

**HUDSON INSTITUTE**  
**CENTER FOR LATIN AMERICAN STUDIES**

**TRANSPARENCY IN GOVERNMENTS, BUSINESS,  
AND FOREIGN AID TO LATIN AMERICA**

**WITH**  
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**MONDAY, MAY 5, 2008**  
**9:00 – 10:30 A.M.**

*Transcript by*  
*Federal News Service*  
*Washington, D.C.*

JAIIME DAREMBLUM: I'm very pleased to welcome you to our discussion this morning on Transparency in Governments, Business, and Foreign Aid to Latin America. I guess most of you are too young to recall or have witnessed the controversies in the '70s and '80s surrounding foreign aid – U.S. foreign aid in several countries in Latin America and other continents. And I'm sure that you don't recall the scandal that was reflected in the media for illegal payoffs that American companies were doing abroad to get certain favors. And with the democratic surge in Latin America during the '80s and '90s, there was the hope that transparency and accountability were going to be improved as a result of that new phenomena, of that surge of democracy.

However, corruption still looms very much on the horizon for countries – (unintelligible) – dramatic questions on the future of healthy economic growth in our region. Of course, there is the phenomenon of radical populism and everything that goes with it, so we have a very good menu to analyze this morning and we have – we're fortunate to have three outstanding experts. One of them hopefully will arrive before the end of the event, but my esteemed colleague Carol Adelman, who is as intelligent and talented to examine and to analyze foreign aid and international philanthropy as she used to analyzing Shakespeare, which is a real plus.

My old friend, Adolfo Franco, who's a senior advisor in the McCain campaign, he's an expert in Latin America and for many years he actually was the administrator of –

ADOLFO FRANCO: Too many years.

MR. DAREMBLUM: Too many years. He went here. He comes from that. For U.S. aid for Latin America.

Daniel Kaufmann is the leading expert on governance on the topic of corruption at the World Bank. We hope that he will be here shortly.

In the meantime, I'm going to ask Carol Adelman to make her presentation. The rules of the game are very simple. All of our speakers will make a short presentation and then save your questions for later on, and then we open up the floor for hopefully a healthy and robust discussion. Without any further introductions, I turn the microphone to Carol.

CAROL ADELMAN: Thank you, Jaime, and welcome everyone. I'm delighted to be here. And my – as Jaime said, my experience and expertise is in foreign aid and now global philanthropy. And what you have in front of you is really hot off to press. It's the latest Index of Global Philanthropy, which has all of the latest – the data on all the latest numbers of 2006. And that's just a little present for you because we just got it from the printers.

I want to say a few things about it today, but the purpose of today's discussion is not the global philanthropy and I'm not a Latin American expert, so I'm honored to be with the two here. And although I have indeed traveled to Latin America and been involved with aid programs and certainly read a lot about – I know Latin America. But what I thought I'd just do today very briefly is just to do a little backdrop on what I think some of the important trends are in the developing world and in the developed world, foreign aid and philanthropy, remittances, private investment play a role in that because I think that has a lot to tell us about what we should be thinking about doing and how we should be thinking about the issue of transparency in government aid and in corporate and business aid or business relations and investments.

And so I put on – we've got – this is on. And I'm going to just – I'm not going to go through our entire presentation here, but I'm going to just go through the changes that have been so dramatic over the last 20 years, which all of you know about, maybe even probably the most dramatic in Latin America, but we're seeing these same changes in Africa as well and certainly Asia. And that is just the increase in open markets and open societies, which indeed has brought in more investment and has increased the amount of investment. Democracy has increased, which has then fostered more players in civil society. It's – even in some of your poorest African countries, you still are – you have a thriving civil sector and you're creating power centers outside of governments, so which is beginning to challenge governments, which is beginning to play their own roles, which is groups that are beginning to have influence in society and including press and other media, which can be watchdogs on governments as well.

Then second is a growth in private philanthropy, remittances, and local charities; again, bringing more players into the scene and bringing more money outside of governments into the entire financial flows in developing countries.

And then the third is the expanded knowledge and demand through technology. And I think this, to me, has been the most exciting trend to watch. And we talk about that a lot in this index. Just the rise in cell phones, the rise in internet, and how the instant – that knowledge is just flowing from developed countries to developing in instants. We say that when the tsunami came, over 25 percent of the aid that went to Asians after the tsunami went through the internet. And I laugh because those of us in AID, and I know that Adolfo was there for – he served his time for six years – (laughs) – I was there for even longer – to move money quickly in AID, even after an emergency, meant you had to write a contract, an RFP, and then you had a PIOT and you had about 40 other acronyms. And it would be – you'd be lucky if from the conception of the idea to the movement of the first good or service took shorter than six months. And here all of assistance is being transformed. People can – there's an organization here [GlobalGiving.com](http://GlobalGiving.com) that was started by a disgruntled raw bank employee looking at the high overheads of World Bank loans and the corruption and the lack of effectiveness.

And you now can go on there and choose your country and go to – say you want to give aid to Madam Muanza (ph) in Nigeria. You have a giving card and you can

choose her – you're going to support her organic eggs that she's growing in Nigeria. You can give her \$10. Then you can move on to Asia and you add that to your giving card. And you check out at the end just like you're shopping online at target. And all you're paying for that donation is 10 percent, whereas the normal overheads in government contracts are 100 percent.

So we're doing a lot of analysis on that as well, but anyway it's just that knowledge demand to technology, the revolution that people are calling the cell phone, actually the industrial revolution of the developing world just because it's now bringing – money is being transferred immediately. It is actually helping bring poor people into the financial services sector, now that credit card companies are hooking up with phone companies. And Wells Fargo, Western Union are now expanding their services to bring financial services support.

So these are all new areas that have really just developed in the last five to 10 years. And they're the backdrop to what we're talking about today, to the issues of corruption. And then this is just a second – the only second slide I'm going to show you is this sort of the kind of the new miracle underpinning of what I was – of these trends. And there's probably other trends too that I'll be interested in your thoughts on what else you think is going into the changes. But this is a chart that to me kind of says it all. And the top line – I don't even know what color that is. I guess is kind of a gold. The top line is the combination of private capital flows, private investments from companies, and private philanthropy. So that is – and this is from all developed countries to the developing world. And I've – we've taken it back to 1990 and it runs through 2006. So you can see the variations in that when we had various recessions and the Asian financial crises. You see the fluctuation in that.

Then the dark line, which is sort of a – looks like a black line, is remittances. And you see how steady they are and how they're rising and moving up. And you can see how in the year 2000 they have now exceeded all official development assistance, which is the line below them. Since about 2000, they were actually above them even earlier as well.

So if you take both private investment and philanthropy and remittances together, that is 78 percent of all financial flows that are going into the developing world are private. And less than 25 percent are government. So it's a very different world from the 1950s and '60s, when we were mainly concerned – primarily with government corruption – and we still are because this is where – I was looking through the Transparency International global corruption barometer and I just printed out a couple of pages, but the institutions that are cited as the most corrupt in these surveys are usually the ones in the government: the police, the judiciary branch, and sad to see the health services as well sighted highly as people feeling that there is a high degree a corruption in them as well.

