

OVERSIGHT OF THE INTER-AMERICAN FOUNDATION

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY,
VETERANS AFFAIRS, AND INTERNATIONAL
RELATIONS

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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OVERSIGHT OF THE INTER-AMERICAN FOUNDATION

WEDNESDAY, OCTOBER 13, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS
AFFAIRS, AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays and Sanders.

Staff present: Lawrence J. Halloran, staff director and counsel; Robert Newman and Tom Costa, professional staff members; Jason Chung, clerk; David Rapallo, minority counsel; and Earley Green, minority staff assistant.

Mr. SHAYS. I would like to call this hearing to order.

Thirty years ago, Congress established the Inter-American Foundation [IAF], an independent and experimental Federal agency to reach beyond government-to-government aid programs in Latin America and the Caribbean working at the grass-roots level. Part of the IAF's cold war mission was to provide an economic and social alternative to the lure of communism among the poor of the region.

In the intervening three decades, the world has changed dramatically. The Inter-American Foundation has not. So oversight is long overdue. Last scrutinized in 1984, the IAF has been beset by internal strife and management lapses, particularly regarding two controversial grants to leftist organizations. While many of the Foundation's once innovative strategies were being adopted by other aid agencies, the IAF seems to have stagnated into a fractious bureaucracy squabbling over reduced budgets and a lost sense of purpose.

The administration recently acknowledged "the need for change to enhance the Foundation's internal oversight procedures and project monitoring." According to IAF officials, the Foundation has begun to make those changes. But will they be enough to revitalize the IAF and make it relevant in the post-cold war world? Could some or all of the Foundation's functions be privatized? Should they?

These are the questions we asked our witnesses to address this morning, and we welcome our witnesses. And at this time I would recognize my good friend and colleague Mr. Sanders.

Mr. SANDERS. Thank you, Mr. Chairman.

The Inter-American Foundation was created 30 years ago to build a direct relationship between the people of the United States and the poor people of Latin America. The IAF is unique among U.S. Government agencies operating abroad. The Foundation helps the poor to help themselves by providing small grants for innovative community-based projects. It minimizes the bureaucratic waste and corruption that often plagues foreign aid.

The IAF has never had more than 70 staff members. It gives small grants directly to local organizations rather than channeling millions of dollars through government bureaucracies. Congress created the IAF as a public corporation with an independent board, a structure designed to insulate the agency from the short-term whims of U.S. foreign policy.

In Mexico, the Foundation supported an association of Mexican peasants that marketed organic coffee beans for Ben and Jerry's Ice Cream, in my State of Vermont, but that is not the reason I am here today. IAF grants helped to create one of the hemisphere's most successful community-controlled adventure travel sites on Tequila Island in Peru's Lake Titicaca, and the IAF backed the Colombian Artisans Network that help poor rural women to improve their skills and raise the incomes of their families.

Mr. Chairman, I am concerned about the threats to the future of the Foundation and its mission. Congressional funding is now two-thirds of what it was since 1994, and appears likely to be cut to 25 percent from its current levels in the fiscal year 2000 budget. The Foundation's crucial political independence appears to be threatened.

Over the years, and I think this is very clear, we have spent billions of dollars supplying and training Latin American militaries, many of whom have turned out not only to be corrupt, but to have been violent and very bad institutions. We have spent billions of dollars funding the bureaucracies of Latin American governments that were often more interested in the well-being of the members of the government than of the poor people of the countries. We have spent billions propping up economic policies of regimes that are more concerned with the needs of foreign corporations than with the peasants or the workers of their own countries. It seems to me that we want to take a very hard look about the need to continue funding an organization which is representing the poor people in that country in an independent way.

I think we should not ignore for one moment that very, very serious economic problems remain in existence throughout Latin America and the Caribbean, and we should also be aware that poor people do not actively participate in many of the democracies in those countries.

So I thank you very much for calling this hearing, and I look forward to the discussion.

Mr. SHAYS. I thank my colleague, and I would like to say to all the witnesses before I swear them in that I just am basically an open book on this issue. I do not have any strong feelings one way or the other and look forward to what I learn today.

Let me just take care of some business first and ask unanimous consent that all members of the subcommittee be permitted to

place an opening statement in the record, and that the record remain open for 3 days for that purpose.

Without objection, so ordered.

I ask further unanimous consent that all witnesses be permitted to include their written statements in the record, and without objection, so ordered.

And now let me call our witnesses. The first witness will be accompanied by two individuals, but there will be one statement. We are happy to have you, Ms. Maria Otero, Chair of the Inter-American Foundation. And I guess your day job is executive vice president, ACCION International, Washington, DC; accompanied by George A. Evans, president, Inter-American Foundation, and Adolfo A. Franco, senior vice president and general counsel, Inter-American Foundation.

I am assuming that the two individuals accompanying you, their day job is with the IAF.

Mr. FRANCO. Day and night, Mr. Chairman.

Mr. EVANS. Day and night.

Mr. SHAYS. OK. Welcome. We are going to have a clock, I think, and we are going to set it for 5 minutes, but we will roll it over. We prefer you to be 5, but you have another 5 to say what you need to say.

I'm sorry, I have not sworn you in. I apologize. So if you would stand and raise your hands, and if all of you would stand because we are going to ask all three of you to respond to questions. Is there anyone else who might respond to questions?

Ms. OTERO. This is it.

Mr. SHAYS. OK.

[Witnesses sworn.]

Mr. SHAYS. I would note for the record that all three of our witnesses have responded in the affirmative, and now the 5 minutes begins.

STATEMENT OF MARIA OTERO, CHAIR OF THE INTER-AMERICAN FOUNDATION, EXECUTIVE VICE PRESIDENT, ACCION INTERNATIONAL, ACCOMPANIED BY GEORGE A. EVANS, PRESIDENT, INTER-AMERICAN FOUNDATION; AND ADOLFO A. FRANCO, J.D., SENIOR VICE PRESIDENT AND GENERAL COUNSEL, INTER-AMERICAN FOUNDATION

Ms. OTERO. Thank you, Mr. Chairman. I am honored to testify before this distinguished committee regarding the important work of the Inter-American Foundation, and I do thank you for the opportunity to do so.

I am the Chair of the Board of Directors of the Inter-American Foundation, an uncompensated position that I have held since July 1994, when President Clinton appointed me to this post. I am also the executive vice president of ACCION International, a non-government organization that promotes microenterprise development through the Americas. I have dedicated my entire professional life to development efforts and to the promotion of a philosophy that sound development assistance leads to sustainable growth, the replacement of welfare dependency and social economic mobility. Today I wish to discuss why the Inter-American Foundation, a novel, independent agency of the United States, dedicated

to the principles of development that I have enunciated, is of critical importance to this country.

I know the Inter-American Foundation well, not only because I have chaired its board for the last 5 years, but because I began my professional career there as an intern nearly 25 years ago. The Inter-American Foundation's values of 25 years ago today ring true. Simply stated, those values are that the enlightened people of the United States have a noble role to play in the development of our neighbors by fostering and promoting principles of democracy, self-reliance, and free enterprise that have shaped our great country.

I wish to be clear that the Inter-American Foundation does not advocate welfare or dependency, but it seeks to invest in the creative and sustainable development projects of the poor to increase income, create new jobs and expand markets and, in the process, strengthen the free enterprise and democracy where it matters the most, at the grass-roots level.

Specifically, the Inter-American Foundation operates in the following manner: First, the Foundation effectively channels funds to the private sector, not to governments. It channels funds to co-operatives, community development organizations, and nongovernment organizations. Grants are closely monitored, and they are audited, ensuring financial accountability and enhanced project quality.

Second, the Foundation does not assign projects, but, rather, it supports the entrepreneurial spirit. The Foundation awards grants to private sector organizations that have strong leadership, have a proven track record, innovative ideas, and which invest their own resources in their work. Historically, the Foundation grantees have raised \$1.44 in counterpart funds for every dollar that the Foundation has invested in them.

Third, small projects supported by the Foundation help open the way for the participation of poor people in the mainstream economy and also demonstrates successful approaches to development that have been adopted by local organizations and by large multilateral and bilateral organizations. These tenets are as important and relevant to our foreign policy objectives today as they were 25 years ago when I served as an intern.

The beneficiaries of the Inter-American Foundation are poor city dwellers housed in slums or squatter settlements, often living in appalling overcrowded settings, lacking access to the basic services of health, education and water. Their survival tool kit often lacks the education and the skills they need to enter the formal economy. Many are women, who play the dual role of providing income for their family and caring for their children. These people are more greatly exposed than others to the threats of contamination and to the threats of bad sanitation. When disaster strikes in the form of a flood or a hurricane, these are the ones that are most affected.

In the rural areas, the Inter-American Foundation beneficiaries are land-poor, and their land is often unproductive and lies outside irrigated areas. Many farm in arid zones or on steep hills that are ecologically vulnerable. They live in large households, and their children are especially susceptible to malnutrition and disease. Most of these rural households patch together an income through

their small crop production, the raising of small livestock, and selling of processed goods. Without assistance, many of them depend on their children for work, and they weigh the opportunity cost of sending their children to school against present and future benefits.

Mr. Chairman, as part of its program to address grass-roots development with the people I have just described, the Inter-American Foundation initiated a successful corporate outreach initiative that began under my stewardship as Chair. The Foundation has established alliances with major American corporations, including Levi Strauss, B.P.-Amoco Corp., Dow Corning, Green Giant, and JP Morgan to promote in Latin America and the Caribbean the principles of democracy and economic development advanced by the U.S. Government.

It is in its agility and private sector focus on community development that positions the Inter-American Foundation to forge innovative ventures with U.S. corporations and to leverage millions of private sector dollars to serve as seed capital for the expansion of microenterprises, for the enhancement of sustainable agricultural practices in soil conservation, and for the expansion of education and health care services.

The Inter-American Foundation is also a repository of development knowledge as it documents and gathers data on the projects that it has funded to determine if its resources have had an impact on the lives of the poor, if access to credit and vocational training has helped improve incomes, if agricultural training has yielded larger crops or opened new markets, if environmental training has helped conserve vulnerable ecosystems, if access to improved education has increased literacy and mathematical skills among the poor. This results documentation enables the Inter-American Foundation not only to learn from its projects, but also to share with other development organizations the specific approaches that have a positive impact on the lives of the poor.

From an operational perspective, the Inter-American Foundation presents a model for the delivery of U.S. development assistance. More importantly, it does not provide resources through foreign governments, and it does avoid some of the bureaucratic inefficiency that plagues other government-to-government programs, that I know is of concern to you and other Members of Congress. This novel approach distinguishes the Inter-American Foundation from government-to-government programs and agencies and sets this model agency apart from others. It also enables the U.S. Government agency to reach small institutions working at the grass-roots level with relatively small amounts of support. The average size grant of the Foundation is \$70,000. No other government agency has the capacity to reach this far down.

I wish to take this opportunity to briefly address matters of concern to this committee. As with any organization, whether public or private, not every grant will prove a success or be without controversy. I am proud to report that the vast majority of the over 4,000 grants awarded by the Inter-American Foundation have served to promote political stability, free enterprise and economic development. However, as in a very few instances, the Inter-American Foundation has provided assistance to organizations that did

not honor their agreement or deviated from those principles that the Foundation holds. Unfortunately, this was the case with two organizations that the Inter-American Foundation funded in Ecuador and in Argentina and which have been the subject of considerable interest in Congress.

I wish for you to know that the aberrant activities of these organizations were brought to the attention of management and the Board of the Inter-American Foundation through the Inter-American Foundation's own oversight mechanisms, and the decision was made to address these matters in a swift, decisive way, consistent with the interest of the United States. The Embassy of the United States in Ecuador complimented the management of the Inter-American Foundation for the expeditious and professional manner in which the inappropriate activities of these grantees were addressed.

I do also believe that additional measures need to be undertaken to improve the Foundation's program and operations. Accordingly, the Board of Directors has worked with management in the Inter-American Foundation to implement a significantly enhanced internal grant review and approval process to ensure that the Foundation never again supports organizations that engage in illegal or inappropriate activities that are incompatible with the objectives of the United States.

To that end, I have directed that prior to the award of any grant by the Inter-American Foundation, all grant proposals be forwarded for review by the U.S. Embassy personnel in those countries in which the Inter-American Foundation operates. I believe that a careful and independent review of grant proposals by the State Department personnel will enable these grants to be appraised by qualified and informed government officials who have access to intelligence and economic and political information on nongovernmental organizations in Latin America.

Mr. Chairman, it is my view that the Inter-American Foundation administers a valuable and necessary program and does so efficiently and effectively. However, I also believe that improvements can be made, and I pledge to work with you, this distinguished committee, and other committees in Congress to build upon the success of the Inter-American Foundation.

What I do consider regrettable is that, for some, a few unfortunate and clearly indefensible mistakes, which the Inter-American Foundation courageously, expeditiously, and independently corrected, can lead to a condemnation of all of the important work this agency has undertaken.

Mr. Chairman, without the Inter-American Foundation, the efforts of the United States to promote and foster democratic practices and economic revitalization at the community level would be stymied. The Inter-American Foundation is different from the U.S. Agency of International Development, USAID. It has a critical and unique role to serve in promoting self-help development efforts in this hemisphere.

It is because of its unique role as a people-to-people program that I was so honored to volunteer my time and efforts when the President of the United States asked me to serve as Chair of the Inter-American Foundation. I remain as enthusiastic about the contin-

ued expansion and importance of the Inter-American Foundation as I was 25 years ago.

Thank you, Mr. Chairman. I would be happy to answer any questions that the Members may have.

Mr. SHAYS. Thank you very much.

[The prepared statement of Ms. Otero follows:]

STATEMENT OF
MARIA OTERO
CHAIR, BOARD OF DIRECTORS
INTER-AMERICAN FOUNDATION

BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY,
VETERANS' AFFAIRS, AND INTERNATIONAL RELATIONS
OF THE
COMMITTEE ON GOVERNMENT REFORM

OCTOBER 13, 1999

Thank you, Mr. Chairman. I am honored to testify before this distinguished Committee regarding the important work of the Inter-American Foundation. Thank you again for the opportunity to do so.

I am the Chair of the Board of Directors of the Inter-American Foundation, an uncompensated position that I have held since July 1994, when President Clinton appointed me to the post. I am also the Executive Vice President of ACCION International, a nongovernmental organization that promotes microenterprise development throughout the Western Hemisphere. I have dedicated my entire professional life to development efforts and to the promotion of a philosophy that sound development assistance leads to sustainable growth, the replacement of welfare and dependency, and social and economic mobility. My experience at ACCION International, as well as with other development agencies, is that this sensible approach to development is not only possible and meritorious, but vitally important to the interests of the United States.

Today, I wish to discuss why the Inter-American Foundation, a novel independent agency of the United States, dedicated to the principles of development that I have enunciated, is of critical importance to our country.

I know the Inter-American Foundation well, not only because I have chaired its Board of Directors for the past five years, but because I began my professional career there as an intern nearly 25 years ago. Indeed, what I learned during my three years at the Foundation became the underpinnings of my professional work of the past two decades and a source of values that have guided me both professionally and personally. Simply stated, these values are that the enlightened people of the United States have a noble role to play in the development of our neighbors by fostering and promoting principles of democracy, self-reliance, and free enterprise that have shaped our great country.

I wish to be clear that the Inter-American Foundation does not advocate welfare or dependency but rather the Inter-American Foundation seeks to invest in the creative and sustainable development projects of the poor to increase incomes, create new jobs, and expand markets. Most importantly, the Inter-American

Foundation does not design projects or finance government programs. Instead, the Inter-American Foundation channels seed capital to vibrant private sector organizations to support productive enterprises at the local, community level. By doing so, the Inter-American Foundation works to strengthen free enterprise and democracy where it matters most--at the grassroots level.

