

**U.S. Agency for International Development**

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**Advisory Committee on Voluntary Foreign Aid**

**“The New Compact for Development:  
Designing a Blueprint for Change”**

# **Meeting Report**

**Public Meeting – May 22, 2002**

**ACVFA**

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**“The New Compact for Development:  
Designing a Blueprint for Change”**

**May 22, 2002**

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**ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID**

**Public Meeting**

**May 22, 2002**

**“The New Compact for Development: Designing A Blueprint for Change”**

**Table of Contents**

**Welcome and Introduction: WILLIAM S. REESE, ACVFA Chair**

**Introduction: Frederick Schieck, Deputy Administrator, USAID** 1

**Message from Andrew S. Natsios, Administrator, USAID** 3

**“The President’s New Compact for Development”  
Frederick Schieck, Deputy Administrator, USAID** 3

**Questions and Answers** 5

**Panel Discussion: “The Millennium Challenge Account: Developing  
Effective Partnerships, Criteria, and Measurements”  
Moderator: Peggy Curlin, ACVFA Vice Chair** 7

• **Alan, P. Larson, Under Secretary for Economic, Business, and  
Agricultural Affairs, U.S. Department of State** 7

• **William Schuerch, Deputy Secretary for International Development,  
Debt, and Environmental Policy, U.S. Treasury** 9

• **Patrick Cronin, Assistant Administrator for Policy and Program  
Coordination, USAID** 10

• **Robert Chase, ACVFA Member, Vice President, World Learning** 11

**Questions and Answers** 14

**Afternoon Opening Remarks: William S. Reese, ACVFA Chair** 18

**“Criteria and Selection Issues: Consultation with NGOs”  
Patrick Cronin, Assistant Administrator for Policy and Program  
Coordination, USAID** 19

## **Reports from Breakout Groups on Criteria, Selection Issues, and Indicators**

- **Group 1 “Governing Justly”** **20**
- **Group 2 “Investing in Human Capital”** **21**
- **Group 3 “Economic Freedom”** **23**

**Annex 1: Meeting Agenda**

**Annex 2: Breakout Group 1 “Governing Justly” Session Notes**

**Annex 3: Breakout Group 2 “Investing in Human Capital” Session Notes**

**Annex 4: Breakout Group 3 “Economic Freedom” Session Notes**

**Annex 5: Meeting Participants**

**Annex 6: ACVFA Information**

**ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID****PUBLIC MEETING****MAY 22, 2002****“The New Compact for Development:  
Designing a Blueprint for Change”****WELCOME AND INTRODUCTION: WILLIAM S. REESE, ACVFA CHAIR**

**W**illiam S. Reese, ACVFA Chair, welcomed the ACVFA members, the U.S. Agency for International Development (USAID) staff, and meeting participants. For sixty years, the ACVFA has worked to promote a strong partnership between the U.S. government foreign assistance program, the business sector and the non-profit sector as a full expression of U.S. concern and commitment for development around the world. With the new administration the ACVFA has refocused its work around the four pillars identified by USAID Administrator Andrew S. Natsios.

Mr. Reese noted that this was ACVFA's first public meeting since the International Conference on Financing for Development in Monterrey, Mexico in March 2002. That conference looked not only at Official Development Assistance, but also at the other larger vehicles, including foreign direct investment, trade, host country domestic resources, and multilateral assistance. The announcement by President Bush in March 2002 represents the largest infusion of U.S. public money for development in our working lifetimes -- \$5 billion per year by 2006. Today's public meeting focuses on the new Millennium Challenge Account (MCA). The afternoon breakout sessions provide an opportunity for public input on the criteria, selection issues, and indicators associated with the MCA. The meeting agenda is contained in Appendix 1.

**FREDERICK SCHIECK, DEPUTY ADMINISTRATOR, USAID**

Mr. Schieck welcomed the meeting participants on behalf of USAID and remarked on the importance of the ACVFA public meetings as a forum for discussion of foreign policy and international development issues. He noted that ACVFA's working subcommittees have advised USAID in several key areas over the past several years, including procurement reform, improving the Agency Strategic Plan, and most recently, thinking through strategies for the Global Development Alliance.

Following up on the topic of ACVFA's February 2002 public meeting on Afghanistan, Mr. Schieck presented an update on USAID's work there. A key focus of the USAID program is education. USAID assisted the Afghan government in preparing for the

opening of schools on March 23 by printing and distributing over five million primary school textbooks and four thousand teacher training kits. USAID also printed five million secondary school textbooks, which are currently being distributed. USAID is now providing food supplements to augment the salaries of 30,000 teachers, many of whom are women. Afghan girls have been enrolled in public school for the first time in many years.