So – but there's a whole world of other financial resources out there that is driving the economies of these countries and is a whole new area that we need to be thinking about in terms of corruption and what we do about it.

Now, what we highlight in our index and what we talk a lot about here is then what are some of these private groups that are either investing in countries or NGOs that are starting up philanthropies, where there is – lots of moneys is passing through lots of hands. What are they doing about corruption? And there's a lot of – and I would love Adolfo and Jaime and for those of you who're on the table to talk to us whether you think some of these things are working.

One of the projects we highlight in this year's index is a Merck project that – they have been supporting the Ethics Resource Center, which is an organization that's been in business since 1920 looking at both ethics in the private sector and government. And Merck decided, hey, this is important to us to have businesses on a level playing field. It's important to have clear rules and standards. So they've supported, I think, four or five that have developed throughout the world. One of them is in Colombia. And I'd just be interested to see if you think that's working and – from those of you that probably know about it. And other other efforts going on that are coming out of NGOs or the private sector that you think are doing a good job. And is that an answer or one answer or whatever?

And then the other thing I wanted to mention was the foundations and charities now. Now that so much more is going on through the internet and through charities that are a little more transparent than government aid, it seems so very hard to find out what's going on with government aid projects. Have any of you ever tried? I tried once to find out how much of the – the money that AID was spending on tuberculosis was going for pharmaceuticals and how much was going to expensive consultants. Never got an answer and it was only later that two congressmen actually held hearings on it and could get the answer. And then actually that resulted in a – there's a whole – Jerry, what's the name of the act that passed –

MR. : Accountability and Transparency Act.

MS. ADELMAN: Yes, so it led these – congressmen, senators actually, put into a legislation that just passed. In effect Barack Obama – Senator Obama cosponsored it as well – where all government contracts and the breakout of how much goes to consultants and how much goes to products, how much do we think is actually going to get to that country has to be posted. And that's actually up online now and it needs a little bit of – it's a little hard to decipher, but that's okay. We're grading on a curve – (laughs) – because the government put it up, but at least it's a start.

So that – there is a lot of a new giving materials, it's easier to find. You can go online and find a charity's 990 and find out who's donating to them. Who they are getting their money from?

On internet giving, for example Global Giving, you can go – Madam Muanza has to send in a picture of her chicken farm every month. And you can see what's happening. And anybody that goes to that farm where she lives can report on the internet and say,

“well, I’ve just saw Madam Muanza driving away in a BMW yesterday with dead chickens in her yard.” So there is a possibility for more transparency with the new ways that foreign aid is being delivered. And I think this is very exciting.

Hi, Danny, welcome. We just started talking without you.

And then finally, I’ll just say a few words about remittances. We have in our index on our of the pages – and these are a lot of unpublished papers, which always make me nervous, but – and you’ll probably find a million problems with them, but on page 63 in the index, we have a piece on capitalism, remittances, and democracy by one of our former interns, who’s now a Ph.D. candidate. And he’s really making the case that remittances are really going to help democracy because they’re bringing transparent practices. They are creating income for opposition parties. They’re bringing income into areas that might previously have had more government resources or resources from those who were in charge. So he’s making the case and there’re some very interesting papers in there that that is indeed helping democracy as well.

So I think I will stop there because that’s about as far as my Latin American expertise goes, but just hopefully that could provide a little bit of what I think is a whole new landscape out there than what we – how we have traditionally looked at the problems of corruption.

MR. DAREMBLUM: Very good, very good, thanks.

We’re going to go now with Don Adolfo.

MR. FRANCO: Okay, thank you very much, Jaime, and thanks for the opportunity to be here.

And I’m so glad that Carol went first because she really outlined for you, I think, some of the exciting changes that are happening in the world of technology, communication, and openness that I’d like to comment in a few minutes. But preparing for this today, it’s a broad topic and I don’t know – I know a lot about Hudson over the years, but I know your forward thinking – many of you certainly that are with Hudson are familiar with it – the idea is to talk about the future. But of course, you can’t talk about the future unless you know where you’ve been. And I’d like to spend just a few minutes and hopefully we can open up for conversation again because I have a sense here – I know some of you are very interested about USAID’s programs – and I say USAID, I’m more familiar with it, although I’m familiar with some other government programs from my years in government. And prior to being at AID, I had oversight over the foreign assistance programs on Capitol Hill, which are a little more broad, so I – a broad mandate than just the Latin America Bureau. But that is primarily what I know.

And I’d also like to talk a little bit about the agency and where it’s going and where it’s been if I can. So I’d like to break it up in two or three things and then certainly

open it up after we finish our presentations with your indulgence, and try to answer your questions. We hopefully have some good dialogue.

But about the region specifically, those of you that are more interested in Latin America – and I think you all know this. I was glancing at our glass here, full in half, half empty, when you talk about Latin American, just sort of depends how you look at it and from what prism and what timeframe in fact.

I don't want to sound like my father, but 1980 sounds like just yesterday to me and when you look at where the region was in 1980 and where it is today, one can make an argument that we've certainly come a long way, and Carol's talked about some of this. Really almost 25-30 years ago, which is not that long ago, the region was one of largely dictatorships, authoritarian governments of one way or the other, democracies with a small d, and I include Mexico in that category in 1980. When you look at the region today, even with the challenges that I'll just speak about in a moment, you see the remarkable progress that Latin Americans have made. And it's really been a remarkable road, not just on paper democracy, but participatory democracy. The types of transitions that we've seen, the free elections in countries like Paraguay, for example, would be unthinkable 20 years ago.

So when you look at that as a model and you also look, certainly the last decade included of the 1980s, when you look at overall income data and you look at the growth of some of these economies – a kind of economy like Peru – you see remarkable growth far greater than our growth in the United States, so – in percentages. So when you look at this chart and you look at some of the data, since Carol's making reference to indices and other studies, one can say the region looks pretty good. And I was a victim of that, making arguments over the years for budgets for our region, when it's compared to Sub-Saharan Africa or some other places in the world where that growth just has not been there.

Behind those numbers, though, and behind the democratic progress that's been made, when one pierces that veil a bit, first on the issue of income, our region – Latin America – is the most skewed in terms of income distribution in the world, and I include Africa in that. A country like Brazil, of course, the largest economy, as you all know, in the region, over 50 million people make a dollar or two a day, depending on the statistics you look at today. So the income distribution in a country that is – many of you would think would be joined one of the G-8, one of the future powers of the world, you have tens of millions of people in dire poverty. And the same holds true for all of the northern part of South America, Central America, and Mexico.

Opportunities for education and advancement; social, economic, and racial barriers rival any place in the world, education being an employment fact, something that President Bush tried very hard through initiatives of teacher training and reaching primary school children in a way they've never reached before, is something that's been really largely relegated to elites, again skewing what is the reality of the region.

Democracy, as you talk about transparency in the government, has often been – yes a vote, but not the fulfillment of democracy. And that is the expectation that people have that goods and service – not giveaways, but that government actually produced – be a fair playing field. One could be a participant, be transparent in budgeting, be open about systems, just has not been what we have expected, although great gains have been made on a case-by-case basis. We can talk about different countries, but they're not there. Which means, when you look at the landscape, going back at the half glass – the glass being half-full or half empty, you see some of the progress, but there's still a great deal more that needs to be done.