In fact, in Fiscal Year 1998, 34% of the Inter-American Foundation's grants supported productive activities that lead to a higher quality of life for Latin America's poorest populations. The remaining 66% provided complementary health, housing, education, environmental conservation, and other critical services. This support at the grassroots level--where other development agencies often do not reach--stimulates free enterprise, promotes democracy, lessens poverty, expands markets, all of which, in turn, benefits U.S. trade and national interests.

Specifically, the Inter-American Foundation operates in the following manner:

- The Foundation effectively channels funds to the private sector, not governments. The Foundation awards small grants to vibrant private sector organizations to carry out innovative development programs at the community level. Grants are closely monitored and audited, ensuring financial accountability and enhanced project quality.
- The Foundation supports the entrepreneurial spirit. The Foundation awards grants to private sector organizations with strong leadership, a proven track record, and innovative ideas, which invest and risk their own local resources. As in the case of ACCION International, the Foundation places paramount emphasis on self-help and the economic self-sufficiency of its grantees. Historically, Foundation grantees have raised \$1.44 in counterpart funds for every \$1.00 invested by the Foundation.
- Foundation projects achieve broader impact through a multiplier effect. Small projects supported by the Foundation demonstrate successful approaches to development which are adopted and expanded by local institutions and larger bilateral and multilateral organizations.
- Foundation grants help increase employment opportunities for the poor, as well as support entrepreneurship. Projects

supported by the Foundation create opportunities for the poor to acquire skills and accumulate capital, opening the way for their participation in the mainstream economy.

These tenets are as important and relevant to our foreign policy objectives today, as they were nearly 25 years ago when I served as intern at the Inter-American Foundation.

Mr. Chairman, in addition to remaining faithful to these guiding principles that were established by the Congress many years ago, the Inter-American Foundation has evolved to support the efforts of U.S. and other corporations seeking to invest resources in development activities. Through an aggressive and successful corporate outreach initiative that began under my stewardship as Chair of the Board of Directors, the Inter-American Foundation has established alliances with major American corporations including Levi Strauss, BP-Amoco Corporation, Dow Corning, Green Giant, JP Morgan, 3M, and the AES Corporation to promote in Latin America and the Caribbean the principles of democracy and economic development advanced by the United States Government.

It is precisely because of its agility and private sector focus on community-level development that the Inter-American Foundation is uniquely positioned to forge innovative ventures with U.S. corporations and leverage millions of dollars for genuine grassroots development projects throughout Latin America and the Caribbean. These joint ventures with U.S. corporations provide much needed seed capital for the expansion of microenterprises, the enhancement of sustainable agricultural practices and soil conservation, and the expansion of educational and healthcare services to the poorest peoples of the hemisphere.

In addition, Mr. Chairman, the Inter-American Foundation launched a Local Development Initiative to forge alliances between local government representatives, business leaders, and the nongovernmental sector to promote sustainable community-level development. This innovative approach to development also ensures sustainability by fostering the formation of local alliances at the community level that are the cornerstone of our country's successful model of genuine grassroots democracy. Although these locally-based community alliances address the most pressing local problems that afflict the poor, these

initiatives do not constitute welfare, for these efforts are designed to promote the core American values of economic self-sufficiency and the belief that ordinary citizens should and can mobilize resources to solve their own problems and promote their well-being and prosperity. Therefore, the Inter-American Foundation serves as a catalyst to bring about the necessary changes for genuine, community-level development that over the long-term lessens dependence on U.S. foreign assistance in a proper, orderly, efficient, and equitable way.

From an operational perspective, Mr. Chairman, the Inter-American Foundation represents a model for the delivery of U.S. development assistance. Most importantly, the Inter-American Foundation does not provide resources through foreign governments, and thus avoids much of the bureaucratic inefficiency that plagues other government-to-government programs that I know is of concern to you and other Members of Congress. Rather, the Inter-American Foundation responds quickly to private sector grassroots development initiatives based solely on the merits of these proposals and their potential to achieve the goals established by poor beneficiaries themselves. The Inter-American Foundation, therefore, supports

innovative new concepts and approaches to address the most pressing needs of the poor based exclusively on these considerations rather than political factors. This novel approach distinguishes the Inter-American Foundation from government-to-government development programs and agencies and sets this model agency apart from others.

I wish to take this opportunity to briefly address matters of concern to this Committee. As with any organization, whether public or private, not every grant will prove a success or be without some controversy. I am proud to report that the vast majority of the grants awarded by the Inter-American Foundation have served to promote political stability, free enterprise, and economic development. However, in a very few instances, the Inter-American Foundation has provided assistance to organizations that did not honor their agreements or deviated from those principles that the Inter-American Foundation promotes with zeal. Unfortunately, this was the case with organizations that the Inter-American Foundation funded in Ecuador and Argentina, and which have been the subject of considerable interest to the Congress.

I wish for you to know that when the aberrant activities of these organizations were brought to the attention of the management and Board of Directors of the Inter-American Foundation through the Inter-American Foundation's own internal oversight mechanisms, the decisions made to address these matters were swift, decisive, and consistent with the interests of the United States. Indeed, the Embassy of the United States in Ecuador complimented the management of the Inter-American Foundation for the expeditious and professional manner in which inappropriate activities by Inter-American Foundation grantees in Ecuador were handled.

Nevertheless, additional measures can always be undertaken to improve any institution's program and operations. Accordingly, despite the laudatory manner in which the management of the Inter-American Foundation handled a few problem grants out of the more than 4,000 awarded by the Inter-American Foundation during the past thirty years, the Board of Directors has worked with the management of the Inter-American Foundation to implement significantly enhanced internal grant review and approval procedures to ensure that the Inter-American Foundation never again supports organizations that engage in activities

that are illegal, inappropriate, or incompatible with the objectives of the Government of the United States.

To that end, I have directed that, prior to the award of any grant by the Inter-American Foundation, all grant proposals be forwarded for review by U.S. embassy personnel in those countries in which the Inter-American Foundation operates. I believe that a careful and independent review of grant proposals by State Department personnel based in Latin America and the Caribbean, including the Political Section of U.S. embassies, will help to ensure that all grant proponents are thoroughly and fairly appraised by qualified and informed Government officials who have access to intelligence, economic, and political information on nongovernmental organizations working in Latin America and the Caribbean.

In addition, I have asked that a comprehensive review of all internal agency operations be undertaken. This review will entail close coordination of efforts with the Office of Personnel Management, the General Service Administration, the Inspector General of the United States Agency for International

Development, and Oversight Committees of the Congress of the United States.

Mr. Chairman, it is my view that the Inter-American Foundation administers a valuable and necessary program and does so efficiently and effectively. However, I also believe that improvements can be made and pledge to work with you, this distinguished Committee, and other Committees of the Congress to build upon the successes of the Inter-American Foundation. What I do consider regrettable is that for some, a few unfortunate and clearly indefensible mistakes, which the Inter-American Foundation courageously, expeditiously, and independently corrected, can lead to a condemnation of all of the important work that this agency has undertaken on behalf of the American people during the past thirty years.

Mr. Chairman, I wish for you to know that prior to my appearance before you and this distinguished Committee today, I re-read the 1969 Act of Congress that created the Inter-American Foundation. I was reminded that Congress wisely recognized that an institution like the Inter-American Foundation is necessary to ensure that the people of the United States directly support the

self-help efforts of the poor of Latin America and the Caribbean, our immediate neighbors. Congress also wisely recognized that such development assistance must be non-partisan and free from the ebbs and flows of the short-term foreign policy objectives of the United States. These considerations, that have led to the strengthening of the bonds of friendship among the peoples of this hemisphere, have served the United States well and remain as important today as these were thirty years ago.

In closing Mr. Chairman, I wish to highlight the benefits of the Inter-American Foundation for the United States. In succinct terms, the Inter-American Foundation:

- Provides rural farmers with profitable alternatives to growing illegal drug crops;
- Creates employment at the community-level and thereby stems migration to the United States;
- Increases family income that enlarges the market for U.S.-made goods and services in Latin America and the Caribbean;
- Mobilizes resources for grassroots development from U.S. corporations working in the hemisphere and consequently diminishes reliance on U.S. foreign assistance;

- Promotes genuine democratic and participatory practices at the local level by encouraging the American values of self-reliance and self-sufficiency.
- Fosters environmental sound practices and policies at the grassroots level to conserve the natural resources of the region and reduce environmental degradation.

Candidly, Mr. Chairman, without the Inter-American Foundation, the efforts of the United States to promote and foster democratic practices and economic revitalization at the community-level would be stymied and progress toward the achievement of these important foreign policy objectives would be significantly diminished. The Inter-American Foundation is different from the United States Agency for International Development, and has a critical and unique role to serve in promoting participatory and democratic self-help development efforts in this hemisphere. It is because of its unique role as a people-to-people program that I was so honored to volunteer my time and efforts when the President of the United States asked me to serve as Chair of the Inter-American Foundation's Board of Directors.

I remain as enthusiastic about the continued expansion and importance of the Inter-American Foundation's programs as I was nearly twenty-five years ago when I was first introduced to its virtues.

Thank you, Mr. Chairman. I would be happy to answer any questions that you and the Members of this distinguished Committee might have for me.

Mr. SHAYS. Mr. Sanders, and then we can go back and forth.

Mr. SANDERS. Let me start off with a general question, if I might. Sometimes we read in the newspapers that everything in Latin America is now wonderful, the cold war is over, poor people are doing just fine, democratic institutions are very strong. So why do we need an agency like yours anymore? Is that the case in Latin America? Are there still one or two poor people in the continent? What is going on?

Ms. OTERO. I think what is important is to understand the context in which the Inter-American Foundation is operating today, 25 or 30 years after it was created. We have in Latin America countries that are trying to create democratic systems and to strengthen these systems. Many of these countries, especially in Central America, have come out of civil wars and of internal conflicts that have created huge rifts even within the country itself. We have efforts right now in Latin America on the part of governments to use a market economy as a way of operating the economy in these countries. All these things are relatively new in the hemisphere and require continued support and continued activity of the sort that the Inter-American Foundation provides.

We continue to see that the large majority of people in Latin America are poor and remain poor in part because governments do not have the distribution channels to be able to reach these populations effectively.

Mr. SANDERS. What countries in Central America do you function in?

Ms. OTERO. We operate in El Salvador, Honduras, Nicaragua, Guatemala, Mexico, and Panama. We do not operate in Costa Rica.

Mr. SANDERS. The city that I am from has a sister city relationship with a town in Nicaragua called Puerto Cabezas, and I recently met with the mayor of that town. I am told the unemployment rate in Nicaragua now is 60 or 70 percent. Is that correct?

Ms. OTERO. I would not be surprised by that. I think you can find that the unemployment rate in most Latin America countries is enormous by the standards the United States is used to. In fact, for example, in a city like Lima, which has 6 million people, about 3 million of those people depend on informal sector activities to sustain their families. Probably about 50 to 60 percent of the active labor force is employed in activities outside of the formal economy.

This gives you a sense of the difficulties of being able to bring these countries toward a functioning market economy.

Mr. SHAYS. If the gentleman would yield a second, I do not know what you mean by informal.

Ms. OTERO. I mean that people have to employ themselves in order to survive. Everyone from a woman that is selling oranges in a marketplace to a man that is taking pieces of metal and turning them into chairs or into pots and pans, all these activities.

Mr. SANDERS. Mr. Chairman, I raise these questions because one of the concerns I have long had is, especially with the end of the Soviet Union and the decline of communism, suddenly the concern that this Nation has had for the poor people of the Third World seems to be dissolving because we are not in competition with Communists any more.

And I would point out Nicaragua in particular because I was there on several occasions. When the Sandinista government was in power, Nicaragua was on the front pages of The New York Times every single day, but in the last many years we hear nothing about Nicaragua. And I think the assumption on the part of many people is there are no problems there. We got rid of the terrible Sandinista government, and everything is doing well. And, in fact, unemployment is beyond belief there. In the region that my city has a sister city relationship, epidemic drug problems, horrible drug problems.

So I would suggest that just because communism is no longer a threat to the United States does not mean to suggest that the United States should turn back a goal of trying to work with and uplift the poor people of the region.

Did you want to ask a question, Mr. Chairman?

Mr. SHAYS. Yes, I have questions, but ask some more. I wanted to understand her response to your question.

Mr. SANDERS. So I think what we cannot disagree on is that there remain enormous economic problems in the region that are not being effectively addressed.

Let me ask you another question, if I might, and that is my understanding is that IAF field workers are now required to work with local governments or private corporations. Is that always a good idea? Are some local governments not highly politicized? Are some corporations not pushing their own interests? Should the IAF abandon communities where it cannot find government or business partners, even where local people have ideas for innovative projects? How does the IAF's new approach differ from what the Agency for International Development and the World Bank do?

Ms. OTERO. Let me address the first part of your question. I think, as you see civil societies evolving in Latin America and democracy taking hold, you also see other parts of the country, especially the business sector, becoming increasingly involved in the development of the country. I see this in my own work through ACCION and through the work of the Inter-American Foundation. We also see that central governments are making an effort to decentralize their power and to strengthen local governments to play a larger role in the development of the country.

The work that the Inter-American Foundation is doing is an effort to recognize some of these changes that are taking place and to enable nongovernment organizations and private sector organizations to be able to work alongside of these elements that are part of growing democracies. The efforts of the Inter-American Foundation to leverage resources from the corporate sector in order to channel them toward development is precisely one manifestation of the importance of expanding the number of players in the development of a country from having it be just the government or outside forces.

So from that perspective, I think the direction that the Foundation is taking is one that recognizes that the environment it is working in has, in fact, changed and evolved, and that its government resources, in order to make a difference, have to leverage resources from other sectors, especially the private sector.

I do not know if the President or Mr. Franco would like to answer.

Mr. EVANS. I would like to just mention one. Our grants still go to the nongovernmental organizations. We do not give grants to municipal governments, and we do not give grants to the private sector. What we are trying to do is to get the nongovernmental organizations, of the type we have been supporting for 30 years, to work when possible and as closely as possible with municipal governments, most of which are now elected. We could not do this 10 or 12 years ago because they were not elected. They are now, in most countries, elected or appointed by a city council that is elected. So they do have constituents.

And we also feel that like the private business sector should be investing in development because they have a lot to gain from it, and it will affect their bottom line. They need healthy, trained workers. So what we are trying to do is to get the nongovernmental organizations to recognize that in order to be sustainable over time, they need to get these other sectors involved.

Sometimes the municipal government may donate money or office facilities. Sometimes they may just be able to give moral support. But we are trying to encourage that model because we believe that that model will be more effective, that there will be more benefits accruing to the poor, and that it will be more sustainable.

Mr. FRANCO. Congressman, if I can add one thing that is again important from the standpoint of Congress. Starting 3 fiscal years ago, in fiscal year 1996, the Appropriations Committee inserted report language in our appropriations bill, in the foreign operations bill, that required the Inter-American Foundation, by law, to seek other sources of funding, private and public, to support the grassroots development efforts of the agency. So there has been a congressional mandate, that other sources of funding be provided for those efforts supported by the Inter-American Foundation.

Mr. SANDERS. Mr. Chairman, if I could, let me read from an article that appeared in the L.A. Times, Wednesday, August 4, by Jim Mann. The title of the paragraph is: Support Withdrawn for Cooperative, "in Mexico, for example, the IAF has withdrawn support from a small farmers' cooperative in strife-ridden Chiapas that marketed its coffee by opening a successful chain of cafes in Mexico City. Today, it is teaming up with Levi Strauss, JP Morgan Co., Green Giant and 3M to fund training programs in areas where U.S. corporations do business."

Do you want to comment on that?

Mr. EVANS. Well, there is a history to that project. We do not provide support forever for these organizations, and we had supported that organization for a number of years. When the grant expired, the grants expire. So we did not withdraw support for that organization, nor did we cut the grant off. The grant expired.

Mr. SANDERS. What was the result? What happened to that farmers' cooperative in Chiapas; do you know?

Mr. EVANS. I do not have all of the details, but as far as I know, the cooperative is still in existence.