In agriculture, USAID supported the spring planting by purchasing and distributing 7,000 tons of seeds and 15,000 metric tons of fertilizer. These commodities reached approximately 140,000 farmers. The persistent drought in Afghanistan is of great concern. USAID is working with UNICEF and local non-governmental organizations (NGOs) to address this critical problem. USAID is creating income alternatives, primarily infrastructure rebuilding projects such as irrigation system repairs, which are benefiting approximately 45,000 rural people in five provinces. USAID is also assisting 6,000 farmers to switch to cash crops in lieu of poppy.

USAID is providing food supplements to 210,000 civil servants. This is viewed as an income supplement and is designed to help the government retain qualified workers. USAID is committed to working on a broad scale for reconstruction and recovery in Afghanistan. USAID is anticipating that the multilateral banks will take the lead on the much needed infrastructure development. The main focus of USAID programs will be community-based actions to improve livelihoods and restore economic opportunities throughout the country.

Mr. Schieck stated that Secretary Powell and Administrator Natsios are determined to build on the progress made over the last six months. Afghans are returning to their homes and rebuilding their lives, and the United States is committed to assisting them. The USAID mission in Kabul is now open for business.

A major event since the last ACVFA public meeting was President Bush's announcement of the New Compact for Development and the Millennium Challenge Account. This initiative, announced in March 2002, will increase U.S. foreign assistance levels by \$5 billion a year by 2006. This increase will be reached in steps beginning in 2004. Mr. Schieck remarked that this is a tremendous increase in economic aid and is of great significance to the development community. The President made it clear that this initiative is linked to effective and successful development. The MCA is designed to build on success and demonstrated political will on the part of governments.

Mr. Schieck introduced the first speaker, USAID Administrator Andrew Natsios, who taped a message before leaving for a trip to Africa. Mr. Natsios was with President Bush when he announced the Compact and was part of the U.S. delegation at the Monterrey Conference. He is involved in planning the MCA as USAID's representative on the Compact for Development's steering committee.

**MESSAGE FROM ANDREW S. NATSIOS, ADMINISTRATOR, USAID**  
(VIDEOTAPE)

Mr. Natsios pointed out that the recent announcement of the Millennium Challenge Account by the President marks the third major presidential initiative in foreign assistance since the end of World War II. The first was presented by President Truman and followed by the Marshall Plan. The second major initiative involved the creation of USAID and the Alliance for Progress by President Kennedy.

Mr. Natsios stressed that the MCA will be an addition to the existing U.S. foreign aid program. Many countries that do not qualify for MCA will continue to participate in traditional assistance programs, now in place in over eighty countries. USAID will focus its traditional resources on those areas that will help countries qualify for the MCA.

Depending on the structure, foreign aid programs can move a country toward reform, support the status quo, or undermine reform efforts. Mr. Natsios stated that there is a need to put more tools in the hands of those forces trying to make long-lasting reforms in their societies. When he initiated the Partnership for the Americas, President Bush, Sr. made an agreement with Latin American democratic leaders that if countries democratized and moved towards free markets, the United States would respond by increasing foreign assistance, drafting a free trade agreement, and helping with debt burdens. In the early 1990's many Latin American leaders told Mr. Natsios that the American foreign assistance program was instrumental in facilitating democratic and free market reforms in their countries. The MCA is designed to put tools in the hands of reformers.

Mr. Natsios emphasized that substantial damage will be done if Congress is pressured into earmarking the MCA funds. The people that really know how money should best be spent, including host country ministers, ambassadors, mission directors, and civil society often have the least influence over the allocation of current resources because of earmarks. The MCA will have the best chance of success if earmarks are avoided and decision-making power is retained at the local level.

Mr. Natsios expects that the success of the MCA will require the cooperation of many groups, including local and international NGOs, universities, and business interests. The President emphasized that countries have to show a commitment to primary education and health in order to qualify for the MCA. Organizations with expertise in those areas will be called upon to work with USAID in implementing the MCA. NGOs that focus on democracy can help with the "ruling justly" requirement that the President has placed on these funds. Mr. Natsios reiterated that USAID needs the support of the private sector as partners and looks forward to working together on this important effort.

