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Catalyzing Economic Growth in Latin America

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FINE: Welcome and good morning. Welcome to the Millennium Challenge Corporation. Thank you for joining us today to discuss catalyzing economic growth in Latin America and I'm really pleased to see this great turnout.

Your presence here demonstrates at least two things. First, like MCC and the Council of the Americas, you care about aid effectiveness and, second, like MCC and the Council of Americas, you're interested in how private sector involvement leads to long-term economic growth.

MCC's nontraditional approach to aid effectiveness recognizes the role of business in achieving sustainable growth and reducing poverty, which is why we're so pleased to be cosponsoring this event with the Council of the Americas. Eric Farnsworth, it's great to have you here representing the premier international business organization for the western hemisphere.

Development's not going to happen without the private sector. That's really what it's all about. So, it's great to be cosponsoring this event.

Our topic today is aid effectiveness in Latin America. It's timely because the world's top development officials are going to be gathering in Busan, Korea, at the end of this month to discuss aid effectiveness.

Today, we have representatives from the private sector. Do you have members—are their members of the Council of the Americas here?

Yes. The assistant secretary is a development guy masquerading as a private sector person in diplomacy.

We've got members from the private sector. We've got my colleagues from the U.S. government to share experiences, talk about some of the challenges and the lessons learned in working in regional markets to promote trade and investment for aid effectiveness.

Before starting, I want to say just a word about MCC's involvement in Latin America. We're active right now in El Salvador and we've completed five year programs in Nicaragua and Honduras. We've also had shorter programs, what we call "threshold programs," in Peru, Guyana, and Paraguay.

All of these programs have aimed at putting in place the policy and the physical infrastructure to support expanded commercial activities. That's what it's all about and we've seen phenomenal results. We're very proud of the work that—that we've sponsored in Latin America.

In fact, I don't think that this link between private investment and development is more obvious—it is the most obvious in Latin America. Nowhere is it more than in Latin America, which is why this is such a timely conversation and why the world has so much to learn from development in Latin America.

And few people can talk more authoritatively about how to promote private investment in Latin America than our keynote speaker, Assistant Secretary Jose Fernandez. Mr. Fernandez serves as the assistant secretary of state for economic, energy, and business affairs. He leads the bureau that is responsible for overseeing work on international trade and investment policy, international finance, development and debt policy, and support for U.S. businesses.

Mr. Fernandez came to the State Department from an illustrious career in the private sector as a partner in the New York office of Latham & Watkins and global chair of the firm's Latin American practice. He was named one of the world's leading lawyers by Chambers Global for his mergers and acquisition expertise and has many, many other accolades for his expertise in privatization and corporate finance and putting together structured deals. In fact, he's exactly the kind of person that we need here at MCC because that the sort of investments that we want to sponsor.

So, I think we're going to be coming more and more often to you for advice.

Mr. Fernandez is also a patron of the arts, having served on the board of Ballet Hispanico in New York. He's a member of the Council on Foreign Relations. This kind of hands-on expertise with the investment deals is what is at the core of long-term development.

It is such an honor to have you join us here. Assistant Secretary, the floor is yours.

(APPLAUSE)

FERNANDEZ: Good morning. Good morning. Thanks for that great introduction. I'm also honored to be here with my good friends at the Council of the Americas. I served on their board and I am biased. I consider them to be the—also the premier think tank in business in Latin America. So, it's great to be here.

And what I'd like to do is take a few minutes and talk a little bit about the subject, the general subject, of your-conversation this morning, which is catalyzing growth in Latin America.

You know, growth is happening in Latin America. It's between 2003 and 2008, for those five years, you had growth of—in general, of about 5.5 percent of GDP growth a year. The ravages of a lost decade of the 1980s were but a memory, in terms of inflation, unemployment, the ups-and-downs.

Since then, obviously, the global economy has hurt the economics in Latin America, but—but the fundamentals, the fact that many of these countries adopted fundamental economic policies that made sense, that has kept them from the—from a lot of those problems that are now ravaging a lot of the—of the world.

So, that growth is happening. You've got 10 percent of growth in the middle class in Latin America. A lot of that is, obviously, from Brazil, but it's also happened in other countries, in Peru, in Central America, and many other places, driven, in many cases, by the—by the commodities boom that's—that's occurred in the region.

The challenge, of course, is how do we keep that going, how do we maintain that growth, how do we deal with the problem that, to this day, remains a critical issue in Latin America and that's the issue of social inclusion. The fact that it is, despite the advances, the economic advances, of the last 10, 20 years still probably the most unequal continent in the universe, in the world.

What's—with the growth in Latin America has been good for us. The bureau that I lead—that I lead is involved in trade, in business, in economics, and trade with Latin America has increased. Today, 41 percent of Latin America's exports come to the United States. So, in some ways the news of the "death" of the U.S.-Latin American economic relationship has been exaggerated and fully 2 percent of our exports go to Latin America and Canada as well.

So, that relationship, that business relationship, is strong and it continues. This administration and Secretary Clinton have made it clear that we're making Latin America a priority, that one of our main priorities is to engage with the region, but in a way that, in Secretary Clinton's words, is about partnership, not patronage. Partnership, not patronage and that—those aren't empty words.

And I think that one of the best examples of that partnership concept, as opposed to the patronage, the aid, plain aid concept, is here, the MCC with its emphasis on selectivity, on results, on country-led, country-owned development plans, transparency, results, assessing results, something novel sometimes in government, impact assessment, innovation, and public-private partnerships, dealing with the private sector.

And the model that's been pioneered by the MCC has actually spread; I just came back early—two weeks ago, actually—from El Salvador, where we signed an agreement called Partnership for Growth.

And, if you look at the Partnership for Growth agreement, which was an interagency effort which included MCC, but also included AID, the Department of Justice, the State Department, Commerce, and many, many others, we actually—we're taking the MCC approach, the MCC model—the Partnership for Growth compact agreement with El Salvador started with a joint study between economists from the interagency here in the U.S., the joint study with the Salvadorian government economists.

Just look at—what were the problems that were contributing to El Salvador's somewhat economic growth in the last 10 years. You know, El Salvador probably has the lowest level of GDP growth in Central America, a region that's not known for its GDP growth, lowest levels of investment.

And, so, what we did together was start eight months ago after President Obama and President Funes announced that they would try and sign an agreement, we started just looking at the problems. What were the constraints to growth, a term that, before I got into government, that I had not heard about? What were the elements, the limitations to growth?

We then focused on two problems, in security and low productivity. You know, El Salvador has 66 homicides per 100,000 people. Just to give you a comparison in the U.S., that number is 5 per 100,000 people so we have 14 times the homicide rate in El Salvador.