Now, the situation today, as we all know, politically in the region and the challenges that we face have been the exploitation, in my judgement, of that glass being half-empty. And that is expectations that have been creating largely by Latin Americans, sometimes by us, with the promise of rapid change, democracy, better economic increase, better economic opportunities meaning jobs and opportunities come about by free trade agreements, liberalized approaches to the economic systems in these countries, have not produced the rapid change that people expect; that is, an overnight change, which of course never was in the cards, but expectations were created.

And more importantly, then, the issue of trade, which we strongly – and I am strongly supporting and continue to promote, explaining that there will be transitions, adjustments, and that even the full benefits, the partial benefits of trade, of free liberalized trade regime will come over a long period of time, not a short period of time. That of course has been exploited by demagogues and others that would seek to turn the clock back in the region often though touching a nerve, I think, and a legitimate complaint of those that have been marginalized and not full participants in the system.

So I don't fault the people who feel what they feel. I just believe they've been given a populous message, one of returning to really authoritarianism, closed markets, and in the long run fewer opportunities.

Now, this has been compounded by the fact, now that I'm out of government that I can say what I – freely speak about this – the fact that our country has been understandably preoccupied with other regions of the world. So our ability to engage in the region – that doesn't mean necessarily with money, but partly is resources – but that engagement has waned. And this is despite the president who comes from a border region, understands it, and has an affinity for Latin America. The attention, the, I think, necessary investments the United States needs to make in the region, both in terms of development and certain diplomacy and promotion of our interests have not been what they should be. That has been a compounding factor.

Now, many of the – and I'm taking away too much time here – but many of the discussions have been well if the aid were just better managed, the assistance or trade, not aid, all the clichés, we can certainly get a bigger bank for the dollar, the situation would be much better. And I think there's a lot of truth to that and Carol certainly is an expert in that.

Let me although address to facets. We use this word and I like to word “good governance.” I never really liked anticorruption very much. It assumes everybody in Latin America is corrupt. So I always liked the idea of good governance and I think Latin Americans, since I’m one of them, are the first to recognize that and I will touch on the ethics issues and the other things you mentioned, Carol, here and philanthropy in a moment. There is a recognition that the systems, because they’re very different, the systems of course in Latin America are largely based on a system that was not similar to that that was established in the United States in Canada, but a different European model that is very much an executive at the top and things in a sense trickle down. That we needed to change that paradigm or they would because it’s important of that be that investment that grassroots organizations, municipal governments, others more participatory efforts be undertaken in the region to assure everyone who had a voice or at least knew what was going on. I think we’ve done a great deal on that area.

Culturally I think that is difficult and is also a question of resources. We try very hard in our bureau to promote this idea of municipal, local development. And it’s a great idea. But most of these municipalities have few resources. It’s great to be transparent, but at the end of the day, the resources are going to be necessary to have the infrastructure, the service, and the things that basically are needed for citizens or for the – citizens of these countries to really have a stake and a belief in democracy. And that was always a challenge.

So with that transparency, it was always the question resource and marshalling those resources or having those resources redistributed from the top down posed an enormous challenge.

The other issue has to do with our own management of the assistance. And Carol touched on this when she mentioned about contracts and how we go about delivering assistance.

Now, let me just say this upfront. I don’t think the American people should be held responsible for the development of Latin America. I think Latin Americans themselves shoulder that responsibility. But we are a rich country. We have a responsibility. We have, as the president recently announced when he announced an initiative for \$700 million more in food aid last week, we’re a generous country that has an obligation and a responsibility to help those countries that are less fortunate and in development. We have a national interest and a self – I think – self-enlightened interest certainly in our region to make sure that the neighborhood is stable and prosper for a host of really domestic as well – in the case of Latin America – as well as international interests. So we have an obligation to do a better job of deliveries. But I did take a copy of this. I don’t know if you’ve seen this. This is the security – (unintelligible) – and it shows – you can all see this – it shows the different development programs and accounts the United States government manages.

I'd like to just pass this around. It reminds me of – I don't think if you've taken Northwest Airlines. In the back, it shows their routes, where they fly. And I was looking – I'm a map guy. I like to look at it. But you really can never make heads or tails, just a bunch of lines come together near Detroit and other places where they've their hubs. And when you look at this – and I want to pass this around – this is no joke. Most of development assistance is clogged up – it's just the use of the word and I did look up some things before I came here. I thought how long did it take me to actually get something done when I said it was a priority and actually distribute is – the money out to the field on an urgent basis. On an average, that took 248 days. So from the moment we had a concept that we needed to get something done, it took – that's pretty close to a year to get the money out and distribute it. So the systems that we have talk about transparency and efficiency in delivery, we need to start looking at some of the internal mechanisms in the United States government and actually who manages the money and how it's managed.

So I'm not suggesting that there is a corruption problem here, but there is a problem of efficiencies of the money being largely wasted, tied up on a lot of bureaucratic red tape. Carol mentioned contractors. The statistics – I know you're in the Help Commission – the vast majority of the contractors that actually carry out the programs, not USAID officials, are based in the Washington, D.C., area and they account, I think, for 80 percent or some staggering amount of the resources that are managed by AID. Now, these are honorable people and good people. I'm sure some of you in the room in this way. But at some juncture here, we need to – at some point here, we need to analyze how we are delivering services. How we're actually creating impact? As the president said, I think it's his own – the reason I think it was a mistake, frankly, to create another agency – I'm not really prone to create other government agency. When created the Millennium Challenge Account, he created it because there was a lack of faith that the mechanisms, largely not the people, but the mechanisms that USAID could deliver assistance in an effective manner.

Now, if that's a message that we're sending to the governments that we're trying to help reform, we can't get our own house and orders in terms of efficiencies and transparency, we have a tall order. On that score, I just want to end with two things and we can talk about specific countries and challenge. We had Haiti, Colombia, and a couple of countries where we had significant different – but different challenges, but quite significant in terms of transparency delivery of assistance.

But one place I will say to end on a bright note, talking about the delivery assistance and transparency, is Mexico, a country that has changed very, very dramatically in the last 10 years and has instituted the civil service reform, has instituted a system of openness in terms of hiring in government, attacked issues of cronyism, has done it largely through the mechanisms that Carol has mentioned, which had been communications, internet, openness, which has made that possible. A level of transparency, if you will, that really rivals our own country in terms of civil service protection and analysis of government expenditures.

So there are opportunities to move forward. I think we've been in many ways blessed with the technology revolution as a means to get information out. With that comes the responsibility that people have more access to information, and therefore have greater expectations than they've ever had. So with that comes that additional responsibility.

My last point, since you mentioned that of philanthropy and ethics, these are challenging things in the region. Colombia is a country and Chile a country where we made a lot of progress in instilling the idea of social corporate responsibility, the idea of having others shoulder the responsibility, that this isn't just a handout. This is working with government. I have a friend here from Nicaragua that did the same thing with Agora, bringing business and government together.

