

“Foreign Assistance in the Americas”
Testimony for the House Committee on Foreign Affairs
Subcommittee on the Western Hemisphere
Senator Robert Menendez
September 16, 2008

Chairman Engel, Congressman Burton, and distinguished members of the committee, I am pleased to be able to testify before this subcommittee, a subcommittee that I had the honor of serving as the Ranking Member. I especially appreciate the opportunity to discuss U.S. foreign assistance in the Americas.

First, I want to lay out the key issues which compel us to invest more in our hemisphere. Issues like immigration, gangs, narcotics, the spread of disease, biodiversity and environmental protection, global warming, and making sure that terrorism does not take root in our own front yard. These efforts are all connected and they are all geared towards developing a stable community of sovereign nations with a larger middle class - a middle class with an appetite for U.S. goods and services.

I want to structure my remarks around three areas: 1) why foreign assistance in the Americas is important, 2) why it is not an easy task, and 3) how we can do it better.

First, while Latin America and the Caribbean have seen positive aggregate economic growth in the last several years, poverty, inequality, and lack of opportunity remain widespread. Given the limited time today, I want to focus a few comments around inequality. I know that this committee doesn't need to be reminded, but sometimes it is good to emphasize that chronic and structural inequality is alive and well in the 21st century, and in particular in the Western Hemisphere. The 2008 World Development Indicators compiled by the World Bank states that the richest 20 percent in Latin America receive 57 percent of the total income, while the poorest receive less than 3 percent. This makes Latin America one of the single most unequal regions in the world, along with Sub Saharan Africa.¹ A January 2008 World Bank report states that inequality “extends to every aspect of life, from the distribution of income and assets to access to education and health services, and political voice and influence.”²

When we talk about addressing inequality, let me say what we are *not* talking about. We are *not* using a “buzz word” from the past, and it's *not* “old thinking” about “liberal” or “leftist” ideas. It's not about stealing from the rich and giving to the poor - and it's not about trying to prop up antiquated economic models that don't work. It's about everybody paying their fair share, and everybody sharing in fair pay.

Most importantly, inequality is a destabilizing force, not just in Latin America, but throughout the world. So, it is both in the national interests of the United States and in the national security interests of the United States to address anything that is a destabilizing force in the world.

¹ World Development Indicators 2008 Fact Sheet

² World Bank Policy Research Working Paper 4487

Market-based economies and democratic societies, and the opportunities that those systems bring, are the best hope for the region's future - when those systems are functioning well. Our collective challenge is that we need to make these systems work – they aren't perfect, they don't work right away and they certainly don't work “out of the box” – they need to be glued together very carefully. And the glue that will hold them together over the long term, are the political and economic institutions in the region.

This is where our assistance comes in. Institution-building is at the core of foreign assistance. It's hard to measure, and we don't see changes right away, but it's really what we're trying to do when we help get kids into schools, get teachers into schools, help ministries of health provide basic services, and help ensure that those services are reaching the most vulnerable. When we build a work force, bring in civil society, stabilize an investment climate, and increase participation in a political process, we are building institutions.

Why is this difficult? There are several reasons. First, our overall engagement outside of our borders has been anywhere from controversial to disastrous. Our lack of active engagement in the region has also put us in a difficult position, as evidenced by the events of the last week. With respect to foreign assistance, we have some specific challenges that I want to outline.

In the 2009 budget request for the region, the President requested a \$37 million dollar *decrease* in the core development accounts from what was spent in 2008. More importantly, our government's ability to effectively manage and implement foreign assistance programs has been in decline for decades. As the Chairman of the Foreign Assistance subcommittee, I am working to build up our ability to do this, and I look forward to working closely with Chairman Berman and members of this committee to build us back up not just to where we *used* to be, but to where we *need* to be. USAID's staff is stretched too thin and their programs are getting pulled in too many directions. Without strong leadership and a clear vision, and highly capable staff to *carry-out* that vision, we risk a formulaic application of off-the-shelf ideas. Well, as we all know, in this business, formulas don't always give you the results you expect, and sometimes, ideas were shelved for a reason.

Some have pointed to the increases in remittances and private investment as a justification for decreases in development resources. However, remittances, and private investment are *not* institution-building and they are not a replacement for well-targeted, smart investments in systems of justice, health or education.