**"THE PRESIDENT'S NEW COMPACT FOR DEVELOPMENT"**  
**FREDERICK SCHIECK, DEPUTY ADMINISTRATOR, USAID**

Mr. Schieck stated that the main goal of the MCA is to promote economic growth and poverty reduction in developing countries that have made strong demonstrated commitments to ruling justly, investing in people and promoting economic freedom. MCA funded programs will be designed to help countries continue with the progress they have made, increase trade, and attract private investment. Currently there are a number of interagency committees at work defining key components of the MCA. Target completion date of the various components is July to September 2002. Mr. Schieck welcomed the dialogue with the non-profit community and other groups and asked that participants voice their views on what will work and what will not.

Emphasizing that the specific eligibility criteria for the MCA and details about how it will work have not been finalized, Mr. Schieck highlighted some of the approaches currently under discussion. MCA will focus on performance and growth. The size of the account will enable relatively large investments to be made in programs aimed at accelerating economic growth and reducing poverty. MCA funding will be directed to selected countries that are demonstrating good performance, having adopted appropriate policies and reforms necessary to accelerate economic growth, improve governance, and provide a better standard of living for their citizens. A wide range of programs and activities is envisioned. This will be an opportunity to lift more people out of poverty than any previous program.

A key step in putting the MCA into operation will be to define the criteria for good performance. A task force is developing proposed criteria by which performance can be judged in three broad areas: ruling justly, investing in people, and economic freedom. Performance in such areas as respect for human rights, functioning of judicial systems, commitment to attacking corruption, improvements in education and health status, regulatory frameworks, and economic growth will be important indicators. Mr. Schieck remarked that this is a complicated undertaking. When the process of defining indicators is completed, there will be the difficult process of how to weigh performance among the indicators.

Another important need is to identify the modalities related to managing the MCA, including defining the types of activities that can be funded. A subcommittee of the interagency working group on the MCA is in the process of conceptualizing the types of mechanisms and activities that might be considered under the MCA. As a result of the subcommittee's work, Mr. Schieck envisions the following possible outcomes:

1. Funds will be provided on a grant basis only. This will not be a loan program, although some funds may be channeled through intermediary credit institutions for lending to target beneficiaries.
2. MCA will be largely a bilateral program, although some programs could be financed jointly with multilateral development banks.
3. Provision for data collection and performance review will be built into the program.
4. Investment needs and growth potential of the selected countries will be taken into account in determining the allocation of funds.

Possible investment sectors for MCA encompass a wide range of interventions. Examples include public management, entrepreneurship, international and regional trade, including financing special projects to increase trade, and assistance in negotiating with the World Trade Organization (WTO). Investments will also be made in agriculture, education (particularly directed toward improving educational systems and girls' education), health, finance and business. The goal of economic growth and poverty reduction underlies all interventions. The MCA will finance programs that work toward this goal. The prospects for reaching this goal are greatly enhanced by selecting countries that have demonstrated performance. Mr. Schieck remarked on the importance of having flexible tools, including the ability to design programs at the local level so that real needs are addressed.

The U.S. government expects to have many partners in implementing the MCA:

- Governments, at both national and local levels
- Other U.S. government agencies
- U.S. and local universities
- International and local NGOs
- Private firms
- Volunteer and faith-based organizations
- Foundations
- Public international organizations
- International financial institutions.

Mr. Schieck stated that experience has shown that if political will is lacking and policy structures are such that investment is discouraged, then development is slow to nonexistent. The MCA represents an opportunity for the U.S. development community, public and private, to focus on performance as the base on which assistance programs are built, and to make a real difference in people's lives.

#### **QUESTIONS AND ANSWERS/AUDIENCE DISCUSSION:**

**Peggy Curlin**, ACVFA Member, inquired about plans for participation by people in the developing world in this process. She suggested that it will take urging on the part of the U.S. government to ensure that the issues of women and rural poor receive adequate attention.

**Mr. Schieck** stated that the interagency group is working on these concerns and that it would be a good issue for the panel discussion. How the process will open up is still under discussion, but there is a definite commitment to wide participation. Mr. Schieck remarked that it is very important that the identification and design of projects is not a "top down" process. Local governments, NGOs, and USAID missions must be involved in the process.

**Mary McClymont**, ACVFA Member, commented that InterAction prepared a paper about the Millennium Challenge Account that addresses many of these issues. She noted a concern about countries that do not qualify and urged that there be a comprehensive

look at all development programs, not just the MCA. The InterAction paper stresses the importance of keeping a focus on the Millennium Development Goals (MDGs), a strategy that may help to reduce the number of earmarks. The NGO community hopes that the MDGs will be a "guiding light" in the allocation of MCA resources.