Mr. SANDERS. Anybody else know any more?

Mr. FRANCO. Yes, I would like to comment on two points. Just as the President of the Foundation has noted, the Inter-American

Foundation provides seed capital. Our program is not designed to provide long-term support to these organizations, nor has it been advisable from the development standpoint to do that. The Inter-American Foundation provides seed capital for organizations to get on their feet, to have an initial investment, and then be self-sustaining.

Second, to address your question directly, the goal of the Inter-American Foundation is to influence U.S. corporations working in the region that have a responsibility, we refer to it as social investment and social responsibility, to invest in those programs and those projects that the Inter-American Foundation seeks to support.

So, therefore, just to be very clear, the objectives and certainly the activities of the Foundation are not to subsidize or support the efforts of U.S. corporations. On the contrary, it is to seek support from these institutions, and they are private businesses, to invest in those projects we have historically supported.

Mr. SANDERS. Thank you, Mr. Chairman.

Mr. SHAYS. Thank you very much.

I think I come down on wondering about two issues. One is the uniqueness of the program and if the IAF has not succeeded in getting USAID to be more like you are, and whether or not USAID can do this and whether private groups can.

And also the whole issue of critical mass. I noticed from past budgets that at one point in 1989, it was \$6.6 million, then it grew to \$25 million in 1992 to basically \$31 million in 1993 and 1994 and 1995, and then down to \$20 million. And I understand that there is only \$5 million in the budget that passed the House, which I think will be changed again.

It seems to me it gets to a point where if you do not get enough, we should just fold you into USAID. That is kind of what I am wondering. So I wanted to share that with you.

My sense is that you went from about 70 employees to about 56, but I also wonder why 56 employees? I have an organization that is private in New Canaan, CT called AmeriCares, and they give out hundreds of millions of dollars of medicine that they get from companies, literally hundreds of millions. They have given out billions, or a billion in aid, and they do it with so few employees, and I am wondering why 56?

When we looked at your roster, it seemed like you had a number of well-paid employees, seemed to be top-heavy. So that is when I look at it on the surface, and those are the kinds of questions that I will want to address.

I am also interested just to know how, Ms. Otero, you have spent a lot of time on this, but this is your oversight responsibility. The agency is run by Mr. Evans and Mr. Franco and others. Let me just begin by saying, Mr. Franco, how many times have you been overseas? First, how long have you worked for the agency?

Mr. EVANS. Are you speaking to me or Mr. Franco?

Mr. SHAYS. Mr. Evans.

Mr. EVANS. Well, I have worked for a total of about 18 years. I was a member of the team that started the agency in 1971. I worked there for 10 years. I went to the Peace Corps after that and served in the Peace Corps in staff positions for 8½ years under Di-

rector Ruppe and returned to the Inter-American Foundation in 1991 as executive vice president.

Mr. SHAYS. Mr. Franco, how long have you worked?

Mr. FRANCO. Since 1985, Mr. Chairman.

Mr. SHAYS. Since 1991, how many trips overseas have you had, Mr. Evans?

Mr. EVANS. I would say about seven or eight.

Mr. SHAYS. So you average about one a year?

Mr. EVANS. About one a year.

Mr. SHAYS. In the last 3 years how often have you been overseas?

Mr. EVANS. I think, two or three times.

Mr. SHAYS. You would remember. How many times?

Mr. EVANS. In the last 3 years? Twice, to the best of my knowledge.

Mr. SHAYS. Twice. Where were those trips?

Mr. EVANS. To Chile.

Mr. SHAYS. And where else?

Mr. EVANS. And to Argentina.

Mr. SHAYS. Mr. Franco, since 1991, how many times have you been overseas?

Mr. FRANCO. Countless. I can't give you a number, but it would probably be 100, 50 or 100, a very large number.

Mr. SHAYS. Just the disparity between you being 100 and, Mr. Evans, for you not even being overseas, how would you be able to really have a handle on your agency if you simply stayed home?

Mr. EVANS. Well, obviously, with the number of operations we have in the different countries, we have staff members that are directly responsible for those countries and those projects, and I have to depend on them because I cannot possibly cover the number of countries and projects that we have.

So the staff members, you were talking about the number of staff members that we have, do have to do a great deal of traveling and monitoring of projects, which they do, and they then report back to me. So I have to rely on my staff.

Mr. SHAYS. It just strikes me that, given the kind of agency that you are, that you would need to be out in the field on more than just two occasions in the last 3 years.

Let me deal with the whole issue of uniqueness. My sense is—and first I concur with my colleague, there is more poverty today than there ever has been in Third World, so-called nonwestern countries. And so I concur that there is need to be of assistance, tremendous need to be of assistance. But I look at the number of employees and wonder how do we justify 56 employees with an agency that basically is working to give \$20 million out?

My understanding is that we have gone from 11 percent to about 22 percent of cost. So over 20 percent, say, gets gobbled up by the agency for administrative cost. Is that an accurate number?

Mr. FRANCO. May I?

Mr. SHAYS. Let me ask Mr. Evans.

Mr. EVANS. I think the program support costs are about 22 percent for the last fiscal year. So it is in excess of 20 percent.

Mr. SHAYS. Why?

Mr. EVANS. Well, most of that cost is for staff and travel. If you look at the way that we operate, you just asked me the question

about how we keep apprised of what is going on overseas on the projects. We have to visit the projects, we have to have staff members responsible for what we call Project Find in each country.

Mr. SHAYS. In other words, you have staff in each of the countries?

Mr. EVANS. No, we have no staff stationed in the countries. All of our staff are stationed in the office in Arlington, VA, but they travel quite a bit, and they have to in order to investigate the projects when we get a proposal. Last year we got over 1,000 proposals. These proposals have to be reviewed. We do not give a grant to an organization unless there is a field visit by the Foundation representative responsible for that country.

And once the grant is awarded, then we have to monitor the grant; they have to make trips down to the countries to visit the organization, onsite periodically, to be able to keep up with what is going on. And that is a little bit different than operating here in the States.

We also are a government agency, and we have to comply with government regulations. We have to have a personnel department, we have to have a financial management department. We are under government regulations, and that, of course, adds to our overhead. We also have a learning department.

Part of our mission is to learn from our projects. So we have to evaluate the projects. We have to have some people to do that.

Mr. SHAYS. I have a number of organizations in my greater district, outside organizations, like Trickle Up and others, that basically try to do a lot of what you do. One of the things I will be asking my staff to do is to determine whether or not we are getting enough money to the people in need of whatever we are appropriating.

Did you want to say something, Mr. Franco?

Mr. FRANCO. Yes, if I could, Mr. Chairman. First, to be clear here for the record, in 1996, the administrative obligations, or overhead, for the Inter-American Foundation reached a record high of 25 percent, and that was a consequence of a dramatic reduction in our appropriation. By one-third, by Congress.

So in 1996, our overhead was 25 percent. In 1997, it was 24 percent, and in fiscal year 1998, it was 21 percent. So it has gone from 25, 24, 21. We think it is still too high. We are conducting a grade review, in terms of your question about being top-heavy in positions, and having them reviewed to make sure that positions are not only properly classified, but also are needed.

I will say this: In terms of employees, before the congressional reductions beginning in 1995, with contractors, which we have eliminated, our staff was, in reality, nearly 100. All those contractors or consultants—

Mr. SHAYS. What did you say?

Mr. FRANCO. It was nearly 100 with contractors. Those positions were eliminated beginning in fiscal year 1996. So we're looking at franchising some of our functions. And we are conducting a review of what activities, since this has become the norm in government, of having some administrative functions being carried out by other agencies, and we can do so less expensively to bring our overhead lower.

We don't disagree our overhead is high. It is a concern. And, also, to be candid with you, you have referred to our budget and our size and our impact, there is a point where if the budget is too small, considering the requirements of running an institution, that the overhead will necessarily be higher than we like, but it is an issue that we are addressing.

Mr. SHAYS. The bottom line is at a certain point, if Congress doesn't and the White House doesn't fund you at a certain level, it does become a question as to—and I am not saying it becomes your fault, I am just saying there is a point where integrity would demand that we just simply say, given what Congress is funding, we need to just take this money and give it to another organization. I am not saying we should reduce it, because I do not know. I am just saying there is this point, and I would be interested to know where it is.

What would happen if we gave all the \$20 million to USAID and required that they give all that money out with no overhead at all, using their existing infrastructure? What wouldn't happen that we want to happen?

Ms. OTERO. Let me try to answer that.

Mr. SHAYS. I am going to ask the two employees here first.

Ms. OTERO. That is fine, and then I will give you mine.

Mr. SHAYS. Because, frankly, one of the criticisms we have had of the organization is that there is a lot of problems with the running of the organization.

Mr. EVANS.

Mr. EVANS. Your question, Mr. Chairman, is that what would happen if you just gave the money to AID and let them give it out?

Mr. SHAYS. With the same mandate; that it go to grass-root organizations, a trickle-up kind of attitude, not for big projects, which they are starting to do. They have copied a lot of what you all did. They really have.

So I guess what I am trying to understand is why couldn't they do it and use their overhead?

Mr. EVANS. Well, one thing, they are not in every country in Latin America. That is one thing that they do not.

Mr. SHAYS. You are not either, in the sense that you don't have people there.

Mr. EVANS. We don't and never had any people in all of these countries.

Mr. SHAYS. So they could just go to these countries as well.

Mr. EVANS. That is a possibility.

Mr. SHAYS. But your point is that they do not have expertise in some of these countries?

Mr. EVANS. That is one point that I would make. If they administered the program the way that we do, which is what I was just talking about in terms of the staffing that we have, that they would have to have someone that would go and visit the projects, look at the proposals, do the assessments in order to make sure that the organization was capable of carrying out the project, and they would also have to have someone to monitor the project. We audit the projects. They would have to have somebody to audit the projects.

So I am not sure that they would be able to do it without any overhead whatsoever. As a matter of fact, I think they would have to expend some funds on overhead or program support, the kind of activities I just mentioned, unless they just gave the money out blindly and didn't do a thorough analysis and didn't followup or monitor the project, which I think would be a mistake.

Mr. SHAYS. Mr. Franco.

Mr. FRANCO. Mr. Chairman, I think that the mandate of the Agency for International Development is wholly different than that of the Inter-American Foundation, and, therefore, an earmark of \$20 million to reach the same populations and the same groups would not be possible simply because the agency is designed, and properly so, to work government-to-government programs. It works very closely, although it works with the nongovernmental associations—

Mr. SHAYS. You are saying USAID?

Mr. FRANCO. Yes. Although it works with the nongovernmental organizations in Latin America, it does so in tandem with our State Department and host governments. And there is nothing wrong with that, it is just a different mission. So to simply state that \$20 million could be earmarked for smaller projects, I think, would change the character of the types of organizations that would ultimately be funded, meaning by that, I do not think the groups we reach and work with today would be reached.

And I believe AID would attest to that, or the assistant administrator for Latin America would. Therefore, I think a \$20 million earmark to AID would really represent, ultimately, \$20 million to very similar programs AID works with today, which are of a different character.

Second, I do agree with Mr. Evans, and that is that any program that would be established, there would be a minibureaucracy established with it even at AID.

Mr. SHAYS. Well, some of the administrative costs wouldn't, but I hear what you are saying.

Ms. Otero.

Ms. OTERO. I have had opportunity to work with AID at the mission level quite a bit through my own work, and I would say that the capacity of AID to do this kind of work is really not in place. AID, if it has taken on some of the learning that the Foundation has provided, it has been to apply it to providing grants, relatively large grants, to some of the best known nongovernment organizations in the country.

But primarily its work has been and continues to be government-to-government. In fact, AID in Latin America right now is working very closely with governments to help them strengthen the capacity of local governments. That in itself is complementary to what the Inter-American Foundation is doing.

I think what would happen, Mr. Chairman, is that AID would not really be able to deploy grants as small as \$7,000 or \$25,000 to organizations that are quite far away from the capital and that really do not have the capacity to interact with an organization like AID. AID would not have the staff to be able to visit those places. I am talking about places where you travel by land in jeeps and that you don't find easily.

From that perspective, what you would find, Mr. Chairman, is on the one hand the elimination of the presence of a U.S. Government agency at the grass-roots level, and I think that this is an essential component of the interests of the United States in the hemisphere. Second, you would do away with a very important repository of learning and of expertise that the staff of the Inter-American Foundation has developed over the years. They may seem to be 56 people who are deploying only \$20 million, but in addition to that they are bringing important knowledge and disseminating important learning into development. And some of that learning is being accepted and implemented even by the World Bank or by AID or other agencies.

So I think you need to look at the Inter-American Foundation and its uniqueness not only in terms of the funds that it is providing to these institutions, but also to the learning that it is able to amass and then to disseminate to other institutions. And for that purpose it really needs to be able to operate in the independent way that it has in the past.

Mr. SHAYS. I think this will be my last question, unless your answers generate another question. I want each of you, start with you, Mr. Evans, and then you, Mr. Franco, to tell me the best project in the last year and the worst project.

Mr. EVANS. I would say one of the best projects that we have supported in the past year is a project in Brazil in which they are using sisal. It is a cooperative. It is a business. They are manufacturing carpets which they are selling for a profit. The proceeds from this business is being used not only to increase the income of the workers, but also to support community projects that improve the health and education of the community.

Mr. SHAYS. How much was that grant for?

Mr. EVANS. I think that that project—I don't recall exactly, but I think the project is about—it was about \$250,000 over 3 years. But I do not have that exact figure. I can certainly get it for you.

Mr. SHAYS. Tell me the worst project.

Mr. EVANS. Let's see, I'd have to think about——

Mr. SHAYS. I'm not saying you shouldn't have funded it, I am just saying——

Mr. EVANS. I'm not trying to avoid——

Mr. SHAYS [continuing]. In the last 2 to 3 years. Obviously, I can't say the last year.

Mr. EVANS. Well, the worst project, as far as I'm concerned, is the one in Ecuador, in which the grantee deviated from what they were supposed to be doing and got involved in detaining two Americans and threatening——

Mr. SHAYS. What was that project?

Mr. EVANS. That was the COICA.

Mr. SHAYS. What was it funding?

Mr. EVANS. It was an indigenous group in Ecuador, and the grant was supposed to go for educational purposes to improve the education of these indigenous people, who are very poor and, in many, many cases, illiterate.

Mr. SHAYS. So your mandate isn't just economic?

Mr. EVANS. Pardon?

Mr. SHAYS. Your mandate isn't just economic?

Mr. EVANS. No, no.

Mr. SHAYS. How much was the grant for?

Mr. EVANS. The grant in that particular case, do you remember—

Mr. SHAYS. No, I want to ask you, Mr. Evans.

Mr. EVANS. I think that that grant was about \$190,000, I think, again, for 3 years. I'm sorry, we have hundreds of grants.

Mr. SHAYS. No, no, no, the good grants and the bad grants should stand out to the person running this agency. You shouldn't have to ask anyone for assistance on that.

Mr. Franco, the worst.

Mr. FRANCO. I would say, Mr. Chairman, based on kind of a prejudice for the grants I have visited, because there might be very good grants, we make 240 a year, so we can't see them all, but there is a grant that sticks out in my mind. It is in Brazil, and it is in Porto Alegre, and the name is Portosol, and I like it for a couple of reasons.

It is a revolving fund that we have established where it generally works—a lot of these revolving loan funds encounter difficulties because we are dealing with poor people. But this is a very good fund that doesn't just provide capital, but also provides technical assistance in conjunction with it. The administrators are very committed people, but they are also business-minded people. They are not just people that have a good charitable instinct, but have a business acumen. And they are businesspeople that have come together, with local leaders in Brazil and Porto Alegre, to provide seed capital in the marginal neighborhoods of the city and also the technical assistance to make the revolving fund actually work effectively.

I think the project has a lot of potential, not because I say so, but because it is being replicated in other places in Brazil. People have come from Rio and Sao Paulo, which have huge problems, and are replicating this approach.