I think the largest challenge for us in the long term is that, again, those money are well managed because traditionally in the region, unlike the United States, the responsibilities for these things have generally been perceived as those of the public sector, not the private sector. So changing that mentality more than anything else – the mentality of a state, the mentality that you are a participant in society and you have to do more than just obey the laws or do the work you do, that you also have to contribute. With that – I think to make that ultimately a success, I think the public sector needs to take the lead and demonstrate that it has its house and order for people to begin to understand that they are confident that they can partner with government, and certainly then themselves have a responsibility to shoulder some of the development of their own society.

So with that, Jaime, I've overstated –

MR. DAREMBLUM: Thank you, Adolfo. It has been very enlightening.

And now we have Dr. Kaufmann that we thought was missing in action – yes Carol –

MS. ADELMAN: Jaime, could I just make one immediate comment?

MR. DAREMBLUM: Yes, of course.

MS. ADELMAN: Do you mind, Danny if I –

DANIEL KAUFMANN: No go ahead, I need to put the –

MS. ADELMAN: You need to prepare, okay. This is so good because this is always a topic of discussion and this is such a wonderful chart. And on the (Help ?) Commission, which was a commission appointed by Congress that I served on, a bipartisan commission, everybody talked a lot about the importance of coordinating our U.S. government aid and all the agencies involved. And I think – and that's why I put

this – can you put my chart back up for just a minute – just a second, then we'll get this on. And this is also in the index as well.

This chart shows our total U.S. economic engagement with the developing world. And if you see, the U.S. official development assistance is actually, for the U.S. is very tiny. It's 12 percent, whereas private philanthropy is 18 percent. Remittances is 37 percent. And U.S. private capital – (off mike) – 32 percent. So that what it means is that all of this jungle right here – (laughs) – this jungle is actually really only 12 percent of our financial flows or economic engagement with the developing world.

So in many ways, when I see this chart, and I've had this discussion with Leo, it's really, you know, who cares. And we do care because we want to see the most – we want to see our government aid used efficiently and going the right way. But our recommendation that we ended up in the Help Commission, or at least that I pushed through there with a few other commissioners, was I think what this tells us and what our numbers show us up there is that there is a role for government aid, but it's a role that should be blended with all the private things that are going on out there. The government aid dollars should never be the only dollar on the table unless it's in emergencies or extreme national security cases.

The default position of foreign aid should be that that government dollar, which is now a minority shareholder, and that's throughout the world because the figure for European donors and other donors is not too difference. They are just 12 percent. There is this 25 percent is government aid and 75 percent is private. And that way, your government aid is passing a kind of market test. It's going in with projects that have passed the only market test that I know of in foreign assistance, and that is if you can raise private money and private volunteer time for your project, you have passed the market test because I know I personally won't give to a charity here that I think is not doing a good job or is corrupt and I'd follow it if I'm going to give my own personal dollar to it.

So I think that is a great hope for the future of government. And it's already happening quite frankly in most, even with some of the European countries as well. But thank you for showing this chart. It's such a good one.

MR. DAREMBLUM: Very good. Are you –

MR. KAUFMANN: (Off mike.) Anyway, these days we're all prisoners of PowerPoint and technology. I will only show some very quickly for illustrating some of the points. But first I want to apologize for being late. It is one thing which is more uncertain than urgent things that come up at work. These are urgent things that come up in kid's schools and transportation related, so sorry for that. There was no question I wasn't going to make it. The only question was when.

So without further ado, why don't we start with this, which I think illustrates what was just being said. At some level, it is certainly the case that in recent years there has been a pick up in Latin America and that's been good news.

Yes, it's pretty good. Yes and it's important also to look at the longer term. You would look at that – just for starters what does happen with per capita growth. And I've picked up two countries. And for full disclosure, I'm from Chile, so I'd like show Chile, but we will put Chile also in perspective, so. And we tend to always think that in Chile we have reached Nirvana. El Salvador is a good example of another reformist country, particularly the past decade or so. So we see a lot of flatness in the earlier historical period, but then we see the pick up particularly in Chile. But once we take our Latin Americanist hat off and start looking at the rest of the world a little bit, well first we can look at Costa Rica, another reformist country that has done okay and in Latin America has done rather well. But the ones we leave Latin America and we got to some other parts of the world, and we all know about the great success case of South Korea, it's quite sobering to see where we are in Latin America.

But even South Korea pales in comparison with another country that sometimes we do not stress enough and we do not look at enough. But now in Chile we're looking at and this is the country that we have now in front of us. That's Ireland. For those of you – I'm not fully conversant in Spanish, apologies, this is from Spanish sites, from my recent presentation, but it seems it's mostly graphs what I'm going to show. Don't worry. And I want to go relatively quickly anyway for the sake of the discussion.

Now, it is the case that obviously there've been some very significant reforms over the past decade in Latin America. Those are not across the board, but they concentrate in some countries more than others, and if I had the time, I would show some graphs about trade policy and other factors. They have been mentioned here.

However, there are two major challenges that I'd like to suggest upfront. One is the challenge that we tend to generalize, and there's always this notion that we should generalize across continents. I was recently at a couple of conferences related to Africa. It's the same problem. So it's not Latin America specifically. And it's also the way the way our organizations are structured. It's by region. So we tend to generalize across Latin America, when the reality is that there's enormous variation within a region, so generalizations basically miss much of that richness.

And this begins to illustrate, which is a second part, and is the challenge of institutions and of governance, and we see that it's enormous in some countries, while others have made progress. This comes from one of our efforts which is a worldwide governance indicator which I'm not going to spend much time during the presentation, but there may be questions later. It's not without fault. There's no way of perfectly measuring governance, and there are a number of efforts, and some have been shown already, but this is at least to give a broad brush picture.

And the color coding a la traffic light reflects basically in which group a country is. And we see both in fact in Africa and in Latin America is that the full spectrum is there in terms of quality of governance. In this case, it's rule of law – (foreign phrase) – but we can do it also for corruption control, and others where we'd see a similar picture, the whole spectrum from green to red. So it begins to put starkly on the table the notion of how careful we need to be in generalizing. This is corruption control. Here we have zoomed into just the Americas. If it looks to you like a cut and paste from the web, it is. Everything is in the web. All of that is fully accessible, and you can zoom and look at any country or region of particular interest in this major database of governance that dates back to the mid-'90s, so one can also trace countries over time.

As a way of summarizing the data, I just picked quickly three of the six indicators. In this aggregate indicator database, there are six major indicators, all the disaggregate area too, but out of them, three are shown here. Voice and democratic accountability which was discussed, which is the lightest on the left in each case, and then rule of law, the black, and right is control of corruption. And essentially, we see basically the challenge that they use for Latin America being rather below, very much below the Asian Tigers, which is in the far left, and even the Caribbean are ahead.

I'm not showing these either for sake of time, but another interesting phenomena is that if we look at the Eastern European countries in transition, and particularly those that got access to EU, so they're the new European countries, effectively over a period of a dozen years, they leapfrogged over us in Latin America in terms of the quality of (judiciary ?) and governance, which basically says two things, that changes can take place in the relatively short term. This is not an area of three or four generations, and of course, it took a particular set of historical events for that to happen, but it is important to recognize that in some countries in the world, and even within Latin America with particular countries, there have been changes, and that can happen.