And that's—in addition to being a human tragedy, that's economic costs. It means that people get robbed on their way to work. It means that the payday can't be on the same day every week because if that happens there'll be thieves that will get on the buses to rob the workers.

So, just imagine what kind of a business you can have if you can't pinpoint, you know, if you can't tell your workers that they're going to be paid on a certain day. So, we dealt with, in that agreement, how are we going to handle insecurity, not in the general fashion, but insecurity in the way that it affected economic growth.

The second focus of the Partnership for Growth agreement was low productivity. What was El Salvador—why did they have the lowest rate of private investment in Central America? Why did they have the lowest rate of GDP growth?

One of the targets, one of the of the things that we realized is that we needed to create a better bridge between the private sector in El Salvador, which is a vibrant private sector, and the government. There was this lack of confidence, mutual lack of confidence. So, perhaps we in the U.S. could act as somewhat of a conduit, somewhat of a bridge between the private sector and the government.

So, we focused on those two things—productivity and security. We came up with 20 lines of action to try and tackle those two problems. And we signed—as I said, two weeks ago.

And, again, the idea there is the MCC approach—figuring out the problem in a rigorous, objective way, coming up with joint solutions, requiring both sides to put something on the table—not simply money, but, also, policies, creating—in the case of the private sector—creating a council of top businessmen in El Salvador to work and give recommendations directly to President Funes, in order to create those kinds of bridges.

So, that's the approach and that's, again, that's a legacy of what we've learned through the MCC process.

There are a number of other projects, initiatives, that we have going on in Latin America that, again, borrow from what the MCC has done. One of my favorites is the project that we have called Domestic Finance for Development.

This is Washington, so everything has to have an acronym, and this is called DF4D—and you will have heard about this, but it basically takes an approach that was pioneered in Medellin, Columbia, which is basically—for a country to own its development, it has to raise its own funds. It cannot depend simply on donor aid.

And the way you do that is you administer your tax system better. You don't—you try and find ways of raising your own revenue, but your citizens will not be willing to pay taxes if there's no transparency, if they don't know where those funds are going to go and, if they believe that perhaps those funds are going to end up in an offshore bank account because of corruption.

So, what DF4D tries to do is to work in an interagency fashion to try and put those three things together, not deal with them separately, not deal with them with different agencies, not deal with corruption in one country and transparency in the other, but try to do it holistically.

And that's something that, again, borrows a lot from the MCC concept.

And another one is what we call a "bridge program," which we're using in Honduras and El Salvador to try and use remittances, worker remittances, for something other than—to try and spur development. You know, there are $60 billion of remittances from the United States that go down south every year, 17 percent of El Salvador's GDP is made up of remittances. The numbers are even higher in Mexico.

But these are funds that are used right now for consumption, for, basically, food and housing. What if we could take those funds in a way that was safe, that didn't threaten that remittance, that allowed a taxi driver in New York City to send money o his family?

What if we could use those funds in a safe manner to do something else, to use them for roads, to use them for power plants, to use them for something that was going to keep people back home and that was going to spur economic growth in those countries?

So, that's something else that we're trying out in Honduras and in El Salvador.

So, we've got a lot to learn from the MCC. I think, as I've said now several times, the impact is felt beyond this building and it's actually spreading throughout the interagency.

So, I'm delighted to be here. I think if you take anything away from my talk it's that we are focusing on partnerships with the private sector, that we're looking for ways to engage with civil society, and that we believe that our relations with Latin America have to be based on partnership and on a focus on economic growth with social inclusion.

So, thank you.

(APPLAUSE)

FINE: We now have a panel. Are you going to introduce the panel, Eric?

FARNSWORTH: I will.

FINE: Yes, please do. Go ahead.

FARNSWOTH: Thank you.

I have to say this is a little bit daunting up here because the fact is we have not one, not two, but three clocks on the walls right here so if we go over time people are going to not only notice it, but I think they're going to start throwing things at us.

So, we'll try to get right to the conversation, but that was a terrific introduction, I think, to the topic by Jose, as I know him, Assistant Secretary Fernandez, who's been a good friend, both of the Council, as he mentioned, but, also, of these issues for some time and we are quite delighted to have the opportunity to join him and his team for this important program.

I also want to thank Patrick Fine for doing a fine job with this program and for the generous words that he said, both about me and also about our organization. So, thank you, Patrick, for that.

Council of the Americas, as all of you know, is a private sector-driven organization, but we're not just focused on the private sector agenda. We're also focused on a much broader agenda, which includes healthy democracy, social inclusion, open markets, and all the things that one would be quite familiar with if you have traveled the road across Latin America for any period of time.

And that's one of the reasons why we are such strong supporters of MCC and the MCC model. Daniel Yohannes and his team have put together some very innovative things that we want to talk a little bit about in more depth this morning.

We're also, obviously—it must be said—we're an equal opportunity group. We're also strongly supportive of what USAID is doing in the region as well and so we thank you for your efforts, particularly—and this is the one substantive point I'm going to make—particularly, in an atmosphere of reduced resources in Washington.

We believe that even as all of us are looking to—to contribute to economic health here in this country, as we're looking for areas to cut, we need to understand what's really at stake, in particular in Latin America and across the world. U.S. engagement is at stake. The promotion of our values is at stake. The promotion of U.S. interests is at stake.

And, so, we would simply encourage people as they're looking at things like foreign assistance budgets for the coming months and years to keep these important issues in mind. Both of our speakers this morning understand that very, very well.

Jonathan Brooks is the managing director for Europe, Asia/Pacific, and Latin America with the MCC. I'm not quite sure how he finds time to be here in Washington with that particular portfolio, which includes oversights of 10 countries. He oversees a staff specializing in the environment and social assessment, infrastructure, fiscal accountability, procurements, and probably four or five other things I've not been able to mention.

Previously, he was the MCC resident country director in Honduras so he has direct personal knowledge of these issues, in particular in the region that we're talking about today. And, before that, he has a long history in Latin American development issues, both in the public and also the private sectors.

So, Jonathan, we're looking forward to hearing your comments.

And we're also having the privilege today to be joined by Lawrence Rubey, who is the director of the Office of Regional Sustainable Development for USAID, which is in the Bureau of Latin America and the Caribbean.

Lawrence heads a team of 25 USAID technical experts on trade, economic growth, agriculture, crime prevention, and, like his colleague, also many other issues. He's a development economist with some 25 years of experience and he's held positions in academia and other nonprofit organizations. He's actually taught these issues today—that we're talking about today. So, we're looking forward to that.