Mr. SHAYS. How much is that grant for?

Mr. FRANCO. \$197,000 for a 2-year period. So it is illustrative of not only a successful grant, but one that shows the impact of the program and how it can be replicated at a national level well beyond its \$197,000.

Mr. SHAYS. Worst grant.

Mr. FRANCO. The worst grant, I would say—well, we don't have any worst grants, but if I have to tell you one that has a problem—

Mr. SHAYS. I said the worst grant. You mean you have a few bad grants?

Mr. FRANCO. Well, we have grants that do not meet our expectations.

Mr. SHAYS. Let me say something to you. If you didn't, I would be amazed.

Mr. FRANCO. No, no, we do. We have an audit committee, and we look at grants.

Mr. SHAYS. Give me one.

Mr. FRANCO. Let me give you one that has been a problematic grant. The name of it is CANDELA. It is in Peru. I became involved with the problem, and it was an ambitious grant to harvest

Brazil nuts in a remote area of Peru. Actually, there is a processing plant in Lima itself in the south, and they are nut gatherers and so forth.

Now, this grant had our good intentions of bringing the business community in direct contact with poor people with the goal of doing two things. First of all, the businesspeople had an interest in harvesting these Brazil nuts. Unfortunately, based on our review and monitoring reports of this project, there was not the kind of social commitment the IAF expects of grantee organizations. We provided funding for a school, a daycare center, and generally improved conditions for project beneficiaries. Our investment, as we have described it before, was designed to be seed capital so this organization, CANDELA, would continue to do these activities, and not just use the funds for its business purposes. This organization didn't live up to our expectations and didn't follow through.

Why it is troublesome to me is because it left a sour taste in my mouth. There is a difference between something that didn't work; people have tried their best and it just didn't work out and——

Mr. SHAYS. How much of an investment was this one?

Mr. FRANCO. This was a total of about \$188,000.

Mr. SHAYS. For how long?

Mr. FRANCO. For 3 years. And we did extend it once, I believe, for 6 months.

Mr. SHAYS. Let me just conclude, Ms. Otero. There are good grants and bad grants. There has to be. If everything is an average, then you are not taking risks and so on. So I accept there are going to be good and bad. What I want to know is the confidence to know that you all have a system to identify the good and the bad, and duplicate the good and eliminate the bad.

Tell me what you have learned since you have worked there on how to eliminate bad funding.

Ms. OTERO. I think several things are important in any process of reviewing proposals that come to you from the outside which have been designed by people on the outside.

I think the review internally has to be done by a group of people rather than by one or two people. It has to be done by people who have some level of expertise and knowledge about the country, the context in which the project is taking place, and what the results the grantee organization it is planning to undertake are.

So in the process of reviewing the grant before you approve it, you do need to have a serious and systematic process. And I think the Foundation, certainly since I have been Chair, has improved that process dramatically.

The second part is the monitoring of the grant. And this is really where a lot of the administrative costs go, is to keep track of whether the activities are going on according to the goals that they have established and if the resources are being spent accordingly. And I think the Foundation not only is doing that effectively, but it is also gathering impact data to find out if, in fact, this deployment of a grant is increasing incomes, is changing the capacity of people to work, and is enabling them to really improve their lives. And in gathering that information, I think the Foundation is also determining what makes a good project and what does not.

So I personally think the Foundation has a great deal to offer on that perspective.

Mr. SHAYS. OK, thank you.

Do you have any other questions?

Mr. SANDERS. Only this, Mr. Chairman. I don't claim to be the expert on the function of the IAF, and I share some concerns on the issues you raise. We want to make sure that the money we appropriate goes to the people who need it and does not go, for example, to a bureaucracy.

But the concern I have, whether it is the IAF or any other agency, is that we in the United States, and certainly in the U.S. Government, do not believe that it is appropriate with the end of communism simply to withdraw our concern for the poor people in the world. It would be the height of hypocrisy to say that we were there because Fidel Castro might take advantage of the poverty, and now that communism is weak, we don't have to pay attention to that.

You indicated, and I think you are right, that in many ways in Latin America and Central America for the poorest people the economic situation is worse than it used to be. I do know Nicaragua is an absolute disaster. And it is an outrage to my mind that when we were worried about Daniel Ortega, everybody was concerned about Nicaragua, and now when we have 17 percent unemployment, nobody is concerned.

Now, whether these guys are doing the job that needs to be done, I cannot say, but I do think just because Jesse Helms has a concern is not a reason for all of us to suggest that we should be cutting back on our programs that help the poorest people in the world.

Mr. SHAYS. Let me say this. I do think there has to be critical mass, otherwise then it doesn't make sense. But I always make an assumption when we have these hearings that we give you the opportunity to present your case. And, who knows, we could argue that funding should be increased, not decreased. So, obviously, that changes, too. So I don't pass judgment one way or the other on that issue.

I thank you all. I would welcome any of you to make a closing comment before we get to the next panel. If you have any comments you would like to make?

Ms. OTERO. No.

Mr. SHAYS. All set? OK, then, thank you very much.

Ms. OTERO. Thank you, Mr. Chairman.

Mr. SHAYS. We will call our next panel, which is Patrick Breslin, representative for Colombia Inter-American Foundation; Daniel W. Fisk, Deputy Director, the Kathryn and Shelby Cullom Davis International Study Center, Heritage Foundation, DC; and Alvaro Rengifo, executive director, Inter-American Development Bank.

That's it. I'm having to remember that an "I" in Spanish is an "E." Is that correct; an "I" in Spanish is an "E?"

Mr. REGNIFO. Yes. Double E for you.

Mr. SHAYS. I'm taking Spanish lessons.

Mr. SANDERS. And you are going to conduct the rest of the hearing in Spanish; right?

Mr. SHAYS. No hablo ingles, senior. Hablo en espanol, por favor. That's about it.

We have to give you the oath. So I would ask all of you. Is there anyone else who will be responding? All three of you have testimony. If you will raise your right hands, please.

[Witnesses sworn.]

Mr. SHAYS. All three have responded in the affirmative. We will do it as I called you, and we would like you to keep within the 5 minutes, and if you need to go over a minute or two, that's fine, and then we will ask questions.

Mr. Breslin.

STATEMENTS OF PATRICK BRESLIN, REPRESENTATIVE FOR COLOMBIA, INTER-AMERICAN FOUNDATION; DANIEL W. FISK, DEPUTY DIRECTOR, THE KATHRYN AND SHELBY CULLOM DAVIS INTERNATIONAL STUDY CENTER, HERITAGE FOUNDATION; AND ALVARO RENGIFO, EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK

Mr. BRESLIN. Thank you, Mr. Chairman. My name is Patrick Breslin. I have been involved in issues of development in Latin America since I was a Peace Corps volunteer in 1963 in Colombia. I have been associated with the Inter-American Foundation since the early 1980's, first as a freelance writer, later commissioned to write a book about the Foundation's first 15 years.

Mr. SHAYS. We are not picking you up well. Can you bring that mic a little closer and just a little lower.

Mr. BRESLIN. Is that better?

Mr. SHAYS. I think you probably just need to speak a little louder.

I heard Peace Corps, and that obviously warms my heart, but other than that I didn't hear anything else you said.

Mr. BRESLIN. OK. Since Peace Corps and Colombia, I have studied Latin America, I have lived in Latin America, I have been with the Inter-American Foundation in one capacity or another since the early 1980's, first as a freelance writer, visiting projects, writing about them, later writing a book called Development and Dignity, which recounts the first 15 years of the Inter-American Foundation, and, most recently, as the Foundation representative for Colombia.

Mr. SHAYS. Does that mean, basically, that that's your desk job? In other words, you have the Colombia desk?

Mr. BRESLIN. I have the Colombia portfolio. I am the single representative in the Foundation responsible for the Colombia portfolio. That means I travel to Colombia frequently, I look for projects, I analyze projects, I present projects for funding within the Foundation, and then I continue to visit projects.

Mr. SHAYS. If you will indulge me just a second to understand. About how much goes through your desk? And then we will get on.

Mr. BRESLIN. Something on the order of \$800,000 to \$1 million a year currently. That is down because the overall budget is down.

Mr. SHAYS. Sorry to interrupt you. We will let you get on with your statement.

Mr. BRESLIN. I wanted to start off by saying that I am very excited about this oversight hearing. I am excited about some of the

issues you are raising. I think they are very healthy for the Foundation. And I think it is particularly healthy that these questions come from Congress, because uniquely in the U.S. Government, the Inter-American Foundation is a creature of the Congress.

In the course of the discussion, I wanted to take issue with your opening statement about the Inter-American Foundation being a cold war institution. I think that really, uniquely in the field of foreign assistance from the U.S. Government, the Inter-American Foundation was most specifically not a cold war institution. I think it, in many ways, anticipated the end of the cold war in the way that it began to work and has worked for almost 30 years now in Latin America.

And I think that this identification of the Foundation with the Congress, particularly in the early years, was extremely important to the success of the Foundation. In the late 1960's, the 1970's, Latin America was incredibly conflictive: ideological battles, political upheavals, and along with that a very deep-rooted suspicion of the United States among many sectors of Latin America society. The basic hurdle that the Inter-American Foundation had to overcome when it began to work was to convince Latin Americans that it was not a front for the CIA. That was the common suspicion of any initiative coming out of the United States at that point.

The fact that Latin Americans saw the Foundation as being a creature of the Congress, a creation of the Congress, made a major difference. It was something that helped the representatives make contacts, get access to people, and learn about what was going on, because people in Latin America tended to see a distinction between the administration policies that they might have been suspicious of and the Congress, which they thought was representing much more directly the people of the United States. And I think that identification really eased the path for the Inter-American Foundation, particularly in the early years.

There is another whole set of very relevant questions that should be asked about the Inter-American Foundation, and you touched on many of these already. They have to do with the impact of the projects that we have funded. That is, in my experience, a difficult thing to measure. There are several basic things regarding the Inter-American Foundation, and one of them is we do not plan projects. We have no project design capability within the Foundation. That is not the way we go about the work. What we have always tried to do is to be responsive to the ideas that are coming out of Latin America. We fund ideas that people bring to us. We don't go with preconceived ideas about what they need.

There is another characteristic of the Inter-American Foundation philosophy which, I think, is also unique. AID, the World Bank, Inter-American Development Bank, everyone is working with NGO's now. I think that there is still a major difference in terms of the way the Foundation works. We start with the idea that poor people in Latin America know what they need.

The first book the Foundation ever published was titled, "They Know How," and it tried to make that argument. Our approach to poor people, to the problem of poverty in Latin America, is not to view poor people as a kind of undifferentiated mass for whom projects have to be planned to bring them into the mainstream. We

start with the idea that they need to come up with their own ideas, to form their own organizations, and to go about improving their lives on their own. And if what they are doing makes sense to us, if they can sell us their idea, then we put in the resources. But the initiative is theirs; the responsibility for the project is theirs.

And that is the basic reason why, and you asked about staff overseas, there was a conscious decision not to place staff overseas, to maintain that distance between the Inter-American Foundation and the projects it was funding. We did not want to have project managers in the field. We didn't want to have local people ask us well, what do you think we should do? Our whole point is you need to know what you want to do. And if you can convince us that what you are doing makes sense, we will back you up.

Is the Foundation still relevant? As I suggested, because I don't think the Foundation really had anything to do with the cold war, I would argue that, yes, it is, and actually more relevant than many other institutions that I think really did pursue cold war aims more than we did. The basic idea about the Foundation was to work directly with poor people and their organizations and not to go through their governments, because for many years U.S. assistance was used as leverage. It was a stick to beat people with. It was a leverage to get something we wanted.

There are many cases in the history of AID and Latin America where funding for projects was cutoff because the government was not supporting us in the U.N. or because the government had taken a position we opposed. The whole point of the Inter-American Foundation was to have a continuity of contact with poor people and their organizations and not to be affected by short-term U.S. foreign policy. That was built into the legislation.

The other point I would like to make, and I think I am running out of time, is that when Congress created the Foundation, it created a very complicated institution. Congress was really looking for a lot of different things. The board of directors is a structure that Congress decided on. It was meant to buffer us from the government. It was meant to make us a semi-independent agency. It was meant to give us the flexibility that is more characteristic of the private sector, but, at the same time, the identification of the Foundation as a government agency was to be clear and enduring. We are an agency of the U.S. Government. We represent the U.S. Government. When I am in Colombia, in a small town someplace, I'm the U.S. Government. I'm representing it.

But because Congress was looking for a lot from this agency, I think the way it is structured has built-in tensions. And I think that the real test for board and management of the Foundation has always been how well do they deal with the built-in tensions of the Foundation. How do they balance the need to follow government regulations with the need to be innovative, to take risks, to take chances, and to bet on people.

Because, ultimately, what we do as a Foundation is we bet. We are venture capitalists in that sense; we bet on people's ideas, and we try to talk with them, and we try to analyze what they are talking about. But we are really making a bet that they know what they are doing and that they have the commitment. We stay with them, we talk to them, we engage in a conversation with them over

the life of the project, but that involves an element of risk and uncertainty, and a lot of people are uncomfortable with uncertainty. For me, the challenge to the Board of the Inter-American Foundation, to the management of the Inter-American Foundation, has always been how well do they deal with the challenges of uncertainty?

I think because I have used a lot of time, I could just leave it there.

Mr. SHAYS. Thank you.

[The prepared statement of Mr. Breslin follows:]

Subcommittee of National Security, Veterans' Affairs, and International Relations
Committee on Government Reform
Congress of the United States
Rep. Christopher Shays, Chairman
Oversight of the Inter-American Foundation
October 13, 1999, 10 a.m.
Room 2247, Rayburn House Office Building
Prepared Testimony by Patrick Breslin

Mr. Chairman:

My name is Patrick Breslin. I have worked on and studied issues of development in Latin America and the Caribbean since I served as a Peace Corps Volunteer in Colombia, 1963-1965. I have known the Inter-American Foundation since the early 1980s, when I wrote several free-lance articles about projects it had funded. In 1985, the Foundation commissioned me to write a book about its first 15 years. I would be honored to present you a copy of that book, "Development and Dignity". Since 1987, I have been an IAF staff member, working in the research and publications office, and the program office. I'm currently the Foundation Representative for Colombia.

I appreciate the opportunity to participate in this oversight hearing. It's been a long time--over 15 years, I believe--since IAF has been the subject of a Congressional hearing. And more than a decade since IAF management last commissioned independent outsiders to evaluate its mission, structure, and operations. That is too long. By its nature, IAF is an agency that needs to be engaged in an ongoing dialogue about its mission and its work. It is especially important, and fitting, that that dialogue be carried on regularly with the Congress. For IAF is almost uniquely a creation of the Congress, and specifically of the House

of Representatives. Foreign assistance programs are often Administration initiatives presented to a skeptical Congress. But in the case of the IAF, as I describe in my book's first chapter, the initiative and the creativity came wholly from the Congress.

That special identification of the IAF with the Congress, while largely forgotten here in Washington, has been important to its success in Latin America and the Caribbean. The IAF began working during a complicated period of U.S.-Latin American relations. The U.S. was engaged in the Cold War with communism, and a hot war in Vietnam. Several Latin American countries oscillated between right wing and left wing political regimes. Strong ideological viewpoints colored relationships. Progressives in Latin America often saw the hand of the Central Intelligence Agency in U.S. policy initiatives in the region, and they were not always mistaken. The IAF's first task, to earn trust, was made easier because of its link to Congress. Many Latin Americans, while critical of specific U.S. policies, saw Congress as expressing through the IAF a continuity of concern with the problems of poverty and underdevelopment, a concern rooted not in short-term interests of a particular Administration, but in the values of the people of the United States. In my visits to the projects and the people IAF has supported, I've heard that opinion expressed repeatedly, by rural leaders in Colombia, fishermen in Central America, the former Cardinal of the Catholic Church in Chile.