In 2004 we saw the arrival of the Millennium Challenge Corporation (MCC). The MCC currently has three Compacts and three Threshold Programs in six countries in the region. The MCC is a good example of the challenge of trying to engage under a different set of rules. It was never meant to replace other assistance. Unfortunately, this has not always been the case. To its credit, the MCC has been successful in attracting the attention and participation of governments. This is positive. It has opened up the process to more local

participation and more participation by government officials whose countries have qualified through a more transparent set of indicators. While the actual results are still a few years away - and I intend to study these results carefully - the manner in which the MCC has been able to engage host-country participation is something the development community can learn from. It is by no means the model, but it is one of several models that the U.S. needs to look to as part of our toolkit.

Last year, the Administration proposed what it calls the “Merida Initiative.” I travelled to Mexico last fall with Senate Majority Leader Harry Reid and others to explore ways our countries might work better together. The Merida Initiative was one of the topics at hand and I have stayed heavily engaged ever since.

First, I believe a more systematic engagement with Mexico and Central America, in a wide range of areas, is long overdue. I believe some aspects of the Merida Initiative are a very good start. However, I have tempered expectations that the Merida Initiative is going to result in a measurable reduction in the drugs that enter the U.S. – something that I believe is better addressed by balancing demand and supply reduction. As members of this committee know, the demand for drugs in the U.S. and the supply of weapons from the U.S. have fueled illicit activities and violence in the region for a long time, and they’re not going to go away in just three years.

In terms of strategy, I believe the institution-building components of the Merida initiative will have the best long-term benefits. I question whether or not we have struck the right balance between long-term institution-building and short-term military interventions. I understand the justification for use of the military, but I am concerned about human rights, and I am concerned about using the military to do the job of the police. I have worked with State Department to get more clarity on the metrics for success. In other words, after 3 years, what measurements are we going to use to know if this investment was worthwhile. We have made some progress, but this is going to require constant attention.

So, how can we do this better? First of all, governments can’t do this alone. We need to continue to expand the people with whom we coordinate – both in civil society and in the private and philanthropic sectors. We should also think more about regional solutions to regional problems. The hemisphere is brimming with talented people who understand how to build institutions. We need to take better advantage of this talent and broaden our partnerships.

One example of something worth studying is the Balkan Trust for Democracy, which seeks to build civic participation among the grass roots—the nexus between citizens and their government—to strengthen democratic institutions. The Trust is a 10-year, \$30 million initiative that seeks to bring together the strengths of the public, private and non-profit sectors for the benefit of people in developing countries. It has received contributions from a wide range of donors including, foundations, governments from the region, and the United States. It is managed in the region by highly capable people from the region.

However, we need to recognize that the more actors that get involved, the more the management and oversight will need to be shared as well. As long as the programs stand-up to rigorous scrutiny and we can show that this is a worthwhile investment for the U.S. taxpayer, we will need to be willing to share both the responsibility and the success – the essence of a true partnership.

One of *my* efforts, along with Senator Martinez, is the *Social Investment and Economic Development for the Americas Act (S.2120)*. This bill has 13 co-sponsors, both Republicans and Democrats, and it was reported favorably out of the Senate Foreign Relations Committee in June of this year. The bill provides \$2.5 billion over 10 years for social and economic development in Latin America using both the U.S. Agency for International Development (USAID) and the Inter-American Development Bank. The goals include nurturing public-private partnerships and microenterprise development, reducing the time and cost of starting a business, increasing access to credit, improving the investment climate, strengthening rule of law, and reducing poverty. The approach is to multiply the impact of U.S. investment through the creation of a matching fund for the private sector and member countries of the Bank. The bill requires a 10 percent contribution from the recipient country to allow them to take ownership the projects. Also, the Bill implements a rigorous evaluation and oversight system through impact assessments and an advisory committee to review all projects. This effort will help expand the middle class in the region. This will pay dividends back to the U.S. by creating more customers for U.S. goods, and will provide a foundation for long-term economic and political stability in the hemisphere.

I support efforts to increase our foreign assistance to the hemisphere. However, let me be clear, neither my bill nor additional resources are going to fix everything - foreign assistance has its limits. But, we have not yet approached this limit. More resources, and better-spent resources, combined with active diplomatic and economic engagement will help build the institutions that will create more stable political, social, and economic systems. Only once we recognize that the success of those systems is deeply connected to the success of our own, will we begin to adequately address the joint challenges that threaten our national security, our economy, our way of life. Thank you again for having me here today and I look forward to continuing to work together on these vital issues.

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