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**USAID's Strategy for Promoting Democracy and
Building Markets in Latin America**

**CIPE Conference
September 10, 2007
Lima, Peru**

Good morning. *Muy buenos días a todos.* It is a great pleasure and honor for me to speak here at the invitation of CIPE, an organization whose mission and work I hold in very high regard. It is also an honor and a privilege to be here with John Sullivan, who is a great friend and colleague. Finally, I am honored to speak before such a distinguished group of researchers, thinkers and practitioners. You have all made important contributions to promoting economic development and advancing good governance in the region, and I commend you for your work.

Before I begin, I would like to take a moment to assure our Peruvian hosts that the United States government and its people are solidly behind you as you deal with the effects of the recent earthquake. Through USAID, the American people are providing a total of nearly \$2 million to support shelter, water and sanitation, and other emergency activities in the earthquake-affected areas, particularly in regions and towns that have received limited assistance to date. In the midst of this crisis, we all appreciate the willingness of the Peruvian people to allow us to gather here in Lima, Peru. *Muchas gracias.*

Today I will speak to you about USAID's strategy for promoting democracy and economic growth in the region. In doing this, I will explore three main themes: first, the linkages between democracy and economic growth; second, the challenges facing democracy and free markets in the region; and finally, USAID's approach to fostering them. I look forward to further discussing this topic and taking questions from the audience after my remarks.

The United States Government, through USAID, promotes democracy and economic growth for both ethical and practical reasons. We believe that democratic systems are an end in themselves, because they best ensure the universal rights to life, liberty, property, and equal treatment under the law. Democracy also makes for good, balanced development, because it helps ensure that a nation's treasure is allocated according to the needs, desires and abilities of all her people – not only a privileged few.

We similarly promote market-based economic growth because such growth is the foundation for generating the sustainable income necessary to meet the needs of individuals and society. Expanding opportunities for the poor to contribute to – and benefit from – economic growth is essential for raising standards of living and helping free people from poverty. A healthy economy also helps strengthen democratic institutions. When economies fail to meet citizen expectations for better lives, they can threaten political stability and the very legitimacy of democratic institutions.

Before I discuss the challenges to building democracies and markets in the region, I want to highlight the important advances that countries have made to-date. Some twelve presidential elections have been held in Latin America in the last two years – between late 2005 and today. The region has once again experienced peaceful transitions between elected leaders, and in many cases, between ruling parties and ideologies. This was not the norm in many countries just a generation ago, and we should recognize what a great accomplishment this is.

These elections have provided citizens with an opportunity to engage in democratic political life and to build renewed faith in electoral institutions. Because voters expressed their desire for change through the ballot box, these peaceful transfers of power between parties and ideologies are impressive. They are a sign of national maturity and are an enormous stride forward for democratic institutions.

Most of the region's elections have also resulted in the continuation of market-driven, trade-led policies. Indeed, the commitment of many countries in the region to growing their economies through a market-driven approach is reflected most clearly by the number of countries that have negotiated free trade agreements with the United States and also, in some cases, among themselves. Building on Mexico's entry into NAFTA, other Latin American countries that have entered into free trade agreements with the United States are Chile, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua.

The entry into force of these agreements, as well as the trade capacity building assistance being provided to these countries by the United States, will strengthen their enabling environments for trade and investment. It will also contribute in important ways to strengthening the rule of law, which is an underlying principle of a strong democracy.

However, our enthusiasm for these important strides forward is tempered by the fact that a large percentage of the Hemisphere's citizens still live in poverty. They have yet to reap tangible improvements in their quality of life. We are concerned that if they don't see results soon, their frustrations may eventually lead them to abandon their faith in democracy and free markets. In fact, this may already be happening in some countries in the region.

The Americas Barometer surveys, which are supported by USAID, have found – not surprisingly – that low levels of socioeconomic development and high income inequality are negatively correlated with support for democracy. As a result, we can suggest with great confidence that broad-based economic growth helps build confidence in democratic institutions and political stability. The opposite is also true. As Hernando De Soto, who spoke here yesterday, has so eloquently argued, robust, transparent institutions are also a necessary requirement for sustainable economic growth.

Because of these linkages, the United States Government, through USAID, seeks to strengthen trust and support for democratic institutions and promote broad-based and sustainable economic growth in the region. We

are also redoubling our efforts to address the pervasive issues of social exclusion, poverty and inequality by partnering with host countries and advancing the cause of social justice. Most fundamentally, this means partnering with our neighbors to make democracy deliver for all of the region's citizens – especially those who have been left behind.

If we do not meet this challenge, frustration with the failure of democratic institutions to deliver improved standards of living may further enable the purveyors of populism. This would be a grave setback: we remain convinced that democratic governments, not authoritarian ones under the guise of populism, can best address citizens' real concerns.

When I speak about populism, I refer to leaders whose policies seek to undermine the vital institutional checks and balances that characterize a democracy. Populist policies seek to expand the powers and reach of the executive, hollowing-out the judicial and legislative branches, and weakening local governments. Populists also tend to pursue economic policies that reject free trade and free markets, and instead promote greater control and isolation. In the past, populist economic policies failed to promote long-term and broad-based economic growth. They served as catalysts for financial crises, hardship and dictatorship. By presenting these policies as representative of the popular will, leaders gain support for initiatives that are not grounded in sound economics, good governance, or the principles of liberty.