I think it's fair to say that the IAF has contributed significantly to a better understanding in Latin America and the Caribbean of the complexity of the U.S.

government and the U.S. political system, and a diminishing of the tendency to see the United States as a monolith.

There is another contribution I would like to touch on, that also has to do with the historical moment in which IAF began to work. It coincided with the gradual emergence in Latin America and the Caribbean of a diverse and vibrant movement of grassroots and non-governmental organizations. When IAF proposed, at the beginning of the 1970s, to fund private development initiatives from the region, many experts scoffed. Few thought such groups existed in significant numbers. But over the past 30 years, by its funding of over 4,300 such initiatives, IAF has encouraged the growth of that movement and provided it the resources to work towards its goals. Latin Americans have pursued the dream of democracy since the wars for independence in the 19th century. But for most countries, only with the emergence of this movement has the underlying structure of civic association that Alexis de Tocqueville thought crucial to democracy been created. And throughout that process, the Inter-American Foundation has been a partner in the building and strengthening of democracy at the grassroots. It pioneered the "grassroots development" approach, which contrasts markedly with traditional development approaches. The contrast is not simply in size of projects, nor even in the involvement of community organizations and non-governmental organizations in projects, as many larger development agencies now do. The difference is in the underlying concept of development. The traditional point of departure is that there are masses of poor people for whom programs must be designed to bring them into the modern world. The IAF started with a completely different idea: poor people

are the initiators of development. They know what they need, and they often know how to go about getting it. What they usually lack is some resources. IAF's role has been to support their initiatives.

How much of this is relevant today? Is the mission that Congress set for IAF in 1969 still valid as the century draws to a close? The Cold War is over. The world's economy is no longer split into blocs, but global. United States business has access practically everywhere. The World Bank, the Inter-American Development Bank, the U.S. Agency for International Development, all provide funds to non-governmental organizations. Does IAF still have a valuable niche?

Congress expressed IAF's mission in four succinct goals:

- (1) strengthen the bonds of friendship and understanding among the peoples of this hemisphere;
- (2) support self-help efforts designed to enlarge the opportunities for individual development;
- (3) stimulate and assist effective and ever wider participation of the people in the development process;
- (4) encourage the establishment and growth of democratic institutions, private and governmental, appropriate to the requirements of the individual sovereign nations of this hemisphere.

None of these goals has been fully achieved. None ever will be. All four goals express permanent, long-term interests of the United States in the Western Hemisphere. As goals, they are as valid now as they were during the Cold War.

The way IAF organized itself around those goals and began to work pointed it into the future we have recently entered.

Twenty years before the fall of communism, the Inter-American Foundation was a post-Cold War institution. Insulated from use as an instrument of short-term foreign policy, IAF has been involved in the Western Hemisphere in a spirit of partnership with our neighbors, in a pragmatic approach to the problems of poverty, and in an atmosphere of mutual respect and trust that is only now being glimpsed as a possibility for other institutions of government.

Likewise, 20 years before “reinventing government” became a national goal, the Inter-American Foundation was a flexible agency with a minimum of bureaucratic procedures and wide latitude for responding to creativity and innovation in the development process.

Today, partly because of its success, partly because of larger changes that impinge upon it, IAF operates in a markedly different environment than the one in which it emerged.

The Latin American and Caribbean region in which IAF works is different; the political and ideological environment worldwide is different; the world of foreign assistance and development has changed; and so has the political climate in the United States. What has guided the IAF through three decades of change, what remains the best guide for its future, is commitment to one core idea about development from which everything that characterizes IAF flows.

Responsiveness is the Foundation's basic approach. It was revolutionary in foreign assistance when the Foundation began, and over the past 30 years it has

proven itself to be a dynamic approach to development. Responsiveness means simply that the ideas and the responsibility for the implementation of projects come from and reside in the people of Latin America and the Caribbean. Like all development agencies, the Foundation has changed. For most of its history, however, it has changed, not in response to new policy directions fashioned in Washington, but rather in a continuous dialogue with the people and private organizations of Latin America and the Caribbean. Reliance on the initiatives and responsibility of local organizations has been the best strategy for promoting sustained development and for ensuring that the Foundation stayed abreast of new problems and new solutions.

Management and Morale:

The IAF is governed by a nine-member board of directors (there are only six in place at the moment.) Three of the members come from the Administration, the rest from the private sector. The Assistant Secretary of State for Inter-American Affairs has always served on the IAF board. There has usually been an official from USAID, for many years the Administrator, more recently, the Assistant Administrator for Latin America and the Caribbean. The third slot has often been filled by the U.S. Permanent Representative to the Organization of American States, but officials from other agencies have also served. Private sector members have come from business, law, journalism, education, and other fields. All are nominated by the President and confirmed by the Senate. The board selects the IAF president, who serves at its pleasure. Board terms (for the private sector

members) are six years, which means they often overlap the term of the President who appoints them.

I go into some detail on this because the management structure—with all its built-in tensions—was designed to achieve very specific purposes. IAF was to have the freedom and the flexibility to experiment and innovate, but it was also to be, unmistakably, a U.S. government agency.

The key to effective management of IAF has always been to find people comfortable with all the tensions and multiple purposes inherent in this governing structure. For example, the IAF board ultimately reflects the Administration in office, but it is supposed to see beyond that Administration's time frame. It has public members because it should not run counter to Administration policy, and private sector members to help buffer it from pressures to pursue the Administration's short-term policy goals. It is to follow the rules of the federal bureaucracy, but it is also supposed to have the flexibility and quick response times of the private sector. The challenge for the IAF board of directors is that they are custodians, not so much of a small government bureaucracy, but rather of a fragile idea and a subtle web of human relationships.

I think a central oversight question is how do IAF board and management handle the built-in tensions of their responsibilities? What is their vision of the IAF and their understanding of why Congress set out this particular structure of governance for it? My own sense is that the agency has veered too much in the direction of bureaucratic caution in recent years. I detect less willingness to take risks, more worry about problems that could emerge than interest in development

goals that could be achieved. I think there is a tendency to package our projects to preconceived ideas or to a sense of what political leaders and policy makers want to hear. There is less interest in encouraging writing and speaking on development issues. IAF's once impressive production of widely-used books, monographs, articles, and videos on development topics has dwindled to a trickle. Professional staff members are discouraged from outside speaking activities and from participation in professional conferences by lengthening lists of clearance requirements. Staff reassignments and changes in internal procedures have weakened the foundation of past IAF success, a field-based methodology rooted in three basic principles: that field staff have a deep knowledge of the country context; that they be responsive to ideas emanating from Latin America and the Caribbean; and that they be in frequent, direct contact with the beneficiary population.

All of this has had serious implications for morale. Morale and its maintenance should be a key concern of management and board members. We have 60 people at IAF and it is unwise to generalize about something as intangible as morale. But my sense is that it has declined noticeably in recent years. I think the IAF staff shares a conviction that we are carrying out the Congressional mandate, that we are effectively representing our country, that we are doing good work. Yet for the past year and a half, all we have heard in every public discussion of IAF is an unrelenting focus on two problem grants. And now we have seen appropriations for our programs drop precipitously, to the point that Congress just voted, in effect, a close-out budget of \$5 million for the IAF. This suggests that as

an agency we have failed to communicate the broader accomplishments of the IAF.

For almost 30 years, IAF has been working on the ground in Latin America, funding the ideas and backing the dreams of tens of thousands of people. We are now seeing the cumulative impact of that in a more active democracy, a broader-based civil society. IAF accomplishments are not measured in GNP but in the thriving associational life now visible everywhere in Latin America. IAF staff is on a first-name basis with the key leadership behind that movement in every country. The United States and its neighbors now have the opportunity to consolidate a relationship that could contribute to hemispheric peace, prosperity, and cooperation for generations to come. I respectfully suggest this is not the time to dismantle or even diminish our most effective link to the movements from which the present and future leaders of the hemisphere are emerging.

Mr. SHAYS. Mr. Fisk.

Mr. FISK. Thank you very much, both on behalf of the Heritage Foundation, my new institutional affiliation, and as someone who has personally followed Latin America for roughly the last 15 years, either in terms of a policy job here in Washington or in the last 2 years from an academic viewpoint. For 5 of the years in government I had staff responsibility for oversight of both USAID and IAF on both the House and the Senate side.

In preparation for this, I thought it was useful to go through the congressional presentation documents for both USAID and the IAF, as well as review some of the sample congressional notifications, so my conclusions and comments are based on both professional experience and then this most recent review.

It is clear from my reading of the legislative history that the Inter-American Foundation was created to remedy a gap in programs implemented by USAID, namely the Alliance for Progress, which was part of the cold war architecture of the United States and Latin America. At the time of the Foundation's establishment, economic development was primarily defined in government-to-government terms with the focus on large infrastructure projects. The Inter-American Foundation's focus was to be people-to-people, working with and through nongovernmental organizations, a tradition the IAF has continued.

However, over the last decade, I would say that the gap in philosophies on how to approach development has dramatically closed, reflecting dramatic changes in the hemisphere. The increasing focus of U.S. bilateral aid programs, specifically those implemented by USAID, is assistance to nongovernmental organizations, with a growing emphasis on local and municipal programs. There is no doubt that AID continues to give money to governments. They do, and they will probably continue to do that. But there is no doubt, as well, that the increasing focus is nongovernmental organizations.

I conclude that it is difficult to distinguish how NGO development projects supported by the Inter-American Foundation are different from those——

Mr. SHAYS. Could you just suspend one moment?

Mr. FISK. Yes.

Mr. SHAYS. I'm sorry.

Mr. FISK. I can work however you want to.

Mr. SHAYS. No, no, you just keep going. We have time. What we will do is we will just keep it rolling. Since there is only one vote, we will just keep it rolling. If there were a few, we would have to adjourn, but let us keep going.

Mr. FISK. Thank you, sir.

As I was saying, it is difficult to distinguish how NGO development projects supported by the Inter-American Foundation are different from those supported by USAID. In some cases you have situations in which, at least in the recent past, IAF and USAID have supported the same NGO; maybe not the exact same program within the NGO, but the same nongovernmental organization. There is duplication of effort, and I would argue that this is neither necessary nor efficient.

Now, there is one area where the Foundation's agenda is different from that of USAID, and that is the Foundation's pursuit of partnerships with U.S. corporations. These partnerships, understandably, raise the comfort level of U.S. corporations investing in Latin America and, frankly, are smart corporate activity, as the IAF in its own annual report acknowledges, "Where corporations gain better-informed business decisions, loyalty, enhanced corporate and brand reputation through their social investments."

Now, for the Foundation, the partnerships are an innovative means of maximizing resources. There is no doubt that compared to what USAID does, these partnerships are out of the norm. In fact, AID does not do these kind of things. The Foundation does offer a unique group of experts and expertise and an on-the-ground perspective that, frankly, is not replicated within the U.S. Government. The question, though, is whether the Foundation is supplying a service to U.S. corporations for which the Foundation should be funded or compensated by the corporations and not the American taxpayer.

Given the large duplication of effort by the IAF and the USAID at this point in time, and the presence of a clear corporate interest in local development, I think it is fair to ask what are the options, given the 30-year mark for the Foundation. I would argue there are basically three: One is clearly the status quo. But it seems that everyone is in agreement that the status quo is unacceptable, including the Foundation.

The second is some sort of merger, either the traditional development activities of the Foundation into USAID, or what I think is more unrealistic just given the politics of the issue, is the AID, Latin America bureau, being merged into the Foundation. The traditional development programs of both, are the same.

The last option is privatization. I would suggest that the Foundation's partnership with U.S. corporations shows that there is a need that should be addressed, and that the Foundation has expertise and can play a role in this. I would argue, however, that corporations should be willing to compensate the IAF for its expertise. This should not be a taxpayer-funded entity or program. The IAF, I believe, should be privatized and, frankly, let the market decide its ultimate focus and fate.

Thank you very much.

Mr. SHAYS. Thank you very much.

[The prepared statement of Mr. Fisk follows:]

OVERSIGHT OF THE INTER-AMERICAN FOUNDATION

Prepared Statement of Daniel W. Fisk*
Before the Subcommittee on National Security, Veterans' Affairs,
And International Relations of the Committee on Government Reform
U.S. House of Representatives
Washington, D.C.
October 13, 1999

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to appear before you today to discuss the Inter-American Foundation (IAF). Congress, over the past six years, has reviewed a number of U.S. foreign policy programs whose genesis resided in the Cold War, including foreign assistance programs. A congressional review of the IAF is long overdue.

The IAF was established in 1969 in response to congressional frustrations with the implementation of the "Alliance for Progress" initiative. Without questioning President Kennedy's concern for the plight of Latin America's poor, the Alliance for Progress was part of the Kennedy Administration's "battle plan for the Cold War in Latin America" (to quote Stephen Rabe's history of Kennedy's Latin America policy). The Alliance was a reaction as much to Castro as it was an expression of genuine concern for the economic conditions of Latin America's poor.

At the time, development assistance was cast primarily in terms of government-to-government aid. The focus was on "modernization," which was principally defined as the funding of large infrastructure projects. Confronted with a seeming inability of conventional foreign aid programs to improve the status of Latin America's poor – a population that was deemed ripe for exploitation by Castro and his allies – a number of members of Congress, especially the late Dante Fascell (D-FL), concluded that an instrument was needed "to overcome an important gap in the machinery of the Alliance for Progress." Such an entity would address "the sensitive area of social and civic development of Latin America and endeavor to carry ... out [programs] primarily through private, people-to-people rather than government-to-government, channels."

In effect, the IAF was created to address the deficiencies in the focus of U.S. Agency for International Development (USAID) in Latin America and the Caribbean. Specifically, the IAF

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was to “review and support sound private undertakings in the field of social and civic development” and to provide an impetus for innovation and experimentation in development assistance programs in education, agriculture, and basic environmental conditions related to health, housing, and other social needs, including such activities as the “promotion of cooperatives, credit unions, and savings and loan associations; support for demographic research, planning, and related population programs, civic development, including... civic education, legal reform and aid...” (“Foreign Assistance Act of 1969,” Report of the Committee on Foreign Affairs, House of Representatives, November 6, 1969).

In a 1981 study of the Inter-American Foundation, the Heritage Foundation concluded that, on balance, the IAF made policy sense; that it had charted new and innovative development programs; that it fulfilled a role which USAID was then ill-suited for; and, as a result, it merited continued support. The Heritage assessment, however, faulted the IAF for its overall philosophical approach to development, which “[has] not favored the development of a market economy in the Latin and Caribbean countries [but rather has] demonstrated an IAF staff preference for collective, mixed economic, and socialistic solutions to the problems of poverty in the region.”

The intervening 18 years have been times of momentous changes in Latin America and also in U.S. policy. The region has moved from a majority of states ruled by authoritarian governments to one of 34 nations committed to democratic principles and liberalizing economic mechanisms, with Cuba being the exception. This is not to argue that democratic forms of government and free markets are consolidated and functioning efficiently or effectively in all cases. Many problems continue to confront the Hemisphere. The fact is, however, that the Hemisphere largely reflects one philosophy on governance and economic policy, even if discussion on the details continues.

Concurrently, U.S. policy has shifted from an exclusive focus on anti-communism to support for the consolidation of democratic governments and free markets. The fear of Cuban-style revolutions seems distant. The focus is on democratic, transparent elections, free markets, free trade, the rule of law, and civil-military relations. The changed reality of the Western Hemisphere and the shift in the U.S. policy focus have been reflected in a change in U.S. support for economic development.