And here we see in fact a little bit of that sense that changes can take place. If we look at our data set over the period from '98 to 2006, just eight years, which for institutional change it's a millisecond in some sense, one sees that there is a group of countries, and I've not shown them all, but just to illustrate, one can distinguish between the meaningful changes and the very small and not significant changes yet, at least. Those are the yellows which are the middle area, but in the green area – this is around the world. It's not just in Latin America. But if we look at corruption control in cases of Colombia and El Salvador there's non-trivial change for the better, but not so in some countries on the red zone.

The good news is that changes for the better have taken place and some in Latin America. The (sobering ?) news is that for every change in the right direction, there's more or less a matching change in the opposite direction, and that is what gives the sobering picture that on average, there has not been a major change. That applies also on average for Latin America and for some other continents, but that's why it's so important to unbundled and look at the countries specifically rather than generalizing, because it's very easy to be a fatalist and say nothing has happened in Latin America, and if you look

at the numbers on average, it's more or less the same that it used to be when what's really happened is an enormous variation, differences in legal shaping the reform and so on.

We see that here – I'll skip it just for a second. This also looks like cut and paste from the web. And if one wants the full information about a particular country, and you can choose which periods to compare, we see the movement which is in El Salvador. In this case the comparator is essentially the income comparator within Latin America and they're doing better. Costa Rica in this case is across time some improvements, some not so, but overall, it's in the better zone in between light yellow and green.

Then we get to the issue of transparency which is part of your objective today with a different set of indicators which is more preliminary, but again, there's variation and there are challenges within Latin America, as we see here. And I think it's very important to distinguish different types of transparency. One can measure many different elements, and we and others are trying to do that. And it is interesting to see that there's an increasing recognition of a difference between economic and financial transparency, where there's been some significant progress, and that's thanks to much improved microeconomic management.

If one looks at the quality of the ministries of finance and central banks across Latin America and many other countries, there are very significant reforms and improvements that ought to be recognized. But if one looks at the political transparency notion, the institutional transparency, there is still a lot of work ahead. And one sees a little bit of that gap there. It's very marked in my own country, in Chile for instance, a gap between the institution which really encompasses also the economic and financial transparency. The Central Bank of Chile has been regarded as about the most transparent around the world by different analysts.

And the issues of political transparency including the full disclosure of assets and incomes of politicians and so on, and the issue a full transparency in political finance campaign, the issue of absence of very good (lobby laws ?) – all those issues are enormous challenges not only in this country here – and there's been some improvement – but obviously in Latin America it's part of the pending agenda. These issues matter enormously, and we have done that research and also others have done that showing that governance, control of corruption and a better transparency, and voice and democratic accountability makes a huge difference in terms of better development outcomes, higher growth in incomes, lesser infant mortality and more literacy – higher literacy as well as higher investment.

We also concede that, and I think this is very important nowadays, the link between these institutional and governance and transparency areas on the one hand and competitiveness – global competitiveness. And I can explain this graph, but it basically shows very, very close links, the same with regulatory quality. In Latin America, we still have too many regulatory obstacles for enterprise on foreign investment. Again, there is enormous variance across the continent, but on average there are other places that are advancing faster and we can see that in a number of efforts by doing business reports, but

also when we get the reports from service of enterprises, and we see that issues of corruption, crime, bureaucracy, and so on are still very relevant in many of the countries.

The institutional quality – in some areas we can say that there has been progress and we are doing well. I mentioned central banks before, the quality of the budget procedures of the Ministry of Finance and so on. But in core rule of law type of institutions whether the judiciary or the police or so on, independent judiciary, we do not see that same pick-up. So there's also significant variance across different dimensions of institutional governance and economic policy that suggest the work ahead.

Now, just in case there was any sense that we leave any stone unturned, this is not just a challenge. We tend to always lecture the middle-level bureaucracy in countries and the public sector, when in fact it's a common challenge with the private sector elites in the countries who are working – (unintelligible) – and again, for the sake of time, I'm not going to show some data on elite capture, and the capture of financial and economic conglomerates in some countries that do take place.

Something similar applies to the role of multinationals. That's how multinationals were very pro-governance and are playing a very positive role there, but others that are not necessarily abetting good governance. So there is here an issue of collective responsibility, obviously, between the public sector in the countries one works, but also the private sector which sometimes the elite, what we call capture, the regulatory, legal and policy framework in some of the countries quite acute, not that different, although a bit more subtle than in the early days of the transition after the Soviet collapse. And that has been codified, and we have research and data sets on that too. So we some of that there that some of the multinationals, the moment that they leave the OECD countries and they go on working in emerging economies behave a little bit more like in the recipient investor country, and in fact irrespective of the fact that the FCPA and OECD anti-bribery does apply. So there's also responsibility there.

Let me end with just a few concluding comments but not before given your objective today to show the clear link between a higher level of transparency, on the one hand, which is still a major challenge ahead, and corruption control on the other, and income per capita as well as competitiveness. And in that context, there are a lot of very interesting innovations and efforts that are ongoing in some of the countries in the region, some in fact in Central America, but it's very notable the leading role that was taken by Mexico through IFAI. And now there are such institutions in terms of not only adopting a freedom of information law, but a very serious effort to institutionalize (in turn) to implement which is as important. Adoption is taking place in many parts of the world, but it's very easy to adopt a law, and then very little happens thereafter.

But again, it's very mixed therefore Latin America. This is again in Spanish, and I'm not going to go through them. It's just to suggest – and I know you have worked a lot on these and other colleagues – as to suggest that there are very concrete measures in terms of improving transparency in the political, institutional, economic sphere. Somewhere the main responsibility resides with the public sector in the country, but

others with the private sector, others with us, the donor agencies, where we need to also continuously improve now in transparency, and also to support these transparency efforts.

We have been involved in a number of programs supporting with funding and a bit of technical assistance in terms of freedom of information laws and other such transparency measure reforms of customs, and anti-corruption also type of a reform. And this is just the last slide with a few issues for debate to suggest that neither – let me backtrack for just 10 seconds.

Being from Latin America – although that's not my only focus these days, because there are responsibilities to look at the world in general in terms of governance, so I defer to others in terms of very specialized issues for Latin America today – but looking at Latin America and reading the literature lately on the assessment by major analysts, it's fascinating to see that there's complete variance also in terms of the assessment. Depending who you read, you have the whole spectrum between irrational exuberance about what is done on the one hand, and fatalism and pessimism on the other. I obviously come out in neither.

I think it's very important first not to generalize for too long. We discussed the variance issues to recognize, as you did, the sources of progress that have taken place over the past decade, there have been some reforms, but that has not been universalized in Latin America, and some of them are being partial. But also let's be very frank. A lot of the progress has been helped by the marvelous external environment which is no longer there, at least not right now. And we need to be ready for tougher times. And many analysts have suggested, well, but we are by now decoupled from what happens in the U.S., other not so. I don't agree this decoupled notion, and also the U.S. and related dollar issues are affecting other parts of the world, and some think it throws down in Asia – (inaudible) – the U.S., so forget the decoupling.

Democratic transition, you mentioned it, is very important. What has happened over the past 15, 20 years have been virtually a revolution from later governments and now, but let's also acknowledge there have been lately a few hiccups, a few reversal. But more importantly, perhaps still a remaining challenging, now, one thing is to transit to fragile democracies and to have the elections and multipartite democracy, and another issue is to institutionalize that and have much deeper freedom of expression voice and democratic accountability. Freedom of the press is still a pending challenge in a number of our countries, even though there may have democratic elections and so on, and those are very important for the issues of transparency here today.