He's also the author of numerous writings among other topics, one of which is enhancing the effectiveness of development assistance. So, in fact, as we look forward to the meetings in Korea, that is exactly the topic of our discussion this morning.

The event this morning provides an opportunity to discuss some of the innovative things that the United States government and others are doing and the results in Latin America and what is the U.S. commitment to aid effectiveness and how we can continue that, including—and let me pause here for dramatic effect—including ways to more fully and effectively engage with the private sector, which we believe is critical to aid effectiveness.

So, let's get right to it. I'm going to turn it right over to Jonathan Brooks for his comments and ask all of you to please join me in welcoming him to the panel.

(APPLAUSE)

BROOKS: Good morning, everyone. Thank you, again, for joining us. Thank you, Eric, for those kind words.

What I thought I'd do, hopefully, pretty brief remarks, is share with some of you some of the key principles that underpin our work at MCC. I know many of you are probably familiar with those, but I thought I'd start with that.

I'd go into a couple of examples that I think are relevant regarding the work with the public and the private sector in Latin America through the work that we've done in our programs in Honduras, El Salvador, Nicaragua and then close with a couple of kind of observations that I think are linking some of those programs.

And, so, with that, let me just start, you know, a few key principles. You know, MCC, you know, from its beginnings has focused on selectivity, not only the selectivity of the countries with which we work, but also the selectivity of the investments that we're engaged in.

We, from the beginning, include a role for the private sector in this—in this process. You know, one of the ways in which we engage in selecting countries is in viewing what is the role of the private sector. You know, how effectively is the private sector able to participate in the economy? You know, one of the indicators, if you look at our scorecard, includes the days to start a business. And that is, you know, a proxy for trying to get at one of these precepts that we believe is important if we're going to be able to work with countries that are on the right path for their own development.

The second is the concept of country partnership or country ownership. And it's think it's been rather clear, you know, for several years in international development, certainly since the Monterrey Consensus of 2002 that there is a need for country accountability and country responsibility. You know, countries need to become protagonists of their own development at the same time that other donors are providing increased resources or providing any resources.

That doesn't come only with accountability for results. I think it—as Secretary—Assistant Secretary Fernandez was mentioning, it comes with placing other priorities on the table, not only resources, I guess is what I'm—what I'm trying to get at with that.

And—and, thirdly, it's the importance of focusing on results. This is something that MCC takes very seriously because we're particularly interested in seeing how the impact of our investment and other investments, as well, have a very direct impact on poverty reduction.

We're less—we're—we now understand that there are often spillover effect. We understand that there are sometime anecdotal ways in which investments can have a poverty reduction impact, but we are very keen on measuring the direct impact in a very quantitative manner.

So, that has, I think—those are some of the key principles that I understand most of you are probably familiar with, but which I thought it important to start anything that—that has to do with MCC, including Latin America.

So, now, to a couple of examples in Latin America that I thought I'd share. The first is in—let me start with Nicaragua. We had a compact that concluded earlier this year, a successful compact that was focused on improving development in the northwest region of Leon and Chinandega.

One of the private—one of the actors that we worked with in that compact or that the compact worked with was PRONicaragua, which was the public-private institution aimed at attracting investment in that northwest zone. PRONicaragua, you know, participated in addition to participating in, you know, trade fairs and providing support services to—to potential investors, it also worked very closely with the institution that was managing the compact in helping it understand what were some of the needs that the private sector investors were looking for in the investments in the northwest region of Leon and Chinandega.

So, that was a small example. We managed that through three cooperative grants for a total of $1.3 million. We're right now evaluating some of the impact that has had, but it was—as far as some of the preliminary results we've seen, it's been a successful role that the private sector has been able to play in one of our programs.

In El Salvador, we actually have—because the program is ongoing—we have a compact that includes a productive development portion, a connectivity project, as well as a human development component. As far as the productive development piece in, actually, a close partnership with our colleagues at USAID, we've been supporting a global development alliance agreement with a group cooperative of farmers in the northern zone in El Salvador, which many of you will know is one of the more economically depressed portions of El Salvador, as well as with the Super Selectos supermarket chain, which is one of the major chains in El Salvador.

That has established the market linkages that has enabled, you know, upwards of 500 small producers from the northern zone in El Salvador to for the first time be able to place their product in a sustained way in a major supermarket chain, allowing, also, that supermarket chain to be able to obtain, you know, produce for—that is locally sourced, but, yet, of high quality. And it's now being able to compete with other regional providers of produce in El Salvador.

So, that's a quick second example that I wanted to share from El Salvador.

The third example comes from Honduras and this was actually a pretty small investment, but I think is interesting for a couple of reasons. The investment was around the—one of the activity that we call the access to credit activity in the rural development project in Honduras. As part of that, access to credit activity, we were helping develop a secure transactions law in Honduras, which enabled the establishment of a movable property registry.

Now, a movable property registry, one of the things that it enables is the provision of credit—or—it provides for the use of small assets as—as collateral, which in its—in turn, helps expand credit to smaller entrepreneurs and many of them farmers and—and microenterprises in both rural and urban settings. That movable property registry, you know, was developed jointly with the National Banking Association. We, you know, worked with very closely with colleagues in the National Law Center out of Arizona to help design this, which, you know, was considered a model in Central America at the time that it was being developed.

And that was, subsequently, transferred to the Chamber of Commerce in Tegucigalpa for its operation on a fee-based system. That transfer occurred late in the compact and the feedback that we've gotten and the results that we are seeing actually of pledges that are coming through that movable property registry are actually exceeding the expectations that we had.

So, that was, I think, something that—it's likely to have a pretty significant impact in Honduras and it also, I think, shows one of the ways in which the program was able to work creatively with the private sector.

Now, let me just say a couple of more things, more broadly. Obviously, as Patrick mentioned and as many of us believe, you know, the private sector investment is a catalyst for unlocking economic growth. You know, we are not going to like—we don't expect that we're going to see sustained development in Latin America without the involvement of a responsible private sector.

The second component—the second observation that I wanted to make is that private sector investment is part of a critical element for MCC because we very much need to focus on the sustainability of our investments, given that our presence in our compact is, right now, at five years. So, we do not have a long-term presence in-country. So, from the beginning, we need to help design and improve the work that we do in order to ensure that sustainability beyond the five years of our presence. That's something that we are still working on doing, but it is one of the reasons that we think of the private sector as one of the critical lynchpins in that process.