While I continue to question the effectiveness of USAID, the fact remains that what it does today in Latin America is largely the same as what the IAF does. IAF support for non-governmental organizations (NGOs) was unique 30 years ago. Today, USAID primarily implements its programs through NGOs; in some cases, USAID grantees and IAF grantees are the same. Thirty years ago, the IAF’s focus on broadening economic participation at the grassroots level was unique. Today, USAID shares the IAF philosophy and much of its methodology. According to a recent USAID “Congressional Presentation” document, that agency’s Latin American focus involves:

- “building democracy, encouraging broad-based economic growth, reducing population

- growth and improving health, and protecting the environment.”
- Designing “individual country programs ... to balance activities that promote long-term, broad-based economic growth with those that directly benefit the poor, so as to achieve a significant and sustained reduction of poverty over the long run...[including] strengthening markets; expanding economic access and opportunity for the poor; and expanding and improving basic education.”
- “broadening citizen participation in the political system” and as decentralization continues, “increased emphasis will be placed on municipal elections.”

The same focus underlies IAF programs. And, to repeat an earlier point, many of the NGOs being funded by IAF to implement these program objectives also are being funded by USAID.

Given this state of affairs, the primary defense of IAF seems to boil down to two arguments: First, that it accounts for only a small percentage of the total U.S. foreign aid budget; and second, that it is experimental in its focus. Both are true statements, as far as they go.

It is irrelevant to this review whether the IAF accounts for a small or large percentage of the U.S. foreign aid budget. The issue is whether the program itself is justifiable. Nor is the issue the IAF’s goals: support for local development or the encouragement of social investment.

The issue is duplication. Under current circumstances, it is hard to see how IAF programs are distinguishable from USAID programs. The same taxpayers are paying for both programs, and the duplication of effort is inefficient, which in turn reduces effectiveness in achieving the common goals.

But there is another, larger question raised by this review of the IAF: whether the private sector is a more effective instrument of economic development than traditional approaches. Such a conclusion is implicit in the one program which distinguishes IAF from USAID: the IAF “external affairs program,” which “entails the promotion of social investment in Latin America and the Caribbean with the U.S. private business sector to promote solutions to a host of social and economic issues that will improve the quality of life of the poor in the region.”

U.S. business understands that poverty is bad for business. Or as the IAF phrased it, “the business community appreciates that poverty reduction through social investment and responsibility is ultimately good for business.”

Clearly, the IAF’s “external affairs program” is innovative. In some respects, it has moved the IAF away from an attitude that has been prevalent among many “development NGOs,” namely that private businesses are evil exploiters of the masses – a belief that explains one reason why the development NGO community has often pursued “collective, mixed economic, and socialistic solutions” to the alleviation of poverty. While the “external affairs program” is a step in the direction of recognizing that poverty is related to a lack of economic freedom and restrictions on market mechanisms, the IAF program raises the question as to why the IAF is involved in an activity “to help corporations maximize the return on their social investment.”

I am not opposed to the U.S. government promoting American investment in Latin America. We would hope that such an endeavor is pursued by U.S. representatives abroad. My understanding is that this is one of the mandates held by the Department of Commerce; and my experience is that it has increasingly become a focus of the U.S. State Department, its Economic Bureau, and U.S. Ambassadors. In fact, my experience in working with a number of U.S. Ambassadors over the years has shown a decrease in traditional political issues and an increase in the time and resources they spend on economic and commercial activities. It is fair to say that U.S. Ambassadors in the Hemisphere see themselves as critical players in the growth of inter-American trade and investment.

I concede that the IAF offers a different point of access for U.S. corporations than that offered by either the Commerce Department or the economic staff of the U.S. Embassy. And there is something to the expertise claim made by the IAF; its long involvement in grassroots development activities does provide it with a unique institutional frame of reference. As IAF President George Evans noted in the IAF's "1998 In Review," "primarily through the use and transference of its proven methodology and expertise, the [IAF] can greatly enhance a corporation's ability to target social investments in a manner that produces the most effective, sustainable, and measurable results possible."

I do not question the "social responsibility" of American corporations, nor do I resent their profit-maximizing endeavors. They should be applauded for activities to generate jobs, markets, and (literally) electrical power to local communities in Latin America. I would agree with the IAF that such partnerships are beneficial to U.S. corporations and to local communities. But I do not believe that the discussion should end there. Isn't the IAF supplying a service for which AMOCO, Levi-Strauss, and the AES Corporation (which is described as "the largest supplier of electrical power in the world"), for example, should be paying?

The reality is that a corporate "partnership" with IAF raises the comfort level of U.S. corporations. It provides on-the-ground access and insights that would otherwise need to be acquired from experience or other sources. The IAF does offer expertise and entrée to many local communities for U.S. corporations who partnership with the Foundation. This prompts the question whether this IAF role should be funded by these corporations rather than the U.S. taxpayer.

I would suggest that the IAF partnership with U.S. corporations shows that there is a need that should be addressed and that the IAF has a role to play. I would argue, however, that corporations should be willing to compensate the IAF for its expertise. In effect, this unique aspect of the IAF should be privatized and the market should decide its focus and ultimate fate.

The larger question raised by the IAF external affairs program is, what best promotes economic development? The question is not one of the willingness of the American taxpayer to assist people in times of emergency or natural disasters. If there is any societal/political consensus it is in the area of humanitarian aid. It is in the area of economic and development aid that the

answer to my questions is most relevant.

While foreign aid can be a useful adjunct of U.S. foreign policy, it is not a cure-all, nor is there much evidence to support the proposition that foreign aid has alleviated poverty in less-developed countries. If foreign aid were the solution, Haiti should be a far different place than it is today after \$3 billion in bilateral U.S. assistance over five years.

The Heritage Foundation has devoted considerable time and effort to studying the problem of economic development. One conclusion has clearly – and repeatedly – emerged from our work: poverty is largely a condition imposed on people by ill-conceived and repressive economic policies. In its own fashion, the recent IAF budget submission supports this conclusion by noting the positive relationship between democracy and decentralization in a state's economic development. Or to put it in other terms, the lack of democracy and the tendency towards governmental and economic centralization contributed to the situation (i.e., poverty) that the IAF was designed to address.

Mr. Chairman, at its founding, the mission of the IAF was clearly distinguishable from other U.S. foreign aid entities, specifically USAID. Today, it is difficult to distinguish the activities of the IAF from USAID. IAF's corporate outreach program is one area of difference. This activity, while well-intentioned, raises the question of duplication with Commerce and State Department activities, as well as the broader question of whether taxpayers should fund what is in effect a service that the market itself can deliver. If IAF is to be, in effect, a "for hire" agency that assists U.S. business, then that is all the more reason to let it exist on the service it can deliver to investors and not on the largesse of the American taxpayer. Let the market, not the taxpayer, determine the IAF's focus. Finally, the larger question remains about the efficacy of foreign aid as a stimulus to economic and social development. To date, the record is not impressive.

We all want the Western Hemisphere to grow economically and socially. We want democratic and free market institutions to succeed. In one sense, the IAF has contributed to the positive situation the Hemisphere now finds itself in. As the IAF noted in its FY2000 budget submission, "major economic reforms in Latin America and the Caribbean, including the adoption of free markets, controlling inflation, bringing fiscal deficits under control, and privatizing government enterprises, have decisively shifted responsibility for economic growth, job creation, and the building of wealth to the private business sector."

As outlined in its enabling legislation, the congressional sponsors of the IAF sought

To provide support for development activities designed to achieve conditions in the Western Hemisphere under which the dignity and the worth of each human person will be respected and under which all men will be afforded the opportunity to develop their potential, to seek through gainful and productive work the fulfillment of their aspirations for a better life, and to live in justice and peace.

Today, the nations of Latin America and the Caribbean stand at the threshold envisioned in the purposes of the IAF. The IAF has contributed to societies in which these are no longer simple aspirations, but are realizable goals. The IAF's mission was not to end poverty but to contribute to the promotion of conditions under which the above-quoted goals could be achieved. I acknowledge that poverty and injustice are not eradicated. But the means of addressing these problems has dramatically changed. Today free markets and democratic institutions provide a means of redress; these were barely existent when the IAF was created thirty years ago.

Furthermore, the IAF started as an experiment to provide expertise and resources in areas of benefit to the poor of Latin America. The IAF has succeeded to an extent that its agenda and methodology are no longer "experimental" or unique.

These two realities – the new dynamics of Latin American and Caribbean development and the implementation focus of USAID – are the best arguments for sunseting the IAF as a taxpayer- supported entity. Its mission has been achieved.

Disclosure Statement: Neither the Heritage Foundation nor Daniel Fisk have been the recipient of any grants or contracts from any government agency pertaining to the issue of this testimony.

Mr. SHAYS. Mr. Rengifo.

Mr. RENGIFO. My name is Alvaro Rengifo.

Mr. SHAYS. So I didn't say your name correctly.

Mr. RENGIFO. No, you said it very well. I explained to your assistants that it was difficult to pronounce my R.

Mr. SHAYS. Can you lower the mic and speak a little louder?

Mr. RENGIFO. OK, thank you.

The reason why I am here today is, as we heard before by the people that have worked with the IAF, and I worked with IAF about 11 years ago, about 6 months, during my internship—I was at that moment with a Fulbright grant from your government, and I was doing a special program at the Johns Hopkins University, and then I entered, during my stay here 1 year in Washington, in four organizations. One was the IAF, which I stayed for 6 months, and at the same time I was working with the World Bank in Bolivia, at the Hispanic Catholic Center, helping people from Central America to learn and to read Spanish. And I also was working for 2 months or a little more, I don't recall, with the USAID, working with two of my professors that needed some help in the rural sector.

So the reason why I am here today, trying to, I would say, help maintain this organization, this institution, is because I do believe that you have, the U.S. parliament, the U.S. Congress, has a very nice, very interesting organization that I think is worthwhile.

I have been reading and hearing tonight—or this morning, excuse me—many of the reasons why you are making this kind of examination of the interest of your country to devote to taxpayers' money to it. I do believe there are many, many reasons. I cannot agree with my predecessor in the word with the duplication or the private sector driven—being able to do the job this institution does.

I have been working for the last 10 years in development. When I left United States, I went to Ivory Coast of Africa, western Africa, 4 years, and then I stayed in North Africa and Morocco for another 2 years, and when I came back to Spanish Cabinet again, I ran into problems of aid, of assistance aid to many parts of countries of the world, especially to Latin America. And for the last 3 years under the new government of Mr. Aznar, I have been Assistant Secretary of Commerce dealing with financial aid in the Spanish system that we have.

I do believe and I think that you have an institution which is very interesting and very unique. We in Spain have tried to do things very—I would say trying to tell our Parliament to do something in the same way, but we have not been as successful. I think you are a good example that we have to follow.

But let me just say what I think is very different. First, they are not an active actor in the sense that you respond to people's ideas, which is something we have little time to do in governments. What we do in the system is we try to tell them and try to teach people what to do. The philosophy which is behind IAF, which I think is very interesting not only here, but also in their brother institution, the Inter-African Development Foundation, IADF, or however you say the name, is to hear people and see what they have to say and then try to help them to do that, giving some guidance. So one idea

is that no other institution, no other assistance agency in the world likes to hear and just be passive.

I recall when I was there 11 years ago, I was impressed to see how many letters at that time the Inter-American Foundation was receiving every day proposing new projects. And one of my jobs was to try to go and scrutinize and decide which was more interesting or not. That is something in my 10 years working with development in Spain is very unusual. Normally you go to the government or somebody else, but you try to push them, and you are the one who makes the design. I think that is a very interesting point.

Second, you work, or the IAF works, with leaders; trying to look for people who are capable in that country, in that part of the country to be a leader of that project. Otherwise you would never have a sustainable project. When we talk about development, I think it is like driving a car with a rear mirror. You will get the information of what you have done, 10 years later, when you get the development evaluation and see what has happened. So you are always with a kind of black mirror in front of you, which is difficult to drive. That is why this kind of grass-roots approach, having leaders and responding to the needs, is the only way you can be more sure that you are doing a good job and a sustainable job.

The third idea is that most of the projects, that I have followed very little in the last years, but that you also need to put money from the people there, so you are just a partner in the project. You are not the only funder. The leader or the organization or the community or whatever who has on the other side giving this idea will also put in his money.

So these three ideas are very interesting, and I think no other institution have them.

Mr. SHAYS. Excuse me, Mr. Rengifo, let me interrupt you. I am going to go vote. I will just have you continue to make your last point. I will have Mr. Sanders reconvene us. So we are going to be at ease for a few minutes. He will be back, and he will start us off, and then we will come back.

Sorry to interrupt you.

Mr. SANDERS [presiding]. The chairman will be back, but he suggested that we continue, and, Mr. Rengifo, I gather you were in the middle of your testimony.

Mr. RENGIFO. Yes, yes, I was just trying to explain why I was here and why I have some positive words. I am trying to say that is needed to help you sustain and maintain this institution, which I think is a very interesting, unique, and good institution.

I thought it was good for its three main ways of working, which is responsive to all good ideas, not designing them; looking for leadership, to be sure that this project will be sustainable in the future, which is one of our main concerns, people who, like me, work on development issues; and, third, that you always ask for a counterpart to be financed. That means you are not the only funder of the idea, but you go with a partner in this kind of project.

You do it through grants, which I think is the only way you should do that. They have done evaluations—I mean, the last years I have been not participating, but in the late 1980's and 1990's, I still received papers from the IAF, and there was always a permanent monitoring, which is not so very uncommon. And, finally,

there is this very interesting job of publishing books and publishing these kinds of letters, which I think are very insightful and enlightening for those of us who work in this field.

Just to end, which I think I have run out of time, I would say you have a very unique institution with innovative ideas which has helped all of us to know about grass-roots development and working through NGO's and local NGO's, not only NGO's in our western countries, but NGO's in the local countries. It is a small agency. It is very flexible and have given a lot of lessons and good practices to do. And I do believe, and this is something that is very personal, but I am very sure it has given a very good image of your country abroad, in Latin America and good prestige.

I do also believe that when you talk about the size of projects, that you need more money. That would be my first idea, not less money, but more money for this institution. But, second, you are doing projects which average about \$100,000 to \$200,000. I know of no institution in the world in the western countries on the rich continent that is able to do that. We not only work for the IDB, Inter-American Development Bank, representing Spain and all the countries like France, Austria, and the Nordics, we in the IDB, in Latin America, we are unable to do projects below normally \$5 to \$10 million. Normally. We can do some lesser ones, but I don't think USAID is able to go far below, \$2, \$3, \$4, \$5 million.

So this kind of institution which goes to \$100,000 I think is a very interesting institution. And I do not know how, but I would say to you that I think it is a good idea to have it. Thank you.

Mr. SANDERS. Thank you very much.

[The prepared statement of Mr. Rengifo follows:]

Statement by

Mr. Alvaro Rengifo
Executive Director
Inter-American Development Bank

Before

The Subcommittee on National Security, Veterans Affairs,
and International Relations
The Committee on Government Reform

October 13, 1999

I decided to respond favorably to the invitation to testify before this subcommittee of the Committee on Government Reform because I have positive views about the Inter-American Foundations support for grassroots development in the hemisphere and felt that the point of view of a European involved through my work in the past ten years, and especially, in the last five when I was involved directly in the development of the region could prove to be a useful perspective.

I entered the Ministry of Finance of Spain through a Public Exam and became a member of the Body of Commerce Technicians and State Economists. I worked at the beginning of my career in Tariff Policy and trade of oil. But in 1987 I obtained a Fulbright grant and came to study to the USA for the purpose of learning how Official Development Assistance (ODA) was conducted. I entered SAIS in its special program of Social Change and Development with Dr. Grace Goodell.

I became familiar with the IAF's work when I worked there as a student intern for 6 months over 10 years ago while at the Program on Social Change and Development Program at the School of Advanced International Studies (SAIS) of The Johns Hopkins University.

During my year at SAIS, I worked as Intern for the following organizations: the IAF, the World Bank, the US Aid and the Hispanic Catholic Centre. I was able to compare the very different approaches that all these four organizations had. The first three were GO and the latter NGO.

Back to my work, I spent four years in Ivory Coast and two in Morocco working as Economic and Commercial Counselor for the Spanish Embassy. In Abidjan I was in close contact with the African Development Bank.