Pending challenges (we have ?) discussed already, inequality and not just income. We tend to focus on income inequality, but that's an outcome. Political inequality and the issue of elite capture is incredibly important, and a very important determinant of economic inequality. The challenge of productivity growth. Yes, Latin America, we have over the past five years grown very fast in terms of average total growth per capita, but productivity though, total factor productivity growth has not been very impressive,

and particularly not so if we compare it with Asia and others, and that gets us to the major challenge of global competitiveness.

We tend to always look at Latin America and compare ourselves with five years before. Yes. Compared with the past, we're doing a bit better, but we're not doing good enough compared with these runaway trains in a global and competitive world which is not East Asia and the Tigers but now the new countries in Eastern Europe and in EU Europe. So we need to benchmark ourselves a bit different.

And last, but certainly not least, because it's at the core of some of these productivity and inequality issues are the challenges, the pending challenges of governance institutions, anti-corruption and transparency.

MR. DAREMBLUM: Thank you, Dr. Kaufmann. I would like to open now a space for comments from our participants here, any questions they may have, specifically to some of our speakers or in general to the panel. Go ahead.

Q: (Off mike.)

MR. DAREMBLUM: There is a microphone here.

Q: Thank you. Leonard Oberlander.

MR. DAREMBLUM: Can you identify your affiliation also, they're asking here.

Q: I'm on the board of trustees with People to People International. But my questions and comments are my own, not reflecting the organization. Taking the information presented here, the statistics, interpretations, and so forth as facts, can we put them into larger context or perspective, particularly with regard to the global competitiveness factor? In terms of the U.S. economic engagement, what is the relative scale of U.S. investment represented partly by U.S. Millennium Challenge Grant program, compared with investments from and for Russian-based energy, technology, infrastructure investment in South America, Chinese infrastructure development, and Saudi and United Arab Emirates in sovereign fund investments is what we're doing really significant?

One of the reasons I ask this is, for example, in a natural disaster that occurred in Costa Rica, USAID offered millions of dollars in aid, but the Chinese government offered aid in billions of – more than \$1 billion which resulted in Costa Rica accepting that aid in exchange – there was a quid pro quo. After that, they withdrew their recognition of Taiwan. So in this political global competition which is both business, political and charitable, what are these scales that we're comparing our positions with with the other global powers?

MR. DAREMBLUM: Carol?

MS. ADELMAN: Yes. I actually – I know that the U.S. gives the most government aid, we have the most private investment, but I don't know the levels of China, so you all can speak to that. I don't know in Latin America.

MR. FRANCO: I don't have the statistics in front of me, although this is something we discussed constantly, and I think Carol's charts and information provided us some of this. Now, it's a little bit of how you look at it. And we used to be beaten up all the time in Congress and hearings, but we came in I think fundamentally using what Carol presented, and that is only one component is our official development assistance, and in a sense, even getting this straight as to how much was being provided through the 150 Account, and so forth. But when we added it all up and certainly the unofficial – you mentioned Saudi Arabia; you mentioned some of these other places that are investing. Of course, those are not the official – often, those are not just the assistance dollars the way we account for them.

So when you add the totality of the U.S. investments by corporations, by private foundations, by others, it really dwarfs what anyone else is doing. I really challenge that. I don't know the Chinese case specifically. That said – I sound a little bit like Daniel here – Daniel going back and forth on it – we did have – and I've been out of government now one year next week, so we did have increasing concern, particularly about Chinese, and not only Chinese, some Iranian and some other influences in the region, and there are going to be constants. We're concerned about Venezuela's influence with – (unintelligible) – part of the Latin American community, outside Venezuela as what is doing.

Part of that we made a case for, and I think it's a legitimate case, to maintain adequate levels of engagement, money and so forth. Costa Rica is a point in fact where we don't have a presence. We haven't had it for a number of years in terms of – in official USAID or program. We do have some other programs, but when we added up the amounts, I think it's not an excuse for doing less in terms of official development assistance, but I think it's also an unfair portrayal to say that the U.S. is spending – and I think when I left, we were at \$1.2 or \$1.3 billion, maybe \$1.5 billion in official development assistance for the entire region from the different accounts that I certainly had responsibility for. But that was really a small amount. That didn't include the Millennium Challenge Account. That didn't include this, and didn't certainly include the other non-official assistance.

So I think when you add that up, that gives you a clearer picture. I don't have it here with me today, and again, it's not an excuse for the engagement, but I think it's unfair to just say that there's \$1 billion given by China just the Costa Rica, and I don't know what those conditions were for that, quote, unquote, "assistance," and our programs are 1.5 for the entire region, and I don't think that that's a fair characterization.

The last thing I want to say here – again it's a matter of government and I can say it – even on the official side, we had a lot of promises made after the Peru-Ecuador conflict, a lot of promises by Europeans and other friendly governments to us, a lot of

pledges by others, and I've got to tell you that we honored the pledges, and I can't say that for all the other countries that made the same paper pledges.

MR. DAREMBLUM: Daniel, would you like to add something?

MR. KAUFMANN: Well, certainly, I cannot add much on the U.S. work, but it's more for the sake of discussion, and maybe also to Carol, this concern of China comes with a billion – by the way, that's happening manifold in Africa as we all know. But Carol, you have been studying so much in depth the private flow cycle of which I totally agree. It's a revolution, it's incredibly important, and in many ways, it's the future.

My sense is by looking at the very different sources of that, and the very different institutions and personalities behind some of those – that private aid, that in quite a few cases, and particularly in the earlier giving of that, there was a bit of a dismissal, a bit of implicitly ignoring the issue of governance and anti-corruption, and a bit of a sense that we are here to really make a difference on the ground and we don't like other donors who preach too much on this issue of governance and corruption.

Now, overtime, I think as some of these projects and the funds have gotten there, some of them are becoming increasingly – (unintelligible). In fact, it's quite interesting that they have started to call us for advice and so on in ways that it was not the case in the earlier days. So I think it's very important to see that trajectory within private aid to increasing concern, because eventually, in – (unintelligible) – have a board of directors and so on, they will start asking the question where has the money gone, has it been well used and so on.

So here's the question. In (due course ?), when something similar happened to China – of course, they have their own political objectives and so on, but they are incredibly – the Saudis and Russians, they don't want their funds also to disappear, so in some sense, the whole issue of aid effectiveness, it's not as if some agencies in the medium to long term are going to care and the others are not going to care at all. Eventually, everybody is interested in a right of return of some kind or another. And even for a right of political return, some impact on the ground is going to be very important.

So this notion that is competitive, China will always be competitive, an anathema to what we are trying to do on the other side, I don't necessarily share it. There may be so hiccups at the beginning. There's always a learning curve. But hasn't that learning curve taken place also with private aid, and why can't we think, well, maybe something similar, with the proper adjustment for the – (unintelligible) – politics, may take place also with big new donors – India. We haven't discussed India. It's also coming into the scene.

