address rural poverty reduction and small farmer agricultural production:

- Support ways to expand access of the rural poor to land through land markets, land funds and what Brazil calls "land market-assisted land reform", through expropriation of unproductive land, or through a land tax mechanism that encourages making more land available to small farmers;
- Help provide secure title to the land that the poor own enabling them to acquire working capital for their farming and micro and small loans for off-farm activities;
- Invest substantially more in micro and small credit facilities. In 1999, USAID was financing credit for close to 1 million microentrepreneurs and the IDB, World Bank and others another 1 million—and the need was for 50 million;
- Invest in human capital formation—in schools, health, nutrition—and in social capital; cooperatives and joint ventures, small and medium businesses to create formal sector employment and increase funding for labor rights enforcement;

- Invest in technology and rural infrastructure—so that rural roads, electricity, water and sewers and information technology actually reach the rural poor.

In the 1930's, this country, as part of the “New Deal” made a massive investment in rural infrastructure. The same needs to happen in Latin America.

The next Summit of the Americas should launch a Rural Development Task Force of the Americas partnering USAID with other bilateral aid organizations such as CIDA and the EU but even more important with the Inter-American Foundation, UN International Fund for Development, IICA, the IDB and the World Bank to finance a major assault on rural poverty. Part of that investment could expand significantly the resources available in the Social Investment and Economic Development Fund.

Let me also just add arguments as to why these actions are in the U.S. national interest. The flow of illegal migration from Central America and Mexico originates in the poorest rural communities of those countries. Coca cultivation takes place in the poorest regions of the Andean ridge countries. Those are the same regions where the FARC and the illegal armed groups have found a home in the past—and today. They also are the regions where the indigenous reside.

Two final suggestions for foreign aid to help reduce inequity and exclusion. The first is access to quality education. In the \$2 billion budget request for FY2009, \$48.7 million was proposed for education. Yet, education – especially girls’ education -- remains one of the most cost effective investments in human capital and in the future of the region. We need to do more.

The second is ensuring that there are adequate tax revenues available to the state to actually fund some of these needs and to do it in a way that promotes greater equity. As an example, despite all of the commitments that have been made over time, in Guatemala, tax revenues still represent barely 10% of GDP and not surprisingly the capacity of the state to offer education, health, or reach the rural population with basic infrastructure is limited. Tax administration and tax reform have not been among U.S. foreign assistance priorities in recent years.

A third challenge to development involves crime and drugs: Mexico has sent 25,000 military troops and federal police to its northern border and other centers of drug trafficking to fight the well-armed cartels. This year the pace of drug-related killings could produce a 50% increase over the 2,500 deaths recorded last year. The threat to Mexican states is very real as its territory has become the jumping off point to carry the bulk of Colombian cocaine into the U.S.

Plan Colombia has helped strengthen the capacity of the Colombian state to defend itself against the FARC and the ELN, to reduce the presence of paramilitary forces and to extend the presence of the state, but the counterdrug objectives have not been achieved. Coca cultivation remains as high today in Colombia as at the start of Plan Colombia. As much or more cocaine is being produced in the Andean ridge countries and is being

transported to the U.S., to Europe and to increasing consumer markets in Latin American countries as well. In the process, transit countries are targets of corruption and violence.

Last Thursday, the White House Office of National Drug Control Policy (ONDCP) reported 2007 production of coca leaf in Colombia had skied to 167,000 hectares, which together with Peru and Bolivia, take the Andean Ridge total to more than 230,000 hectares, a 20-year high. Colombian coca cultivation, according to U.S. government estimates, has risen every one of the past four years (113,850 hectares in 2003, 114,100 in 2004, 144,000 in 2005, 157,200 in 2006 and 167,000 hectares in 2007).

Colombia remains the producer of about 90% of the cocaine coming into the U.S. and total cocaine coming out of the Andes to all markets remains at least 1000 metric tons. ONDCP director John Walters and other U.S. officials stated six months ago that total cocaine trafficked out of the region last year rose to some 1400 metric tons. Last week, ONDCP announced that it is calculating differently the estimated cocaine production in Colombia so that cocaine production, despite the high cultivation mark, was estimated at 535 metric tons in Colombia in 2007. While that lower figure is disputed by other parts of the U.S. government, it still represents 100 metric tons of cocaine higher in Colombia than in 2004. And the region as a whole was estimated to produce more cocaine than in 2001.

One other thing to note is that the Colombia drug flow remains in the hands of the FARC, of some un-demobilized paramilitary, of new illegal armed groups and of “pure” drug traffickers. There were 12 departments where coca was grown in 1999 and after the hugely expanded spraying effort, coca is cultivated today in 23 of 34 departments.