When I returned to Spain, I became Director of the Department of Latin America in charge of the financial assistance to the Region. Later, with Mr. Aznar's government, I became Deputy Secretary for Commercial Policy and Foreign Investments in charge, among other things, of all financial official aid of Spain which accounts for almost half of all ODA of the Spanish Government (About 600MS per year).

From these vantage points, I am able to say that the IAF is a valuable model of an important channel and way of doing foreign aid and we can continue to learn much from it. I have always been impressed with its status as a Public Corporation, which is different from other federal agencies and is more accountable to the U.S. Congress. I know of no other case of this type of entity doing foreign aid this way in Europe. Its exclusive focus on grassroots development is also a positive characteristic which makes it different from other U.S. government agencies. And its longstanding staff with thorough knowledge of the countries has proven to be one of the best ways to improve and help in a sustainable development and eradication of poverty in the region.

Recently, I was appointed by my government as Executive Director at the Inter-American Development Bank yet I am not speaking for IDB but am providing testimony today as

a European citizen deeply involved in the international aid field in Latin America and who wants to encourage the U.S. to continue to use one of its most proven assets.

The work of the IAF is highly appreciated and is a very important help in looking for ways to deliver effective aid to the Region. We all have been unable to find yet effective ways to reduce poverty and ameliorate income distribution in a sustainable manner. Grassroots development, although not sufficient, has proven to be a good way and the IAF continues to remain in the forefront doing pioneering efforts in places and with development problems ignored by many other agencies.

I was interested in learning the IAF approach in funding and project selection to help my own government learn how to improve our foreign assistance programs for Latin American countries. The Spanish government was expanding its foreign aid programs at that time and had great interest in learning about more streamlined approaches that successfully eliminated bureaucratic red tape, incorporated the poor in the design and implementation of development projects, minimized political and ideological interference, kept overhead costs to a reasonable level and was an responsive rather than prescriptive agency.

The IAF was an excellent example of an agency that exemplified these aspects in its day to day operations. In addition to that observation, I learned that the IAF was able to find exciting and innovative projects in the communities because its staff typically had a long involvement and wide range of contacts within civil society in the countries to which they

were assigned. They were trusted by the local people and could draw from a large social network for obtaining advice and references about the groups and leaders seeking financial support.

Oftentimes the secret to finding good projects in Latin America and in other regions of the world is being able to identify the movers and shakers and the social visionaries who make things happen and have the perseverance to continue pushing for change within the adverse circumstances that invariably appear in these complex local settings. It is the only way that a project can be sustainable in the long run. These are the leaders coming up with the new ideas for solving future problems in development and the IAF has proved to be effective in finding them and knowing how to support their organizations in a genuine social process of change that also invariably involves institution-building.

I was impressed with how the IAF was documenting these grassroots development experiences through occasional monitoring visits to projects, conducting comparative studies and publishing various articles and books both in English and Spanish for a readership of practitioners as well as students of development all over Latin America as well as in the North. These materials have been useful to those of us working in the foreign aid community in Europe as well as for many at the IDB that has begun to adopt some of the concepts of popular participation, social capital and indigenous rights to our work only in more recent times.

The IAF was ahead of its times as the rest of the aid community had to catch up with it. This dissemination role appears to me is a fundamental part of the IAF contribution to grassroots development for in addition to reaching reach down into communities it is sharing its wealth of experiences through a knowledgeable staff with a much wider public to spark interest in these problems as well as approaches to solving them.

I strongly believe that IAF has played a very important role, it is as important to the hemisphere today as it was ten years ago or twenty years ago. I can assure you that the American people and the interests in greater understanding between North and South in our hemisphere are served very well by this small and unique agency. The image of the USA is very well defended through this Institution.

Mr. SANDERS. I guess I will begin with questioning. I think that will be appropriate.

Mr. FISK. I apologize for not having heard your testimony. Let me just start off by asking you a question. Your point of view is that the IAF was developed as part of the cold war?

Mr. FISK. That is my reading of the legislative history and, clearly, the late Dante Fascell's focus.

Mr. SANDERS. The cold war is largely over, communism is largely dead. What do you think; no longer need the agency? Is that your point of view?

Mr. FISK. My point of view is that, in the traditional development area, its programs are the same that USAID is implementing. So there is a simple question of duplication. Are we, the American taxpayers, getting something different with IAF funds than we are getting from USAID funds?

Just to give you an example, funding levels, the Ecuador IAF program was referred to as a 3-year program at \$190,000, roughly \$62,000 a year. The fact is that AID does this same thing. It will fund cooperatives or a credit union cooperative in Nicaragua, for example, \$250,000, but it will do it over 3 to 5 years. So it is the same funding approach. AID can and does fund such programs. I have given grants as low as \$16,000 to NGO's for activities. So one issue is duplication.

I would have a larger philosophical question which goes to the issue of what is the best means of economic development; is it bilateral assistance? Clearly there is societal consensus on humanitarian aid. For instance, the response by the United States to Hurricane Mitch, I think, was entirely appropriate. But one can look at the same set of countries, El Salvador and Nicaragua, with which I know you are familiar. We have put \$3 billion into Nicaragua since 1989, and we are still looking at a horrendous economic situation.

So I think one has to ask what is the better means of economic development. I have a question that goes to the entire philosophy of bilateral aid which goes beyond the IAF.

Mr. SANDERS. In other words, your basic point is that they are duplicating what the other agencies are doing, and they should be merged?

Mr. FISK. Yes, sir.

Mr. SANDERS. Mr. Rengifo, would you want to respond to that? Is that true?

Mr. RENGIFO. Well, I am happy to hear that. The USAID, when I was there 11 years ago, was unable to do that. But, still, I am very sure that it is unable to go with this kind of philosophy where you respond to the ideas of others.

At that time, where I was working in rural development, they were most of the time designing projects. I think these ideas—it will be difficult to merge this kind of philosophy of being responsive, looking after leaders and trying to search for counterparts, and being a little inflexible. I think that is impossible in an organization like USAID.

I would not agree with Mr. Fisk, although I respect very much his idea, because I think he has an interesting point about what is development. That is the main issue most of us have been deal-

ing with that in the last—since I started studying. And I know it is very difficult.

Maybe it is better not to do any kind of bilateral aid. That would be another question. But the point today, is about the IAF role, I think it has a role, and I do believe that there is not duplication. There is a lot of complementary, and maybe sometimes I think it is even good news to see they have funded projects together or with the same organizations. I think that would be helping to introduce to some of these organizations a new role in which you can see how this leadership and this sustainability, which are the projects of the IAF, is even larger and better than others. So I would not agree with the idea of merging them.

Mr. SANDERS. Mr. Breslin, would you want to comment?

Mr. BRESLIN. I would love to. I worked for 1 year at USAID. Actually, I promised to work for a year at AID, and I worked for 11 months. I burned out after 11 months.

I think that you have to go to the field. On paper all development agencies basically sound the same. The rhetoric is very similar, everybody is doing good stuff. I think to see the difference you really have to go out in the field.

I have been the representative of the Inter-American Foundation in Honduras for about 3 years, and I have been the representative for Colombia for a good part of the last year. When I go out to the field, I don't see AID people in the field. I see AID people in a mission, because on every trip I usually stop by the Embassy and touch base with the Embassy and with AID.

There is a major difference. The people in the AID mission are working at the governmental level. They are designing something for, say, the health sector in a given country. They are talking about millions of dollars. They are talking about health posts, and different levels of assistance, and bringing in equipment, and bringing in largely U.S. consultants. Most of AID money is spent in this country for consultants who then go to the country and presumably impart their expertise.

The fundamental difference about the Foundation is what my colleague mentioned a few minutes ago. We are out there listening. Our meat and potatoes is what people tell us. It is their ideas. We have funded a lot of health projects around the hemisphere. They tend to be community-level projects where people have come up with their own ideas, something as simple as just getting resources to get a simple little health post to put in somebody's house. We fund at that level.

But the difference is not really in the size of the grants we are making, it is that we are funding the local ideas, and, when we fund health projects for example, we don't think just about health. We want to know, and this is a question we ask on every single project, what is this project going to do for your organization? Does it strengthen your local organization? Do you gain experience in this? Does this allow you to move on to something else?

Our focus is on people, and their ability to solve problems through their organizations, and the specific project, in many cases, is not the key thing, it is how people are handling it, what they will learn from it, what kind of contact this will give them with other people, other groups in their societies. So I think that we

really are doing something fundamentally different from what AID is doing.

Mr. SANDERS. My last question is to Mr. Rengifo, and others. Can you comment on the fact that in recent years the IAF has changed its orientation a bit and now works more closely with corporations than was the case before? Do you want to comment on the wisdom of that?

Mr. RENGIFO. That would be—from my perspective, I do believe that it has been a strange thing that I have read yesterday and today. I think there should be things with the private sector, but I do believe that there are very, very different views.

In Spain, we have this very separate two bodies, one is the Minister of Foreign Affairs, what is here called State Secretary, and the Ministry of Finance, which is called here Treasury, where we have two kinds of philosophy to the approach of development. Foreign Affairs is more with grants and NGO's and whatever, and my job was more with the private sector and trying to do some kind of aid related to tied aid, which was not that nice, but it was what I was told to do by my Parliament.

I think that dealing with the private sector will always change a lot of the design of any project. It would be very difficult if you privatize this kind of institution to have the same results. You would have a very different institution, or foundation in this case, excuse me, a very different foundation and a very different code.

It is very difficult to meet and to try to eradicate poverty and help self-improvement projects and self-done projects to do it through a private-driven idea. It would be very difficult, and I think it would be absolutely impossible. Very contrary goals. I do not know how the IAF has done this kind of corporate strategy, whether just the Foundation or other foundations helping them, or because they have merged some interest in the private and public sector.

But I do believe that is a difficult task, and maybe you can do some kind of good merging and stay with your ideas and you being the one who drives it. But I don't think they will be able to do that if the private sector is the one who is solely funding you. In the end, I don't think you will maintain the same kind of foundation with the same goals. I don't think so.

Mr. SANDERS. Mr. Breslin, Mr. Fisk, would you want to comment?

Mr. FISK. Go ahead.

Mr. BRESLIN. Yes. This is new for the Foundation, only in the last few years. And, frankly, for me, it is not an ideological question. I am dubious about this policy in some ways.

Mr. SHAYS [presiding]. This policy being?

Mr. BRESLIN. Of looking for more working relationships with corporations to leverage more resources for the kind of projects that we fund.

We do it in two different ways. We do it in Latin America, and we do it with U.S. corporations in the United States. I think that the real question is does it distort the kind of things that we think we need to do in Latin America? Does it really get resources to people? Does it really increase the amount of resources going to projects? And does it increase the education level of people in U.S.

corporations about problems overseas? And, fundamentally, does it change the relationship on the ground?

My concern about working with corporations is that I think there is a tendency for it to bring us into a more top-down approach, the approach I was talking about before, an approach in which we will figure out what these people need, and we will do a project and give it to them.

So I look at this kind of relationship with corporations—and I do it a lot in Colombia because Colombia has a very long tradition of philanthropy going back to early in the century, and Colombia has some of the largest family foundations in the hemisphere, spun off from family businesses that spun off with significant resources, foundations that are working on social problems. I work directly with those people, and, in most cases, I am incredibly impressed with their commitment to the idea that their help should not to overwhelm people with charity. Many of these people come out of a background of charity and have grown out of that and are looking for ways that they can channel resources to people in ways that let people manage their own projects.

So my personal experience is I find a lot of exciting possibilities in this link with corporations, but I think that, as a foundation, given our mandate, it behooves us to approach this critically. When we fund a group that comes to us for any kind of project, we subject that group to a great deal of analysis and constant questions. And I think that our approach to working with corporations should be to require at least the same level of analysis and of critical questioning before we go into a relationship.

Mr. FISK. Mr. Sanders, quickly, I approach your question a little differently in terms of philosophy. I think ultimately the way people are going to get out of poverty is economic freedom and private investment.

I think one of the things that has plagued Latin America in particular has been basically repressive regimes, both politically and economically. Right-wing military regimes were just a corporate entity that benefited the military ruling junta. So there the masses did not have economic opportunity. Hopefully, Latin America now is at a point that is far different, even if issues of poverty and health remain out there.

Whether this corporate partnership with the IAF is troubling or intriguing, or just raises a question, is the Foundation effectively becoming a mini Department of Commerce? Basically, these corporate partnerships are of benefit to the corporation. The IAF material makes that clear. I am not necessarily opposed to that, but I just have a question about whether that is the role of the Foundation; should it be in effect, an on-the-ground Department of Commerce, saying here is a local community to invest in, and if you pursue it with us, you are going to get more brand loyalty, you will increase people wanting to buy, whether it is Cheerios or Dove soap.

So, to me, that is the question: is this the role we intend the Foundation to play?

Mr. SANDERS. Are you suggesting this is perhaps a bit of corporate welfare?

Mr. FISK. I would suggest that, yes.

Mr. SANDERS. If I could, Mr. Chairman.

Mr. SHAYS. Sure.

Mr. SANDERS. Mr. Fisk, and maybe others would comment, what is your assessment of the poverty situation in Latin America today? Is the situation better or worse than it was 20 years ago?

Mr. FISK. The answer to whether it is better or worse, in some ways, is that it is not much different. The majority of the population is still outside what Ms. Otero referred to earlier as the formal economy; they are engaged in the informal economy. That simply means they have to survive outside the normal mechanisms. A lot of it is barter and subsistence.

My experience has been mostly in Central America, in El Salvador and Nicaragua, including some pretty remote parts where no Nicaraguan Government official had been.

Part of the problem is an infrastructure problem; part of it is an education problem. It is a situation in which I think opportunities exist that didn't exist 20 years ago for economic improvement, where some fundamental questions of economic security remain.

Nicaragua is a classic case.

Mr. SANDERS. Am I correct in assuming that Nicaragua unemployment is 60 or 70 percent?

Mr. FISK. I have not seen recent figures. I would say between unemployment and underemployment, that is probably a fair assessment. If you get outside Managua, Leon and Esteli—I have been to Puerto Cabezas, I know what the situation is like—you see poverty, and you see an increasing drug problem. Your comment earlier is accurate in that regard drug trafficking becomes a means of employment. The drug traffickers bring in the drugs. They just need people to do various manual labor tasks.

I would have to say, based on, my experience that the most effective instrument for development in that part of the world has been the sister cities projects and religious organizations. I have seen the Catholic Church do some phenomenal things. I have seen the Moravian Church on the Atlantic Coast do some fantastic things without any U.S. Government money. Maybe people here are getting a tax deduction, but they are the ones who seem to have the presence. In fairness to both the Inter-American Foundation and USAID, they have been deficient in a number of areas in terms of actually bringing genuine long-term development to these areas. I have seen American religious organizations do much more.

Mr. BRESLIN. I think the major difference in poverty, the conditions of poverty, in Latin America, from my experience, is that Latin Americans are much more organized than they were. In actual numbers, there are more poor people now than there were 20 years ago or 30 years ago, just because of population growth and the lack of really sustained economic growth in most of these countries. So the poverty is there.

This goes to one of the issues that was touched on earlier about how many countries does the Inter-American Foundation work in; are we getting out of countries? We have gotten out of countries which are considered economically much better off: Chile, Uruguay, Costa Rica. I have traveled in those countries. There is as much poverty, if not more, than in the past. The GNP figures look good, but poverty is still there. So that has not changed.

What is different to me is that what you find in every place I have been to in Latin America in the last 10 or 15 years are organizations. People are doing something about poverty. When I was a Peace Corps volunteer, my job was to encourage local groups to form. And in the town I lived in for 2 years, there were no local groups. And when I left, there was one, because I kept nagging people to do it. But I don't think that really had any sort of lasting influence.

What you find throughout Latin America now is this incredible alphabet soup of groups. You can't walk down the street without tripping over four community organizations and six NGO's. They are just all over the place. So what you get coming out of that is really an incredible creativity about dealing with economic problems.