Q: Antonio Monroig with the firm of Lasa, Monroig & Veve. I have a question for you please. According to your numbers, remittances seem to be a big, big part of the money flow into the region. Do we know if those money, the remittances, especially in

countries like Mexico and El Salvador, have they created dependency on the remittances, people stopping working because they get money from the north and create that dependency in the populous?

MS. ADELMAN: Yes. I know there was one report – I believe, Jerry, do you recall? There was one report out of the World Bank that was suggesting that it might have created some dependency. But it was one small report, and the bulk of the reports have shown that they are not able to show a relationship between remittances and economic growth in the country, but neither are they able to do that with foreign aid either, but they are able to show a reduction of poverty; in other words, it is going for medicines, for shelter, for basic human needs, so they can show that quite seriously.

And it was very interesting, and I don't know if you saw the New York Times which is one of its second – this was yesterday's New York Times, it's one of its second editorials actually on remittances, and how they believe that remittances are actually the strongest poverty reduction agent, at least when they talk about Latin America, because it's getting directly into people. So I don't know. I'm sure there are people out there doing more work on the dependency, but we haven't seen a lot of research.

Daniel, have you see much on it at the bank on this dependency issue? Is there any new research coming out? I've not seen it but we're watching for it.

MR. KAUFMANN: Just a thought there. I'd like to be careful with not having a blanket, a notion of dependency. Official donor aid going to particular governments and that increases the size of the state and all the population thinks, we can be dependent on that aid.

MR. FRANCO (?): Sure. That's what they think. That's for sure. (Laughs.)

MR. KAUFMANN: That's totally different. What is a remittance? I can discuss research of 25 years ago when I did my dissertation research, but what we did – basically remittances are the decision of a family that somebody in the family is going to do abroad. It's a very strategic decision to basically make money and send it back. That's basically – in some sense, it's a very rational investment decision that is being taken, and it could be the main (bread earner ?). It goes back to the family. It's a complete different notion of dependence. So we have to be very careful, because it's an investment decision and with more or less work – (unintelligible) – that family so – (off mike).

Q: I'm Bob Hershy. I'm a consultant. To what extent are more of the things being done on line which is decisions on aid or on projects, and how much the funding is now more transparent?

MS. ADELMAN: Now, I had said at the beginning that we're definitely seeing a rise in the online giving. We don't have a number. We have one number, but it isn't broken out for international and domestic. But there's all these new online facilities, Kiva.org, GlobalGiving.com, and we know that GlobalGiving.com is now going to be

opening in six European countries, so it's growing. The Case Foundation is very much behind getting this going. They had a big contest. I don't know if you saw it in January, America's Giving Challenge where they worked with GlobalGiving.com, Parade magazine and they even brought in Face Book, these new youthful social networking sites, although they're not so youthful. I've become the only adult that isn't on it – (laughs) – but I always thought it was just my kids, but I guess a lot of adults are on it now. And that now has a giving – it has causes you can go and give.

So they really feel that – in fact, someone described as it used to be that to make your donation, you had to the Ford Foundation or the Rockefeller Foundation. And what internet giving has done is it has democratized philanthropy, that now you have many ordinary Oprahs out there. You don't have to be a big giver. You can be – you can give small – and all of our interns give \$10 on Kiva.org and they get paid back, if the investment works, and then they will invest that in another one. So it's a very interesting phenomenon of the internet giving, so I think it's fairly early. We're just sort of five years into it to see where it's going to go, but it is interesting that 25 percent of tsunami aid went over the internet when that came. And that would have been unheard of 10 years before I think. So I think it's going to change it completely.

MR. FRANCO: I actually think, not directly to your question, but the transparency, the gains we've made in the region, particularly I think of a country like Mexico on their civil service reform, on their budget, on the press issues that Daniel talked about which I think are key, I think the instrument of the internet and online and that ability to have information widely disseminated has been really one of the engines for, and I think one of the best tools we've had going for us in terms of transparency. Without it, I think we'd be far, far worse off.

MR. DAREMBLUM: Yes.

Q: Thanks. Hi. My name is Ben Powell, and I run an organization called Agora Partnerships. We are a nonprofit and our mission is to fight poverty through entrepreneurship. We operate in Central America, and we also run an associated venture capital fund that's investing on average \$100,000 in small businesses in the region. And my question is – it has to do with I think a trend in philanthropy and in development that we haven't touched on too much today, but that I think is really exciting, and that is targeting small business that are above the microfinance level, those businesses that are too big for microfinance, but too small to access traditional capital. And I think you've seen with organizations like Acumen Fund and many others this real interest in finding great entrepreneurs who can create formal economy jobs, and provide products and services that the poor need, and that also can act as advocates to increase governance to create associations of entrepreneurs that advocate for policy reform, deregulation, laws that promote startup businesses, that kind of stuff.

And I guess my question is what the panel as experts in this field think about this new approach to development, what do you think the trends are going forward? And what you think, we, as emerging industry need to do in order to get governments and the

major multilateral international financial organizations more interested in supporting efforts to basically pump blood into the veins of entrepreneurship in very poor countries? Thanks.

MR. DAREMBLUM: Anyone would like to go first?

MS. ADELMAN: Yes. I'll make a quick – I think it's there. I think it's happening. I think it's just like business and entrepreneurship, but it happens with or without foreign aid. That's the biggest message that I always give when I go back and talk to my aid colleagues. It's doesn't really matter, all of your central planning and your strategic papers. This is where the world is going with or without you. And it's up to you to see where it's going and figure out what your new role in this is. Because if you look around now, all – we have a piece of it in the index about all the business schools now have corporate social responsibility classes that they're teaching, and all the business schools have set up their little programs, as you probably know, and are doing philanthropy. Goldman Sachs, all the companies now are doing more and more. Google.org they're doing for profit philanthropy.

Q: But not in Latin America – (off mike).

MS. ADELMAN: Interesting. Why do you think that is?

Q: Well, they there's people in particular, but I think you see this through the Gates Foundation, other – (off mike) – foundations, but it's a real interest in Africa and India, and they're not at all interested in – (off mike).

MS. ADELMAN: Then you should be knocking at their doors, really, probably, if they're not. You're right, because the tendency is Africa most of the time.

MR. FRANCO: Although, you know, under Administrator Natsios when he assumed the helm at AID seven years ago set up the global development alliance which was just as Carol has said, this is the trend, it's happening in the region in terms of that recognition, and we want to promote it and support it. And we folded that in as well with our trade capacity issue, particularly in Central America to promote these ideas. I think over the years, the Latin American bureau counted for about half of the world's activity in terms of promoting these activities at different levels. In different countries, we had more success than others, in some quite large corporations like Microsoft and others that says, as in Brazil, as Carol mentioned.

But particularly in Central America, we see the future as the smaller businesses that you're describing. We think that's what the success of America is really all about. It's a country really of small business. I know people focus on large corporations, but it's not – I don't want to be romantic in the notion, but it's really small businesses and those operations that really create opportunities and employment in our own country. It isn't just the large corporations, as important as they are, sort of foster that. We certainly as part of our trade capacity building initiatives create that awareness. We did it with you.

We created that same partnership with AID, and that was certainly something that I strongly advocated and promoted.