And the final observation that I wanted to make was, you know, comes partly from one of the comments that Assistant Secretary Fernandez made, which has to do with, you know, the—how do you get the—how do you create the space for proper collaboration between the public sector and the private sector in some of the—some of these countries?

In our programs, as part of the currency (ph) ownership model, we establish what we consider accountable entities, which include boards of directors, that include the private sector, and government. What we've seen in several countries is that—not only in Latin America—is that those boards of directors are actually creating a space for collaboration between the public and private sector that is rules-based, that's transparent, that's efficient.

And, you know, I think some of the successes of the programs that we've had so far are because, you know, both governments and private sectors are finding spaces where they're able to collaborate in a way that's perhaps more creative and, you know, filled with trust than they've been able to do in the past.

So, let me leave it there and I think we'll take questions after ...

(UNKNOWN): Absolutely.

BROOKS: Lawrence.

(UNKNOWN): Thanks for (inaudible).

(APPLAUSE)

RUBEY: Can you hear me?

First, let me also thank MCC and Council of the Americas for—for putting on this—this event. I think it's a great opportunity to share experiences.

I'd like to begin by asserting that what USAID does in Latin America and the Caribbean has fundamentally changed over the 10—last 10 or 15 years and what I want to touch on in my brief comments is why that is and how those investments have changed.

And—let's see. We had a visual that was up here. Can we get that back up?

Pardon? OK. Wonderful.

And the reason that what AID does has changed, why AID has changed, is because the region itself has changed. Assistant Secretary Fernandez alluded to economic growth in the region—and that's a real factor, but what's even more interesting is the fact that we see differential growth.

We have a group of countries that you might call the tigers that have been growing very fast over the past few years. Brazil would be in this category. This is a simplified version to fit a few countries on our graph, but—so, this is not all the—all the tigers because (inaudible) category (inaudible).

But these are countries that are growing 7, 8 percent a year and, when a country, of course, grows at that 924 (ph) for (ph)—for (ph) 10 years or so, you have fundamental changes in society. You're essentially doubling income in a particular country and that leads to a whole new set of opportunities where countries have resources to invest in their own—own development.

Then you have a second group of countries, the Central American' northern triangle, Mexico, which are bumping along at 2 percent to 3 percent, maybe on the outside 3.5 percent growth per year on average, which isn't really sufficient enough to see fundamental changes in poverty reduction,given per capita growth of 2 or 3 percent.

This is—this leads to, you know, treading water and the fundamental reason for this based upon an analysis that we as USAID jointly with a number of other government agencies in El Salvador found that citizen security and the crime environment situation was a significant drag on economic growth.

And it's—it's logical that this also applies to other countries in the region—in Guatemala and—and Honduras, where high levels of business extortion are keeping growth rates down and preventing them from kind of becoming the group of tigers.

And then you have another group of countries that are experiencing very low growth and there are diverse reasons, you know, Haiti, structural issues in Haiti that—that have a long history and debt problems in the Caribbean.

But what I want to focus on now is what this implies for what AID is doing in the region and I think that when we look at the tigers, for example, here, where we still have USAID programs operating, we see a fundamental realignment of the relationship between USAID and the government of the Dominican Republic, of Peru because, as I alluded to and as Assistant Secretary Fernandez mentioned, these countries have greater ability to domestically finance their own development.

The challenges are significant. I mean, Dominican Republic may be a high growth economy, but they have some of the weakest results, in terms of third grade and sixth grade achievement in the entire—entire region. And, so, the challenge is being able to put some of the resources that that 7, 8 percent growth a year creates into—into education or into other areas.

And what we have done in several countries, what we are doing, is helping them improve tax collection because the reality is is that in Latin America, historically, there's been a dependence upon revenue from things like tariffs and what the free trade agreements have done is—as reducing tariffs have reduced the flow of resources coming into governments in tariffs. We have—there's not a strong tradition of personal income taxes in Latin America as a primary driver of government coffers.

And, as a that begins to—needs to change and as collection rates, you know, something—some estimates are that, you know, 40, 50 percent of actual taxes that should be collected aren't collected in many countries, helping countries push that up with technical assistance to directorate of taxation can have a profound effect on abilities—a country's ability to finance its own development, in the case of Peru and Dominican Republic.

There's also the issue of social exclusion and including previously marginalized groups in the development process that was alluded to. And I think that's critical in these high growth countries. You know, Peru is a perfect example. We see that, too, in Central America, as well, but populations whether indigenous highland populations in Peru, Afro-Peruvians, to take just one example that historically have been excluded from growth processes.

And, as Jonathon mentioned, one of our strategies is partnering with the private sector to help expand opportunities to previously marginalized groups and small farmers are a perfect example.

You know, if you look back, you know, 20 years ago in Latin America and looked at the food system, you know, most small (inaudible) farmers sold their commodity to coyotes that showed up at their farm and those coyotes brought the produce to some sort of big, wholesale market near the capital and owners of thousands and thousands of corner bodegas would stock up at the wholesale market and sell their selection of products to people in their—their neighborhood.

What we've seen in the past 15 years is this incredible supermarket revolution, not just in Latin America, but around the world, where a significant share of all food purchases are at large supermarket chains.

And Jonathon mentioned Super Selectos, where we have a public-private partnership, we also have one with Walmart Central America because these firms that are big, regional or multinational firms realize that they need to have roots in the community and they—they—its value—there's a value to them of having a network of small scale farmer-suppliers and, if those suppliers can meet the quality demands of the marketplace, there's an opportunity for a farmer that before was selling what he or she could to a person that may or may not pass by their farm every few weeks.

We see a transition to having a signed, forward contract for specified quality, specified quantity, delivered at certain intervals that essentially guarantees that farmer a steady stream of income as long as they produce for that market.

And that—that's a fundamental shift that we're seeing in the relationship between smallholders in this example and the marketplace.

Turning to the second group, the citizen security, what we're doing is we're focusing as AID on crime prevention efforts, community policing, workforce development programs, the so-called "soft side."

And I think one of the most gratifying outcomes has been that many of the U.S. government agencies that are focused on the so-called "hard side" investments in crime and security, helping Central American partners fight narco-trafficking and gang violence, they see the USAID-type investments on the "soft side" as essential complement to their work with law enforcement authorities.

And I think it's intuitive to all of us about the degree to which if you can get communities engaged in trying to solve a local problem where you have civic leaders, church leaders, and local private sector businesses that are seeing their business suffer by gang activity or criminal activity, if you see them coming together to work with municipal authorities to say, "Hey, what can we do to solve this problem? What do we need? Do we need more lighting? Do we need better programs for youth after school? Do we need to have better links between our municipal police and the—and the national police to report and make sure we get focused intervention when we need it on a timely manner?"