Somebody mentioned the informal economy, which basically is market women, it's people trying to make a living on the fringes of what we think of as the normal economy. But to me, again, the striking thing about that is if you go into those marketplaces and start talking to people, they are all organized. You don't have individuals out there just trying to make it on their own. They're members of groups. They have credit programs. They vouch for each other's repayment of loans. There are networks like this all over the hemisphere.

Mr. RENGIFO. Yes, thank you. I just wanted to draw you a quick picture of the is poverty situation in Latin America. I think that we have had a very good decade until 1997, in which growth was spread around and things were becoming better and better, not only on the democratic side, but mostly on the economic side.

Unhappily, the last 2 years have been very tough. One of the big issues is not only that growth is not there, but you can have some growth in Mexico, you have some in Dominican Republic, Uruguay, two or three more, but you have very huge strikes for many countries, like Brazil, and for some populace in Central America. You have lots of problems in Venezuela. And maybe today the oil is going up, so that's a variable. What about Colombia, Ecuador? Chile is having a lot of problems. The financial crisis and the Asian crisis has hit very hard a place in the world which they have done their job in doing many macroeconomic and very sound changes. And thanks to that, they are better off than they would have been 10 years ago, but, still, that is one question.

Things are tough today in 1999 in the region, and it is very uneven in how it works. But the big question is that unhappily, even with growth, we have been—and when I say we, I am talking about all of us, all Latin America region countries have been able to serve with these multilateral organizations like the World Bank or the IDB to see how we can get this growth down to the poor people, and that has been a very difficult task.

And one of the regions where we have less succeeded is in Latin America. We have seen in Southeast Asia where this has been able to get down in absolute and relative terms the poverty; whereas in Latin America, relative poverty in those terms have been very disadvantaged. We have not been able to cope with that. That is one issue.

And the second issue, which is even more important, inequality has grown. Which is something that has happened all around the world, even in this country, I think.

So those are two huge issues. And I think organizations, coming to what we are discussing this morning, like the IAF, is making big changes in those things. A little one, because it has not much money, but it is helping to disseminate the richness.

So I do believe the situation is bad and that this kind of grass-roots approach and responsive approach is the only way you can give sustainable hope to these kinds of communities in the region.

Mr. SHAYS. I am wondering about the general concept of being a venture capitalist without charging any obligation to the recipient of the money. I like the thought that you are a venture capitalist. I think you made a case, Mr. Breslin, for the fact that you are kind of getting underneath this system, and you are seeking out the private kind of investment, but you provide a grant rather than a loan. I am just wondering if maybe we should not see the IAF move in that direction and end up being a private organization eventually.

I happen to buy the argument that poverty was bad 20 years ago, and it is bad today. So, I mean, there is more than enough to do. So I take the argument, Mr. Fisk, that whatever is done on the private side, we need more of it, because we just really are not denting it enough.

But, that said, why shouldn't we charge some kind of obligation to the people that you are funding?

Mr. BRESLIN. That goes to the nature of the Foundation. We are basically the face of the U.S. Government in poor communities around Latin America. We are the ones who get out there and listen to people and express our interest in what they are doing and, eventually, if they are convincing to us, our support for what they are doing.

What we require of them, I think, was mentioned before. Eventually we ask them to present us a budget, and the budget contains line items for which they need to expend money in the project. And in all projects we ask them for their counterpart. It is a requirement. We do not do projects without counterpart funds from the grantee.

We have historically been fairly flexible about what counterpart is, and in many cases it is their labor. It is 100 days of hard labor on a project, or 1,000 days, depending on what the project is. It is providing rooms for meeting spaces. It is somebody contributing their house to store seeds in before the planting season. And we try to put a value on this, and we ask them to put a value on it. So we really try to stay away from the idea that we are just going to drop money on you out of charity. We think about these projects as partnerships that we are going into with them on.

Most of the projects also have counterpart from other local organizations. Very typically we will fund a group of small farmers someplace, and there will be at least one other organization which provides technical assistance, or an organization that is an expert in sustainable agriculture, ecologically sustainable agriculture, organizations that specialize in providing all these techniques, and we ask them, give us a dollar figure for your contribution as well.

Mr. SHAYS. So your bottom line point is that you are asking for there to be a commitment; that you try to leverage other activities with the money you give?

Mr. BRESLIN. Yes.

Mr. SHAYS. Mr. Fisk, does the Heritage Foundation basically oppose foreign aid?

Mr. FISK. The philosophical position is one of skepticism. If it is an adjunct or component of a broader foreign policy agenda, the Foundation has supported it. But just simply to presume or assume that foreign aid it is the best means of economic development, the Heritage Foundation disagrees with that conclusion.

Mr. SHAYS. I am almost thinking that if I were Heritage Foundation, I might actually have come to the conclusion that you would ask the IAF to become larger in our budget and USAID to become smaller. In other words, this would seem to me to be an almost more compatible way from the Heritage standpoint.

Mr. FISK. From the Heritage Foundation standpoint it is a case where other Heritage officials have testified against AID. My purpose here is not necessarily to say that AID offers the best alternative. I think I have acknowledged in my prepared statement that there are deficiencies in that program.

Mr. SHAYS. But how do you react to my point that, even if consistent with your view, and I didn't expect to be saying this, but that you would actually—if I gave you a choice between IAF or USAID, wouldn't you lean closer to this type of funding than USAID?

Mr. FISK. Given my newness with the Foundation, I would say that that is a fair assumption and a fair statement. I would say the one attraction of some of what IAF does is that it is more hands-on, and its development programs are, or can be at times, less bureaucratic.

Mr. SHAYS. At least they are getting out into kind of the private marketplace in a way.

Mr. FISK. Ultimately, the philosophy would be, as I said to Mr. Sanders, economic freedom and private investment. Private investment doesn't necessarily mean foreign private investment. It could be indigenous investment. To just pick up on Mr. Breslin's comment that a lot of the grantees for either AID or the Foundation are engaged in an economic activity, economic activity is going to generate some sort of revenue.

Mr. SHAYS. Right. But I was thinking, in a sense, and, Mr. Rengifo, first, I want to place your comments in some context. Are you—you are a Spanish national?

Mr. RENGIFO. Yes, yes, absolutely.

Mr. SHAYS. Tell me very briefly about your bank.

Mr. RENGIFO. Where I am working now today?

Mr. SHAYS. Yes.

Mr. RENGIFO. OK. The bank, the Inter-American Development Bank, is a regional development bank.

Mr. SHAYS. With assets of how much?

Mr. RENGIFO. It is \$100 billion.

Mr. SHAYS. \$100 billion. And your position in the bank is the executive director?

Mr. RENGIFO. Of the board, representing France, Austria, Finland, Denmark, Norway, Sweden, and Spain.

Mr. SHAYS. But you are the executive director of the whole bank or of that part?

Mr. RENGIFO. No, no, it is a board of 14 members, and each member represents some countries.

Mr. SHAYS. I have you down as executive director of the Inter-American Development Bank. Are you the executive director?

Mr. RENGIFO. I am one of the 14 executive directors of the bank.

Mr. SHAYS. There are 14.

Mr. RENGIFO. We all represent our shareholders and the shareholders are the governments.

Mr. SHAYS. Now, have you funded projects that IAF has provided the seed money for?

Mr. RENGIFO. Mr. Chairman, I do not know exactly what the IDB has done with the IAF. I know they have had cooperation. When I talked yesterday to here, it was that I could not talk on behalf of the IDB.

Mr. SHAYS. I understand.

Mr. RENGIFO. I just came on a personal matter, because it was a foundation that mattered to me and helped me understand many things 11 years ago.

Mr. SHAYS. But I am making an assumption that since those 11 years you have seen IAF in operation, and so all I was trying to do is to assess if IAF has a relationship with your bank.

In other words, one of the things—

Mr. RENGIFO. Yes, it does.

Mr. SHAYS. The answer is?

Mr. RENGIFO. They do have a big relation. I do not know if an institutional relation. I am not quite sure of that. I tried to know that yesterday, but I was unable to catch up with my people in the bank to know if there was any kind of mixed cofinancing or something. But they were doing the same job in the region.

Mr. SHAYS. That you are doing?

Mr. RENGIFO. That we are doing, yes.

Mr. SHAYS. Except you are giving loans; they are giving grants.

Mr. RENGIFO. We have three branches in the bank. One is the IDB, which gives only loans of about 7 to \$8 billion a year. We are the major loan bank in the region for a development bank, even more than the World Bank today. We have then an ITC branch, which is private-sector-driven, with small and medium enterprises, which are loans and venture capital, or capital risk. I think venture capital you call it. And then there is a little branch, which is a kind of a foundation made by the United States, Japan and Spain in the bank, which is called the MIF, Multilateral Investment Fund, which is for little projects, for grants for little projects, which is a little bit more than we are doing with the IAF.

Mr. SHAYS. That is helpful.

I want to kind of wrap up, but, Mr. Breslin, you wanted to add something?

Mr. BRESLIN. Just to add a couple of items on your question. Historically, over the years, we have had relationships with the Inter-American Development Bank. We work with them on the Social Progress Trust Fund. But in the field there are several instances

where the Inter-American Foundation funded groups to the point at which they were large enough and successful enough to be able to deal with a loan from the IDB. That happened in Uruguay.

There is another way we worked, in a sense, with the bank: There is a project in Bolivia, chocolate production, poor farmers in a rural area of Bolivia. We had funded them for years. They got to the point where they were qualified, really, for an IDB loan. But the bureaucracy was taking so long that the loan fund was clearly going to collapse, while they waited for the IDB loan money to arrive. We came in with a bridge grant of \$50,000 to get them over that period. That is the kind of flexible funding we have been able to do in the past.

Mr. SHAYS. I should have asked the first panel about the Social Progress Trust Fund. Tell me a little bit about that. And I am not looking for a long explanation.

Mr. BRESLIN. The Social Progress Trust Fund is basically local currency, repayment of loans made to—

Mr. SHAYS. Who is funding that? I am going to interrupt you, because I want to just get to my questions. Who has funded that, just the United States?

Mr. BRESLIN. No, this is a fund into which repayments go. The repayments are for development loans made to the Latin America countries.

Mr. SHAYS. Let me do this. Do you mind if I just get the first panelist here?

Ms. Otero, can you come here? Not that you cannot answer, but I really should have asked the first panel. Maybe just pull up a chair real quick.

Ms. OTERO. Yes, Mr. Chairman.

Mr. SHAYS. Just explain to me the fund. I should have asked.

Ms. OTERO. The Social Progress Trust Fund is a fund that actually is constituted of moneys that are being paid back in local currency by Latin America countries to the IDB for loans that the IDB made to those governments.

Mr. SHAYS. The Inter-American Development Bank?

Ms. OTERO. Yes, the Inter-American Development Bank.

Mr. SHAYS. Your bank?

Mr. RENGIFO. My bank.

Mr. SHAYS. OK. So you can respond to this question as well.

Mr. RENGIFO. I have been here for only 2 months, but I will respond as best I can.

Mr. SHAYS. Good. I just did not want to follow protocol here.

I'm sorry, I should have asked this before.

Ms. OTERO. These are loans that are made through the Inter-American Development Bank by the U.S. Government and are paid back to the U.S. Government and set up in a trust fund, which is the Social Progress Trust Fund.

Some of those funds are then allocated to the Inter-American Foundation for the Inter-American Foundation to use those moneys in making grants available to those countries. So those moneys are earmarked by countries.

Mr. SHAYS. Why is the Fund running out; do you know?

I don't mind your having assistance here, rather than having one coming in one ear and out the other.

Ms. OTERO. These are funds that are being paid back by governments, and the repayments are coming to an end, and that is why the trust funds are running out.

Mr. SHAYS. Well, then, there is money in the Fund to loan out again. That is what I am not understanding. So I am missing some basic fact here. Let me make an assumption here: We have a fund. People borrow from it. They pay back.

Ms. OTERO. No, no, no.

Mr. FRANCO. Just very quickly, Mr. Chairman. These are loans that were made out of the Alliance for Progress in the 1960's by our government. When the repayments were due, our government, by act of Congress in 1975, decided that instead of having those go back to general receipts to the Treasury, a fund would be established at the bank of which the U.S. Government would be the trustee. Those funds would not be repaid as loans, but would be directed as grants.

Mr. SHAYS. As grants.

Mr. FRANCO. Exactly. It is called the Fund for Special Operations. And part of those repayments that come in are made available, by law, to the Inter-American Foundation.

Mr. SHAYS. OK. I understand now.

Ms. OTERO. To be used for grants.

Mr. SHAYS. I'm thinking of it like the Offshore Drilling Trust Fund that we put a fund in and then we spend the money out of.

Mr. RENGIFO. Correct.

Mr. SHAYS. Bottom line, that is running out.

Ms. OTERO. Yes.

Mr. SHAYS. I am pretty much set in the questions that I wanted to ask. I will just share with you my observation of this hearing. I didn't expect that I would be saying that, but my observation is that I am told by various sources that we have some management problems at the IAF, and we have some question of whether we are too top-heavy. Those are not questions that are going to be answered for me in a hearing like this.

So I will share with you that I may have problems with what is happening. I, obviously, recognize that when you go from \$30 million down to \$20, and you still have the bureaucracy for \$30, that you have problems that you have to iron out. I also know that Congress can be erratic in terms of whether it wants to fund or not; i.e., we have \$5 million, which is basically almost saying let us get rid of the organization.

But if I wanted people in the field looking for the smaller kinds of grants, I would conceptually—and clearly in my Peace Corps experience I want to see it happen more this way—I would rather have it trickle up than kind of trickle down. So I am more comfortable with that. And I ultimately love to think of ways that we can privatize and continue to seed other activities.

So my questions, I think, will end up being more on the management of it, not as much on the mission of the program. So I look forward to working with you. I am summarizing my feelings. I don't usually do that, but I thought I would.

Do you have any comment you want to make?

Mr. SANDERS. I don't.

Mr. SHAYS. Any closing comments any of the four of you want to make?

Mr. Breslin.

Mr. RENGIFO. May I?

Mr. SHAYS. Well, I just thought of one thing as I was calling on Mr. Breslin.

Mr. Breslin, how many people work under your oversight?

Mr. BRESLIN. Just me, sir.

Mr. SHAYS. So if I look at you, and I am thinking of why we have so many employees, we have one person who handles each country, give or take, which leaves me wondering why we get to 56.

Mr. BRESLIN. We currently have 13 program representatives, who work in the field.

Mr. SHAYS. I consider you the people out in the field, you are the most essential part, I would think, with all due respect to the others.

Mr. BRESLIN. Right. With the representatives, we have support staff, we have people who help do the paperwork of processing the projects that are eventually presented for approval.

Mr. SHAYS. I hear you. You have to have the back-up.

Real quick, any summations?

Ms. OTERO. Mr. Chairman, just one final comment is that I think the Foundation has suffered in the last 5 years by the cuts that have come its way and by the uncertainty of its level of funding. And I think those are reflected in some of the management issues and some of the other issues that are now problematic.

I think we have communicated in this hearing that the installed capacity, if you will, of the Inter-American Foundation is considerable and perhaps being underutilized right now to address the issues of poverty that we have in Latin America, and I would like you to take that into account as you consider these things.

Mr. SHAYS. I accept that.

Sorry to interrupt you, but you get the last word, Mr. Rengifo.

Mr. RENGIFO. I do have something to add.

Mr. SHAYS. Well, you got them.

Mr. RENGIFO. Thank you. It wasn't my idea to do that. I just wanted to tell you that when I entered IAF, it was to try to copy this institution in Spain. I have not been able to do that, so I hope to do it in the future.

The one thing I can give you is that I think you need more hearings like this one, because only 15 years ago was the last one you had. I think you need much more if you want to be coping with this. And I do believe there is a lot of sense to this institution.

Mr. SHAYS. OK. Thank you very much. Appreciate all you being here, and we will adjourn this hearing.

[Whereupon, at 12:25 p.m., the subcommittee was adjourned.]