The wholesale value just of the 535-600 metric tons coming out of Colombia is an estimated \$12 billion. When it gets to the 38 hub metropolitan areas in the U.S. now primarily through the Mexican cartels who now control U.S. distribution, the value reaches an estimated \$60 to \$90 billion.

Response: There needs to be fundamental modifications in the counter-drug strategy to do a better job of reducing the production and trafficking of cocaine into the U.S. and the continued threat of an organized criminal network that reaches from the Andes to corrupt government officials across the Caribbean and Central America, producing near wartime conflict along our southern border. This past spring Crisis Group published two reports, the first defining the extent of the threat and the second offering clear recommendations for change. [Latin American Drugs I: Losing the Fight](#), Latin America Report N°25, 14 March 2008. [Latin American Drugs II: Improving Policy and Reducing Harm](#), Latin America Report N°26, 14 March 2008

Current policies with respect to demand reduction are not working, a dangerous development since so long as there is steady demand for cocaine, somehow, somewhere, ways will be found to satisfy that demand. In source countries for coca cultivation and cocaine production, and transit countries, institutions will be tainted with corruption and lives will be lost.

The primary actions taken domestically by the U.S. to reduce demand are incarceration of users and traffickers, criminal law enforcement and interdiction that add up to over \$20 billion. Education, prevention and treatment programs are barely 25% of that total.

There should be a fundamental shift away from a one-size-fits-all approach to criminal incarceration, whether they are recreational users, chronic users, old/young or traffickers. The U.S. looks at the problem of demand reduction largely as a crime problem. If chronic users were seen through a public health prism, and traffickers as criminals, there would be a far different and we believe more effective policy and perhaps also do a better law enforcement job in breaking the traffickers. We believe that there has to be a high level review by the next Administration and Congress with a hoped for end being far greater priority and greater resources to:

- expand drug education and prevention programs at high schools and develop high impact programs targeting cocaine users.
- increase the number of drug courts, which provide non-penal sanctions for users and seek to induce treatment but there are only 2000 nationally and there are 1.6 million drug-related arrests.
- establish more in-prison and transition programs for drug detainee users, juvenile referral facilities and community-based follow-up programs.
- engage European and other authorities more on drug prevention, treatment, rehabilitation and law enforcement.
- make using cocaine as a recreational drug unacceptable, as stigmatized as driving when drinking or smoking. There must be a dedicated effort to bring role models into the fight against cocaine because its effects in Latin America, in the streets of the US and increasingly in Europe as well.

Nor are policies on supply reduction working. Here the reports find that an eradication first strategy that pays for helicopters and small planes to spray chemicals on coca plants has not produced net reduction in cultivation. It also has serious negative consequences. It alienates communities and farmers, those who grow coca and those who do not--from the government of Colombia and the government of the U.S. Too often, it kills food crops next to the coca plants, and coffee plants over the coca plants. While the long-term health consequences are in dispute, the issue is used politically against both Colombia and the U.S.

We urge a refocus on supply reduction efforts by:

- increasing massively the alternative and rural investment in infrastructure and governance, institution-strengthening, and economic options under Plan Colombia and the Andean Counter-Drug Initiative (ACI)—and by the countries themselves. The U.S. Congress began that process in the FY2008 appropriation bill;
- changing the Colombia coca crop eradication use of aerial spraying to a last resort with manual eradication tied to immediately available economic incentives for farmers and emphasizing much more, community-based eradication, as in Peru;
- reinstating Drug Enforcement Administration (DEA) helicopter interdiction operations in Haiti based on the successful 2007 pilot operation;

- focusing more interdiction efforts closer to, and on, U.S. borders, particularly the Mexican, where the loss of cocaine is costlier and not as easily replaced by traffickers as in the source countries;
- establishing stronger cooperation and information exchange with EU and Latin American law enforcement/counter-drug agencies to improve interdiction and the dismantling trafficking organizations;
- increasing the focus of the Mérida Initiative on strengthening institutional and law enforcement capabilities in Mexico and Central America, with a priority on addressing corruption.

A fourth challenge is to manage foreign aid resources more effectively, drawing on a variety of lessons.