Those types of conversations where you have the business community sitting down with civic authorities are critical and the kind of thing that AID's investing in.

Workforce development programs are another key aspect of this because there is a youth bulge and there are a lot of drivers behind the growth of crime and violence in Central America, but the reality is, of course, there have to be opportunities for the 15-, 16-, 17-year-old or the lure of a neighborhood gang becomes—becomes very great.

And, you know, people have—observers have commented that there has to be effort to create other options besides on the one hand migration outside, a life of crime, or there has to be something else and—and, because of the traditional lack of vocational programs within much of the region, there haven't been those kind of investments to provide a set of kind of career path for those people that may not be on a university path that have become discouraged with school in say, sixth, seventh, eighth grade.

And, so, I think some of those programs are proving key complement to the—what I mentioned, the "hard side" investments.

On the low growth, there's still some very traditional, what you might call traditional USAID investments, but also we're seeing increasing innovation around trying to use technology to get a scalability of development intervention.

You know, the use of mobile phones and how they can be a tool across the board, whether it's, you know, delivering health messages or information to farmers are an example of where technology can provide a scale of reaching a number of, you know, Haitian farmers that—that didn't exist before with tailored—tailored extension (ph) messages or tailored health messages on—on information on cholera outbreaks and such.

Let me stop there and we have plenty of time for questions. Thank you.

(APPLAUSE)

FARNSWORTH: Well, thank you, Lawrence and Jonathon both, for your outstanding comments. I particularly appreciated the comments you made—the comments you made Lawrence about—well, several things, but one of the points that you just made, in terms of job creation and the youth bubble, and the reality is, without jobs in the formal economy, you really have two options. You can migrate, which generally means coming to the United States with all that that implies, or you can try to do something that might fall into criminal activity.

And, so, job creation, fundamentally, is a role of the private sector. So, I think where you took that conversation was really, really important and good.

I also liked the conversation about taxes. Nobody likes to pay taxes, obviously, but the free trade agreements have fundamentally changed the structure of tax collection in many of the societies, not just in Central America, but throughout the region, because that was a fundamental driver of government receipts and, once that's removed, you have to replace that somehow.

Then, if there's no culture of individual payment of taxes, as we see, not just in Latin America—I—I was driving in this morning and I heard a report on NPR on Greece and the whole—the whole discussion was how Greeks don't pay their taxes. Now, I don't—I'm not saying that's true or not true. I'm just reporting what I heard on the radio. All right?

So, you know, but the point is that this is a global issue and something that I think you all are rightfully turning attention to.

You know, I've got a lot of questions, but we have a really qualified audience. I see ambassadors in the audience. I see private sector representatives. I see a number of friends. So, what I'd like to do, actually, is—and, therefore, I don't have to talk into the microphone, too, which will—ends this feedback—is I'd like to go to the audience. Presumably, there are questions that some of you have for our two panelists, who I think have done an outstanding job of laying out some of the issues.

We have a couple of microphones. I think they're circulating. So, if you could please identify yourself by name, and we have a question here. Name and organization, if you represent a particular organization, and, if the question is directed to one of the particular panelists, feel free to direct it accordingly. Otherwise, we'll all take a shot at it.

So ...

QUESTION: Hi, I'm Ray Terry, Jr., with International Management and Capacity Development. It's a private firm, but, anyway, my first question is Jonathon. And, basically, what I'm wondering is, with the new El Salvador compact, is there a specific—industry specific target that small-to-medium-size enterprises in the U.S. should look for to partner with companies in El Salvador? I mean, you mentioned agri-processing probably with the Super Select supermarkets, but are there others?

And then should I ask the second question now or ...

OK. And the second question is probably for Mr. Rubey over there and it appears that I—I never hear talk about Argentina and I wonder—or Chile—and I wonder about Chile because Chile seems to be both politically, geographically, and climate-wise very similar to our country and it seems like we should be able to roll in there pretty quick and, you know, set up with—with regular people, regular small- and medium-sized enterprises and set up shop and do business there and then fan out.

Also, there'd probably be less conflict with the narco-trafficking, et cetera, et cetera, et cetera. So, I was wondering why I never hear anything about Argentina and Chile.

(UNKNOWN): Jonathon?

BROOKS: Yes, thanks for—for the question. I think the compact in—the compact in El Salvador, which is a $460 million investment, like I said, has a few components, one of which is the productive development piece.

That, I think, is something that the formulario (ph), which is the accountable entity in El Salvador, has actually been very proactive in promoting as an opportunity.

It has actually provided a fair amount of opportunity, not only for Salvadoran—Salvadorans in the U.S., but it's actually come to the United States on at least, I think, two occasions to try to attract investment in the small farmer land—agricultural opportunities in the northern zone.

That, I think, is probably, you know, by way of a kind of a direct investment, one of the more interesting opportunities and I—I'd be glad to speak with you further about it or put you in touch with formulario (ph) about that. That activity's really being, you know, promoted for—for additional investment by investors from wherever they may come.

That, I think, is, like I said, I think the best opportunity. There's also, obviously, procurement opportunities for—in other parts of the—of the program and those are all available on—on our website and I'll be glad to give you more information on that, as well.

RUBEY: I guess—you know, a lot of times development economists say that we don't have the ability as development practitioners, like medical doctors, to have one group that receives the medicine and another control group that doesn't.

Well, you know, Argentina and Chile come about as close as possible to an interesting experimental design because you have two very similar countries, geographically, that have pursued radically different kind of—kind of models—Chile, a very open economy, stable macro-economy; Argentina, considerably more closed economy and a little rockier road, in terms of debt management and such.

And, so, two very different—different cases. I think that one thing that certainly we're seeing in Chile is, I think we all know, the kind of agricultural export miracle of Chile. You know, you can't walk into any store without finding table grapes from Chile and salmon and such. And—and—the success story there, in terms of their agricultural sector, in responding to demand around the world has been enormous.

And what we're seeing now is regular engagement with the U.S. with Chile to help get Chilean expertise in other countries of the region that—that want to see their own agricultural miracle.

A couple of years ago, there was a initial visit by a group of Central American agricultural ministry, people that are responsible for, essentially, managing the food safety system of their countries, visiting Chile, seeing how Chile had organized, essentially, an export industry with the government support infrastructure to help make that possible, in terms of ensuring, you know, that businesses can quickly satisfy a set of sanitary—(inaudible) of sanitary standards and get their product out to world markets.

And I think we're seeing more of that—that south-south exchange and Chile is a good example of how that's happening.