Sometimes I feel these larger Google and Microsoft and Gates, they can do it as Carol said, but that is happening with or without us. And they're significant. When I say smaller businesses, they're quite large fish in relatively small ponds. It might not be in every country in the world, but they're a huge presence in Guatemala or Nicaragua in your case, or other places, and most of the things that we need to do – and I think having missions overseas were well suited to promote, and certainly something I strongly advocated.

MR. DAREMBLUM: Do you want to say something?

MR. KAUFMANN: More a question and interestingly, that was not mentioned I thought, where are the venture capital funds were for that niche? And if there is entrepreneurship, and I know that in the Chile – (off mike) – they are there, there's a profit to be made for venture capitalists, so why aren't we going more that route, stressing that route? And of course if we do that, we're going to hear from some venture capitalists who speak without pulling any punches in some countries, and the (authorizing ?) environment, and the obstacles and so on. And let's focus on those rather than this notion of always aid to enterprises. I'm not sounding like World Bank here, I know. (Laughter.) But we are in a more informal discussion. Where are the venture capitalists?

MS. ADELMAN: Yes. And I think that's the point. I mean, ultimately the goal is graduating from foreign aid. And because we're always talking about assistance and philanthropy, we forget that this may be a good thing that these groups are not in Latin America, because it means that you are at a stage where the venture capitalist, the venture philanthropist, or venture capitalists are taking care of this, and maybe that's driving out some of the philanthropy organizations, because you are succeeding. So that may be the reason –

Q: (Off mike) – in Nicaragua, what has happened is it has enabled private capital to flow from (asset ?) funds that people would never touch with a 10-foot poll. (Inaudible) – investment of the money that – (inaudible) – leverage is \$50,000, \$100,000 investment in equities small businesses. If you look at any other venture capital in the world, even with Google and stuff, and yet, you (look ?) at investments about two million. So there's a huge difference here, and to accumulate all the investment, you can bring in private for profit capital. It's a \$50,000 investment – (inaudible) – group in years. It's very difficult to induce private capital into that range without some sort of TA health – (off mike).

MR. KAUFMANN: Right. Right. But that's why the (hybrid ?) type of innovation may make sense, and the U.S. you had an (esteemed ?), very successful in Ukraine and – (unintelligible) – NIS Fund right. Is that an equivalent for Latin America?

MR. FRANCO: We don't have that for Latin America. We had it for – (inaudible).

MS. ADELMAN: No. We had for the Enterprise funds. But we started those in Eastern Europe.

MR. KAUFMANN: Right. Do they make –

MS. ADELMAN: And it was for exactly that reason –

MR. KAUFMANN: Do they make sense for what you're talking about, because you're right, it is – (unintelligible) – so the notion is not to leave them all together in the initial stages, but to induce the whole incentive framework of the market, and this NIS Fund work through the market (test ?) rather than the typical aid.

MR. FRANCO: Correct. You're right. No. You're right about that, Daniel.

Q: Is there a – (off mike).

MR. DAREMBLUM: Hold on a second. The gentleman over there had asked for a question.

Q: Hi. Clayton Schaffer (ph). I guess my question is to what extent, or what specific categories of aid do you see as specifically counterproductive? In my experience, I've seen a lot of projects that actually make a government agency more capable of withstanding pressure from the public, and in that sense, sort of derail what might have been an ongoing reform effort by coming in and doing this program that's supposed to address the problem, but you look at the project documents that was actually done. They don't actually deal with the demand, both the – (unintelligible) – or what theoretically you would say this is the problem that a reform should (address ?).

MR. DAREMBLUM (?): So the question is which ones are counterproductive?

Q: Yes. What sort of categories – (off mike) – what sorts of projects are – (off mike)?

MR. FRANCO: Let me – I guess the ones that don't work – but I would say this, and putting my old AID hat off and going back to the good old days when we had oversight over the agency, I'd say the things that create over a period of time dependency. And that probably just encompasses about everything other than the humanitarian relief efforts. And what I'm saying is something Carol said, which is sort of lost on anybody that I think is in the development field for any long period of time.

I remember being – this is several years ago – being invited to go to Kingston to celebrate 40 years of U.S. assistance. Now, you know, that sounds good, because we've been there, but I said, I'm not so sure – and I remember my dear friend Sue Cobb was an

ambassador there, and she agreed with me that we want to celebrate the fact that 40 years later, we're still providing assistance to Jamaica. That might sound like a fleapit thing. And the good things, and – (unintelligible) – sitting here, the things we like to celebrate is the fact that we graduated or Costa Rica graduated itself, and certainly to go back far enough early on, of course Portugal and South Korea and a bunch of other places, Taiwan or USAID countries. Those are examples of success.

So in the broader sense of the word – and I sort of did it very quickly, because I'm a conservative guy when I said that it isn't the responsibility of the American people for the development of the region. We have an interest, mind you, and I think it's just there's a lot of good will, and I think there are strategic and geopolitical interests for us to remain engaged. And I think a country like Haiti really can't do it by itself. There's nothing there in terms of a government that's really workable for us, so we needed to shoulder some of that, those responsibilities.

It's crossing – this is more philosophical rather than telling you the education program is a problem or this particular program didn't work. It's when we start designing projects, telling people what to do, and eventually footing the bill. And at the end of the day, people say the government of Bolivia, the government of something – it's the people around this room. And it's a bunch of individuals and governments act pretty much the same way as individuals. Somebody else pays the bill, mom and dad pay it, somebody else pays it, you become, A, accustomed to it, and if there's no light at the end of the tunnel, or darkness at the end of the tunnel, depending on your point of view, that assistance – and however well meaning it is – is ultimately what you described: counterproductive, if it's not channeled.

Now, we tried – and I think precedes the administration I worked for, but certainly in the last five or six years – to try to create these alliances and things we're talking about with the view that to either – what is the term used often, “enabling environment,” create the conditions for private sector, and real world things to take hold, and that assistance to be minimalist or certainly not create that dependence. It's a very large statement I've made, but I can't say that it's a particular a health program or a particular category. But that idea that somehow this is somebody else's problem; namely, the American taxpayer, the American government's problem, and you need to continue to do this because you've done it for 40 years.

MR. DAREMBLUM: A 30-second comment.

Q: (Off mike) – something regarding the \$50,000 to \$100,000 investment. Isn't there a threshold below which that money is eaten up by local permits and inspections, license fees, gratuities, and so forth that you pay for the small amount of equipment you need for such a small business? Isn't that the reason why these haven't been very effective?

MR. FRANCO: For those smaller ones?

Q: Yes.

MR. FRANCO: I think that's – I don't know. You would have a better sense of that, Ben.

Q: (Off mike) – for example in China, they don't (require ?) small businesses can pay taxes for a certain period of time so that you reinvest the profits. Colombia has a new entrepreneurship promotion – (off mike). There are definitely all kinds of regulations that make it very difficult for small businesses, particularly in clearly dysfunctional small countries, to transition from an informal business to a formal economy business. That's what you need in order to increase productivity, export – (off mike).

MR. DAREMBLUM: Unfortunately, it's already 10:30 and everybody comes here with a certainty that we are going to finish at 10:30, so let's thank our fantastic panel here of speakers. (Applause.)

(END)