- **First, there has to be ownership by the country rather than the donor and by the communities which ultimately are program beneficiaries.** Programs that are built with the full range of society, business, NGO's civil society and government, deciding on goals and strategy then foreign assistance are more likely to succeed. The Social Investment and Economic Development Fund, introduced initially by Senator Menendez when he served in this body, and now with a bi-partisan list of sponsors in both Senate and House, led here by you Mr. Chairman and your ranking minority member, Mr. Burton, has that characteristic.
- **Second, we can't do very much alone.** There are a whole range of other donors, bilateral and multilateral, and we need to develop shared plans to help countries carry out their development strategy. We also need, particularly in this region, to allow more funds to go through the budgets of other countries---but then to hold them accountable.
- **Third, we need to make our aid programs more predictable** and that means longer term commitments, like the 10-year commitment built into the Social Investment and Economic Development Fund. A similar 10-year period to use **conditional cash transfers** to poor families where the only condition is that the children go to school and vaccinated might be pursued with the IDB and World. We have seen those bank-supported programs work in Brazil with *Bolsa Familia*, *Oportunidades* in Mexico, *Path* in Jamaica and *Families in Action* in Colombia. If economic growth slows, revenues decline, and the cash transfer programs are cut, expect devastating social and political consequences.
- **Fourth, we should eliminate tied aid** because of its high cost and because it means less efficient use of aid for poverty reduction and long-term development. In these times of rising food prices, for food aid we used more cash to make purchases in the poor countries of the region, seeking out small farmers, we could have a double bang, as it were—helping poor urban consumers by also supporting poor campesinos. If we are successful in helping those countries prosper, their markets will grow and our exporters will wind up with far greater opportunities.
- **Fifth, there is a need to reduce the red-tape and eliminate the jerry-rigged bureaucratic creations** that now spread management of development funds over 20 different government agencies. For example, the FY2008 Consolidated appropriations bill for FY2008, including foreign operations funding, was signed

into law on December 17, 2007 but was not finally allocated to USAID country missions until August, largely because of delays in the “F” bureau in State. In the case of some transfers from a bureau in State to USAID or to Justice—to enable USAID to fund human rights programs and Justice to support Colombia’s Attorney General, allocations to USAID had not been made as of last Friday. Streamlining the flow of funds from Congress to a single development agency would remove that problem. So too would having sufficient development professionals within USAID to avoid near total reliance on contractors.

Finally, we need more resources for development and to have the right overall strategy. Overall, military and economic aid in the FY2009 request for the region is about 30% more than it was eight years ago. Much of that increase is on the military side. Unfortunately, Administration development assistance (DA) requests where most of the funds would come from to finance the programs I believe are needed to address the region’s challenges, have dropped steadily since 2001 and by 26% from FY 2006 to FY 2008. Also, while the Millennium Challenge Account provides much of the increase on the non-military side—with some welcome innovations in encouraging the right policy framework—compacts now cover only three countries, or 4% of Latin America’s population. PEPFAR, the Administration’s program to against HIV/AIDS, another source of international cooperation funding, and unquestionably its most important achievement of the Administration internationally, focuses in the Americas only on Guyana and Haiti. Much more is needed as a variety of bi-partisan review groups, the HELP Commission, the Modernizing Foreign Assistance Network, and Interaction all have argued.

There also is a need to re-think whether it is a good idea for the Department of Defense to be responsible for more than 20% of overall foreign assistance globally—even where the projects and programs are clearly for civilians, and no security issues exist. U.S. armed forces have enormous capabilities, but they are not trained to do development. Diverting them to that purpose is neither efficient from the standpoint of spending defense dollars nor desirable from the standpoint of achieving development results.

Secretary of Defense Robert Gates has argued that “One of the most important lessons of the wars in Iraq and Afghanistan is that military success is not sufficient to win: economic development, institution-building and the rule of law, promoting internal reconciliation, good governance, providing basic services to the people, training and equipping indigenous military and police forces, strategic communications, and more – these, along with security, are essential ingredients for long-term success.” He noted that because of the absence of civilian agencies, the military stepped into the void, concluding, “But it is no replacement for the real thing – civilian involvement and expertise.”

That is why many are arguing that the United States desperately needs a new national development assistance strategy and that the only way to ensure sufficient resources to implement it effectively is to have a single management structure, ideally a cabinet-level

Department of Development that incorporates long-term development, conflict prevention and response and humanitarian action.

As Secretary Gates has noted, USAID has been gutted over the decades and needs to be rebuilt with sufficient personnel to carry out a national development strategy and the programs to implement that strategy. There were 15,000 USAID full-time workers in the 1960's, there are barely 3000 today. In certain narrow and time-limited ventures—the most insecure parts of Iraq and Afghanistan—improved and civilian staffed provincial reconstruction teams (PRTs) led by the military may be necessary. However, a doctrine is needed to define when they are required, to ensure their activities fit within the host country's development plan, to establish benchmarks for their transition to civilian-led teams with DOD support and ultimately their entire replacement by USAID. That doctrine and those benchmarks have yet to be developed. What is absolutely clear is that there is no need for those kinds of ventures in Latin America and the Caribbean.