FARNSWORTH: Are there—I mean, that's an important change, no? From previous years? You're having co-operation of third countries. Are there other examples that either of you could point to along those lines. I think that's a really interesting point.

RUBEY: Well, I think that there are—there—increasingly, as we see, you know, kind of these—of these tigers, the interest is, certainly, from the U.S. government interest, but, also, there's a growing interest around the world that—that—that Brazil wants to—has created its own development agency and, right now, some initial work is happening between USAID, the U.S. government, Brazil, and working to Mozambique, working, improving varieties for smallholders.

And, so, I think, as—as countries like Brazil, countries like Chile, in—in southern Africa, South Africa is seen as as a key source of investment dollars in the rest of the region, but also is exploring how they can play a development role.

So, I think we—if we look at the transition, after a country, you know, enters lower-middle income, middle income status, they begin answering the question, you know, "How are we going to play a role in development?"

And we're seeing a very different kind of role than perhaps the—the donors that began in the '50s played. So -

(UNKNOWN): (Inaudible) ...

BROOKS: Yes, I make a couple—a couple of comments on that.

One, I think as an example that I think I'm familiar with was in Central America around the secure transactions legislation and, you know, how that, you know, became, well, you know, as the banking sector—the—the large and small, you know, credit providing services in—in Central America were looking at their opportunity of securitizing those transactions in order to be able to leverage them further as collateral.

The use of that specific legislation, I, you know, in the last, you know, five years saw that being transferred from, you know, in the collaboration between Honduras, Costa Rica, Guatemala, as they, on their own, were—as the business sectors within these countries were looking to each other as—as—as examples that they—that they could use in their own legislation.

So, I thought that was—that was—that was an interesting example.

I think there—Lawrence is right. You know, there's a lot more, I think, particularly (ph) as countries, you know, migrate up the development staircase, you know. There is greater self-—self-collaboration and there's a greater turning to one another to figure out what the opportunities are.

I think in Central America, another example, I think, has been the role that—you know, a traditional element has been the role of the cieca (ph) which was an integrated—integration organization. You know, there has been a bit of a revival of the opportunities through cieca (ph), through the Central American Bank for Economic Integration, precisely as, I think, Central American countries are trying to collaborate more amongst themselves in order to identify opportunities for—for greater investment and development.

FARNSWORTH: Good points. I've got several people who want to get into this conversation so let's see how many we can do. We're going to start here and then I'm going to start coming this way. I see two here. I see two there, at least, maybe three. I'm not sure we're going to get to all of you, but let's—so, if you can, try to keep your—no comments, questions please, and try to keep them short. Thanks.

QUESTION: Just one—I guess one question. My name's Bill Preston (ph). I'm with my own company, Roots Worldwide. I also work on the board of SOCAL Sister Cities and then also helping the Rosa and Raymond Parks Institute for Self-Development and their signature program called Pathways to Freedom.

Just wanted to find out with regard to Sister Cities International, are there any examples that you guys can give me because with the engagement that's always the key? Is there any examples that you can give me between sustainable programs that you've seen from the sister cities side between any U.S. sister cities and sister cities in Latin America that have been very successful, that have had the engagement, the economic, the cultural engagement, but, obviously, with the youth and even student exchanges with the universities?

Thank you very much.

BROOKS: I'll take a quick stab at it. I'm—I'm unable to give you, you know, very successful examples of it. I may suggest that, you know, you—I think some of the—the activities that we've seen through, you know, sister cities with—I think—there's—I guess what I was going to get at is that there are—there are cities in the U.S. that may actually be a good source for that kind of information.

You know, I think cities like New Orleans, for example, have done a particular outreach effort in Central America, at least, and I think that that may be an opportunity.

But, other than that, I'm not able to give you a specific example.

RUBEY: Just—one thing that USAID has done over the past couple of years is encouraged relationships between mayors from various Central American cities, encouraged them to get together. There have been participants from U.S. cities to talk about crime prevention. It's fundamentally organized around, you know, what can local authorities do to prevent crime and a sharing of experiences. And I'd be happy to give you some contact information afterwards if you want to get more information on that initiative.

FARNSWORTH: Very good. We've got a question here and here. So, let's go to the middle section now. Gentleman here in the red tie.

Thanks.

QUESTION: Thanks very much. Very interesting conversation.

My name's Andrew Mack, AMGlobal Consulting here in Washington, and one of the things that I've heard from both of the speakers is—was about—effectively, about transparency. Transparency is an important driver of business involvement, transparency as an important determinant of how successful we're going to be.

I'd also like to suggest that transparency is a really big issue in terms of the political support that the aid and the investment budget on the U.S. political side. It's going to be particularly important as we go forward based on what we've been able to see so far in the—from debates and things like that.

So, I guess my question is, recognizing that that's a very important piece of it, what would you like to do on the legislative side, on the technology side? What—what would you like to have as tools in your arsenal to try to bump up the—both the actual usage—the—the transparency outcomes in your programs and, also, the ability to explain it to the general American populace?

RUBEY: Maybe you could elaborate a bit, in terms of—in term—when we talk about domestically, in terms of aid budgets, terms of transparency. What—what—what precisely are you getting at?

QUESTION: Sure. Very briefly, if you've seen the most recent debates, there's a—the question was not about what kind of foreign—what kind of foreign aid we should have, but where we should cut and how much?

And a big part of this is, if you look around—look around the United States, the perception of foreign aid and of outreach is wildly out—is—is completely out of—out of contact with the reality. People believe that we're giving a great deal more money away. They believe a lot of it is being wasted. They believe a lot of it is unaccounted for.

And, so, a big part of our—of—of our supporting you to make you more successful is in changing that narrative, right? So, part of what we're looking for in terms of transparency is the things that make it a better investment—better perceived investment, but, also, how do we sell it to the American populace?

RUBEY: Yes. I think it's a great question and I won't—don't pretend to have the magic answer. I guess I'll make one observation and that is is that, you know, in—it's—it's fairly easy to describe to an audience the importance of assisting with the humanitarian crisis now in the Horn of Africa.

I mean, that's immediate. The U.S. is providing hundreds of millions of dollars of support for that effort. You know, you probably would see widespread support for us responding to a famine situation.

I think what's a harder sell is, as Jonathon mentioned, you know, our support for movable collateral registries and, you know, I can just imagine, you know, someone's eyes glazing over as they hear that.

And—but, you know, because many of the times the kind of investments we make as development agencies in concert with local and national governments are investments in things like collateral registries that are the kind of lynchpin of why—why more banks don't lend to small borrowers.