We have reason to be concerned. Surveys by the Americas Barometer found that populist appeals fall on willing ears in our hemisphere: a

majority of those surveyed would support populist measures to increase the power of the executive at the expense of democratic institutions.

What do we do to win back citizen confidence in democratic institutions and free markets? Our research suggests that failure to adequately deal with crime, corruption and political representation are the primary reasons for discontent. Trust in institutions of representation, especially political parties, is extremely low in the region -- even by world standards. Crime and violence are still among citizens' primary concerns.

Coupled with corruption, our research demonstrates that crime victimization and insecurity are the factors that most seriously undermine citizens' belief in the democratic system and its institutions of government -- from courts and elections to schools and health clinics. And if that weren't reason enough to raise concern -- high crime and corruption rates also reduce overall economic productivity and discourage investment flows -- conditions that result in increased economic hardship, poverty and inequality. We have to take steps to break this vicious cycle, looking to how we can help countries identify and advance the reforms that are needed to strengthen democratic governance and grow economies more equitably.

USAID's democracy and economic growth programs seek to address these challenges. They are designed to meet host-country needs, and are based on careful analysis, coordination and stakeholder input. Our democracy promotion activities are programmed along four core areas, all of which are important: rule of law and human rights; good governance; political competition and consensus building; and civil society. Similarly,

economic growth activities are clustered among seven key areas: macroeconomic foundation for growth, trade and investment, financial sector depth, infrastructure, agriculture, private sector competitiveness and economic opportunity and environment.

To provide you with a few illustrative examples, our democracy programs are addressing the issues of widespread crime and gang violence in Central America by helping build the capacity of government and civil society to respond to the issue, and by supporting public-private partnerships that address the root causes of gang membership.

USAID has also helped strengthen the rule of law in more than ten countries in the region. We've done this by helping reform the justice sector, making it more transparent, efficient, and accessible to poor and middle-class citizens. For example, in Colombia we helped provide access to a new oral accusatory criminal justice system to over 60% of the population, resulting in faster, less costly, and fairer resolution of cases. In Bolivia, we partnered with the government to establish integrated justice centers that provide services to a significant portion of the population that otherwise might not have access to justice. These are programs that make democratic institutions more effective and accessible to real people. We think this focus on citizen-level impact of democracy programming is more important than ever.

Finally, across the region, our anticorruption programs seek greater transparency and accountability from the executive, legislative and judicial branches of government, while building the capacity of civil society

organizations to monitor and provide oversight. In Colombia, USAID saw that citizens were reporting high levels of corruption in health care delivery. As a result, we focused support on citizen's groups providing oversight of the sector. We were indeed encouraged that the latest round of Americas Barometer surveys revealed a nearly 50% drop in corruption victimization in health care delivery in the country. We're now looking to replicate this in other sectors.

As I mentioned earlier, the region as a whole is experiencing a crisis of representation that is eroding government legitimacy and stability, and this problem appears particularly acute in the Andean region. One critical channel for representation, political parties, has not been able to articulate and aggregate citizen's interests, and, as a result, they are rapidly losing their credibility. This, coupled with the fact that economic growth has not translated into better jobs and incomes for the vast majority, is resulting in disenchantment with democratic institutions as well as with free market policies.

Our democracy and economic growth programs are attempting to address these issues. We are helping fortify local economies and build markets that ensure that the growth resulting from regional economic integration is translated into employment and business opportunities for the poor. Thus, in many countries we work with host governments to build competitiveness in small and medium-sized enterprises. Stronger businesses, in turn, can offer higher-value jobs as they work to meet expanding demand in destination markets.

We are complementing these efforts by helping build the region's great potential to export high-valued agricultural crops -- such as tropical fruits and vegetables -- by assisting countries to diversify their rural economies and by helping small farmers to shift their resources towards higher-income enterprises. We do this by helping to increase production, to improve processing to increase local value, and to promote the export of high-value, niche-market products, such as organic coffee and special-flavored cacao.

We are also working throughout the region to promote worker rights and protect the environment. In one example, we are partnering with the private sector in Central America and the Dominican Republic to protect worker rights and train labor inspectors. We are also helping labor ministries improve and streamline their operations.

And very importantly, at the same time, we are helping to re-build credibility in political parties by helping them become more transparent, more inclusive and more accountable to their constituents. And we are proud of the work we have done to promote women's political participation in Peru and Mexico, of the indigenous in Bolivia, and of Afro-descendants in Colombia.

As these examples illustrate, USAID's work is not ideologically driven. To echo the words of our Secretary of State, we assist all governments that are committed to democracy and working to meet the basic needs of their people.

In closing, let me say that while the region's accomplishments are significant and many, as you all know too well, much work remains. Democratic and market reforms must go further in order for the benefits of democracy and free markets to reach into people's every day lives. That is the only way to increase popular support and trust in both democracy and markets.

Achieving these goals requires broad commitment on behalf of our nation's leaders, as well as from the private sector, civil society, and regional experts like you. USAID is committed to helping in this quest and working with Latin American countries to ensure that the benefits of democracy and free markets are enjoyed broadly by all citizens.

Again, thank you very much for the opportunity to speak today.