They don't lend because they're not sure they can get their money back and the small borrower has no collateral except 19, you know, big sewing machines, right?

And, so, having that small little change suddenly opens the door and you can—the—the small seamstress that has, you know, 19 (inaudible) sewing machines, has, you know, 8 sewing machines or 5 sewing machine, suddenly, can get a loan.

And I guess telling that story about how, you know, a woman, Rosa, has—has had this problem and then say, "Well, MCC helped with the collateral registry and that helped the bank lend." It—it's a much more difficult conversation than there's a humanitarian crisis in the Horn of Africa.

BROOKS: I'd make just a couple of comments about that. The first is, you know, just (inaudible) around transparency in programs, I think—one of the things that I would like to see is kind of continued transparency as we work with countries in where our investments are going and a greater transparency towards the citizenry of those—of those countries.

I mean, I think it's good for, you know, our programs to kind of push the envelope a little bit in the countries themselves about what's available to, you know, the media, what's available about the—to the broader citizenry about, you know, well, how much is going to admin costs, how much we're using on, you know, this part of the project. You know, what's the timeline for the construction? What's the baseline where we started? Where do we expect to get?

That kind of, you know, transparency, kind of pushing that, I think, pushing that envelope, I think, in our programs is something that's very—that's sort—that I would like to continue seeing in our programs.

And I think it is—domestically, I think Lawrence is right. You know, I think—you know, it's—there's—there's kind of different levels of compelling that you can make and, you know, some of the work that we're involved in sometimes in economic growth, you know, lacks some of that, you know, kind of very clear narrative.

And it's our role to, I think, work on that narrative and I think one of the ways in which we can do that even better is by continuing to focus on results. You know—and focusing on results in a kind of quantitative way that can actually start from a baseline and, you know, look at a timeline and subsequently say, "This is what we achieved. This is the return that we got for that investment dollar that we made."

I think that is not certainly going to be a panacea, but I think that shortens that sometimes convoluted narrative from investment to result and I think we, as the development community, can continue to do a better job of narrating that—that gap.

RUBEY: Yes, I mean, our—our administrator, Rajiv Shah, gave a speech on the 50th anniversary of USAID a few weeks ago and he described in that speech a number of examples of where, you know, key investments that we made years and years ago have provided dividends, not only for the countries that received them, in terms of enjoying greater economic growth and businesses that have been able to grow and prosper, but then opportunities for the U.S.

And this idea that, you know, if—if the neighborhood gets better and the neighbors do better, it benefits everyone because they're—we're—they're selling—we're buying—we're selling our products to them. They demand Caterpillar, export some Caterpillar and John Deere and the entire neighborhood prospers.

So, I think that that—that argument is beginning to be made and let's hope it resonates.

FARNSWORTH: That's a huge question. You know, if I'm not wrong, the Chilean agriculture miracle that you referred to earlier was, at least, helped if not in large measure a result of USAID assistance in the 1950s and '60s, no?

The—the salmon and wine industries were not a creation of AID, but, certainly, midwifed by USAID.

RUBEY: Yes, I mean, I think there certainly was some effort. The more compelling story is in Southeast Asia, in terms of Taiwan, where in the immediate post-war era there was some, at the time, relatively, significant investments. They're modest in, you know, current dollars terms even, but that have, you know, created these—these stable trading relationships that continue to this day and, you know, create these win-win trading partnership.

FARNSWORTH: Probably got time for one round of final questions so I'm going to take the final questions in a round. We're going to go here as the next one and, as the microphone's getting there, one other quick thought about this very important question.

I think that just the—just the lack of knowledge about how much money is actually going to foreign assistance, particularly in the context of everything we're spending. If you look at polls and it's consistent, you know, you ask the American people how much is going to foreign assistance and routinely they think it's 25, 30 percent of the federal budget. I mean, just absurd amounts when it's, in fact, less than 1 percent, all in.

And, so, you know, just basic understanding—then you actually ask and I've seen these polls and I used to, you know, focus on some of this in my earlier life, but you ask them, "Well, how much should go?" and they'll say 25 percent, right? They thinks it's coming—they think it's coming down from 50 percent and it should be about 25 percent, should be the amount of federal budget money that goes to foreign assistance.

Can you imagine? But it's actually less than 1 percent. So, I think just that lack of understanding. What are we really talking about here, in terms of how much? In raw terms, yes, several billions of dollars looks pretty good for a depressed community and I get that in absolute terms, but in relative terms just the lack of understanding is extraordinary.

And it's not just outside and, you know, my hometown where I'm from. It's also inside the Beltway. There's a lack of understanding among so-called professionals in some of this industry. So, I think, you know, we can start there, but some of the other ideas that have been mentioned are also very relevant.

I'm not supposed to be talking. I'm supposed to give you an opportunity to talk. So, go ahead.

QUESTION: Good morning, my names is Ben Weiner. I'm a foreign policy legislative assistant for Senator Sheldon Whitehouse of Rhode Island. My question is about contracting for both Mr. Rubey and Mr. Brooks.

To what extent over the, I guess, the past year or two, compared to the last decade and less for MCC since it's a newer creation, is there a change in reliance on contractors to implement projects? So, for USAID that would be directly from those overseeing projects to the projects themselves, in terms of the level of contractors and subcontractors and sub-subcontractors. And, for MCC, of country—MCC development boards to the final recipients of projects. So, has there been a shift of an increase, a decrease, and where is headed from here into the future?

FARNSWORTH: Very good. Thanks.

And let's go here now to the gentleman on the end. As I say, we're going to have to do this as a rounds because time is against us, but let's—and all of you can see on the clock, so ...

(LAUGHTER)

All three clocks. Exactly.

QUESTION: Thank you. I wasn't expecting to have a question if we're going to come from this direction so you surprised me. It's great.

I—I wanted to, first of all, just express my appreciation. There's so many here that are interested in Latin America because, obviously, so much of the trade winds are blowing towards Africa and Asia.

My—my question is really more of a statement and it has to do with agriculture and Lawrence mentioned this a number of times. One of the issues around agriculture that I find very interesting is that, for every dollar you invest in agriculture, you—you generate eight dollars, which is one of the highest returns of any investment segment in the world.

And when I take a look at the Zero Hombre, the Zero Hunger, program for example, in Brazil, they have agriculture as a underpinning to—to reduce poverty and hunger. And virtually all other countries that are dealing with issues of hunger and poverty eliminate agriculture as a fundamental pillar to—to address hunger and poverty and—and civil stability and so on and so forth.

My—my—my question is this. We talk about the private sector and—and I'm from the Inter-American Institute for Cooperation in Agriculture (sic), by the way, IICA. I'm David Hatch and—and we've had some conversations with a variety of larger corporations in the private sector and what we are finding is that they are very interested in large scale agri-business opportunities when, in reality—you'll have to excuse my phone, I'm supposed to be at another appointment here, when in reality the small holder farmers are going to be the key to food security, the key to reducing hunger, the key to key to reducing poverty. So, finding that space, that commonality between agri-business, who wants to look at the large scale issues, and I understand, coming form the private sector why they want to look at large scale. The real reality is how do we connect with the small holder farmer?

Because we see a Wal-Mart situation, and I think there's a great example, there, but it would be really helpful to do an analysis of what the actual impact on the small farmer has been in terms of increased income and livelihood. But my question is really to the private sector broadly—is how do we connect to the private sector, when we have to deal with small holder issues that are much more micro in focus and, in many respects, much more labor intensive, but have a great potential for return. Thank you.

FARNSWORTH: That's an outstanding question, not sure we're going to have time to fully address it, unfortunately, but we certainly can try. I'm going to go with the final question with Ambassador Quinonez, whom I know very well.

QUESTION: Thank you, Eric. Alfonso Quinonez from the Organization of American States. I wanted to stress the importance of (inaudible) cooperation for the Latin American countries. When we interact with them in this area, they stress how important this is for them. So, I want to suggest that the United States can get more involved in triangular cooperation and promoting some of the solutions that have been developed and some of the solutions that we have heard this morning from MCC, for example, that can be perfectly shared within the region.

We have great experiences at the OAS, like the Energy and Climate Partnership for the Americas that was announced by president Obama and (inaudible) the Americas, or the Social Protection network that was launched by Secretary Clinton in New York, those are just two of many initiatives. So, I was wondering if the NCC has an inventory of the programs that have been developed in the country with their resources and if those can be encouraged to be shared among the countries of the hemispheres.

FARNSWORTH: I apologize to those of you—I saw several other hands and I just don't think that we're going to have time to get to them, but let's see how fast we can get through some of these questions, taking all the time that we need to answer them appropriately. We have the issue of contractors in delivery of assistance, we have the issue of agriculture and small holders and how to integrate, and we have the issue of the OAS and resources and has the NCC considered some of those approaches.

Why don't we start first with the contractor's issue, I think that's to you, Lawrence?

QUESTION: Great, yes. A little less than a year ago, our administrator announced some very far-reaching reforms about how USAID does business. Among those was a commitment to expand the use of local NGOs as implementers and more government to government work and this implies less contracting. That has begun and, in fact, there was last week a meeting of worldwide USAID mission directors here in the Washington, D.C. area and one of the hot topics on the agenda was reviewing progress on that and looking forward next year—what our target's going to be, what our target is the following year, in order to bring into balance what had been skewed towards implementation through contractors.

(UNKNOWN): David? Agriculture?

FARNSWORTH: Just very quickly, to reiterate our point, I think the track record within NCC is pretty short, so I can't really speak to a significant shift in one direction or another. I think, you know, we tend to have a relatively small NCC presence in countries and we are able to partner with a variety of contractors across our programs—and so—I just to confirm, you know, I don't think we can speak to a shift other than to say, you know, I think we maintain a pretty lean presence by way of NCC and the role of contractors is something that—we use contractors extensively, but within a, kind of within a lean organization.

Not only from NCC, but even from the government partners, you know, we try to maintain kind of small, accountable entities that are able to, you know, do the work as effectively as possible. But that's just a comment on that. I think, if I can skip on to the small farmers. Sorry, David and (inaudible) comment. I certainly don't have a silver bullet. You know, the experience that I've seen is that it's extremely valuable to reduce the kind of transaction costs that there is between kind of the larger wholesalers, who as you know, are very much reliant on a precise schedule, very precise level of quality, you know, very precise transportation requirements and the small holders, who are often not in the position to provide all of those, because on an individual basis each one of those elements carries a very high cost.

As we've worked with farmers, who are recognizing the value of—the increased value if particularly horticultural production, you're seeing greater efficiencies from the small farmers as well. You see some of them coming together to kind of combine that scheduling, but also, one of the things I find interesting in some of the work that we've seen is farmer's actually sharing, you know, the knowledge within themselves and kind of across—even regions within a country, in order to be able to provide their product to larger wholesalers. So, my basic point is that I think it requires an approach form both ends.

You know, I think the wholesalers need to and are becoming more nimble at identifying, kind of those small market producers in the countries and are able to reach them better. On the other side I'm starting to see, I think, or at least in, in the programs we've worked in, we're starting to see, you know, small farmers also collaborating among themselves and getting better understanding of what the wholesale market is actually going to require. So that's all I'll say on that.

RUBEY: I think that, you know, I mean there a lot of forces that are driving this. Six years ago, there were—the amount of peppers going from Central America to the U.S. was zero. The amount of cheese going to the U.S.—from Central America to the U.S. was zero. We had a baseline and it was nothing, and the Central American Free Trade Agreement was accompanied by a set of assistance to producers and governments to help them get access to U.S. markets. As part of the expanding trade, U.S. firms got greater access to Central American markets and what we have seen is a growth in trade both ways.

So, small farmers are tapping into that because most of the dairy farmers that are—who have a relatively small numbers of animals, they sell to a larger dairy the raw milk and that milk gets transformed into cheeses that meet for the Hispanic market in the U.S. and so I think that a lot of—a lot of the—a lot of the opportunities are new opportunities being driven by this expanding trade and there a lot of models for how to link those small farmers in. And some of the—we used to say, oh, big firms aren't going to want to deal with small farmers. You know, it's too costly, transaction costs are too high.

I think what we're seeing is that's not necessarily true, that there are a lot of ways in which a relatively large wholesaler can deal with hundreds and thousands of farmers. And it—it becomes relatively easy, everything from, you know, every farmer has a little smart card and—you know, electronic payments are registered on that—that—that card. There are—there are—there are ways of reducing, typically, those—those—those transaction costs and we're seeing those in practice.

FARNSWORTH: Very good, and we will have to simply stipulate that the OAS is doing a fine job in all of these activities, Ambassador, so ...

(LAUGHTER)

FARNSWORTH: And we will be in further coordination with you. Ladies and gentlemen, I'm afraid we are at time. I want to thank all of you for your attendance, your participation and your outstanding questions and to frankly suggest that this should be considered the beginning or the continuation of a conversation and certainly not the end. With that, I would ask all of to please join me in thanking our panelists and keynote speaker for their terrific (inaudible).

(APPLAUSE)

END