**Mr. Schieck** remarked that one of the primary concerns about the MCA is what it means for countries that don't meet the criteria. He assured the audience that USAID programs will continue in countries that are not part of the MCA. As Mr. Natsios mentioned, USAID will help these countries attain the standards and will build upon the good work the Agency is already doing in health and other areas aimed at reducing poverty.

**Ted Weihe**, ACVFA Member, inquired about the role of other federal agencies and the management structure for this new initiative.

**Mr. Schieck** responded that the participants on the committees at this time represent the Department of State, USAID, Department of the Treasury, and the National Security Council. There is strong interest on the part of other U.S. agencies to participate; it is recognized that they will participate at some point. The internal modalities have not been worked out yet. USAID expects to play a major role, but there will be an interagency process that will have program oversight.

**John Ruthrauff** of Oxfam America applauded the ACVFA forum and echoed Ms. Curlin's concern about incorporating developing country input into the design and implementation of the MCA. He noted that USAID's worldwide missions could help make wide participation feasible.

**Margaret Goodman** of World Learning asked whether the MCA would be targeting a large or small number of countries.

**Mr. Schieck** replied that there has been no attempt as of yet to identify particular countries. The criteria for good performance need to be determined first. Preliminary thought is that assisting fewer countries with larger resources would be more likely to lead to success.

**Ritu Sharma** with Women's Edge asked when participation by the NGO community on the indicators, particularly the economic indicators, would take place, given that NGOs have heard that the Treasury Department is in charge and has almost finished this work.

**Mr. Schieck** replied that the Department of Treasury has taken a lead role on defining the criteria, but other agencies, including USAID, have been involved. There are currently spreadsheets listing potential criteria, but these haven't been finalized and no decisions have been made. The first step is to have a broad range of possible indicators, with input from the NGO community and others, and then to narrow them down. This is an interagency process that will involve the private and non-profit communities, although the timetable for additional outreach is not certain.

**Laura Henderson** of CARE suggested that setting standards very high might eliminate many countries from the MCA. She cautioned against rewarding only countries that have made the most progress, while neglecting other needy countries that are making progress in some areas.

**Mr. Schieck** responded that if the bar is set too high, not enough countries will qualify for the program. There is a need to have objective criteria, but there is also a need for flexibility and judgment. The interagency process will have to wrestle with these difficult questions.

**Frank Method** with UNESCO asked for clarification about the bilateral framework and what that means for programs requiring regional strategies. He also asked if the MCA would be limited to current USAID recipient countries, or would it be open to countries that have "graduated" but still have pockets of poverty and serious environmental issues, e.g. Thailand and Brazil.

**Mr. Schieck** answered that the interagency group is open to the idea of working jointly with international institutions to support programs that all parties deem important. More thinking needs to be done about this issue. The eligibility standards have not yet been determined, but discussions point to not working with "graduate" countries. The poorest countries should be targeted for the MCA, although the problem is that many of those countries do not have very good governments.

**Elise Storck** with PricewaterhouseCoopers inquired about the likelihood of MCA funds being used to develop better statistical data and information systems in countries where good data is lacking.

**Mr. Schieck** replied that when data is weak or lacking, it is difficult to measure performance. Improving data collection systems will be important to the MCA.

**John Pielemeier** of CEDPA asked whether funds would be provided through program, sector, or project assistance and whether any new modalities, such as trust funds, are being considered.

**Mr. Schieck** responded that all modalities are being considered. There should be a wide range of tools available to address problems.

**PANEL DISCUSSION:**

**"THE MILLENNIUM CHALLENGE ACCOUNT: DEVELOPING EFFECTIVE PARTNERSHIPS, CRITERIA, AND MEASUREMENTS"**

**MODERATOR: PEGGY CURLIN, ACVFA VICE CHAIR, PRESIDENT, CEDPA**

**LEAD SPEAKER: ALAN P. LARSON, UNDER SECRETARY FOR ECONOMIC, BUSINESS AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE**

Mr. Larson opened by stating that this new presidential initiative is an attempt to take an American approach to development policy, one that reflects U.S. goals and interests. It is time to look at development in a new and different way. President Bush has said that a world where a large part of the population lives on less than a dollar a day is neither just nor stable. The United States has an ethical and humanitarian interest, as well as a security interest, in changing these conditions.

Mr. Larson remarked that the timing is right for this initiative; the international climate and approach towards development policy is moving in a good direction. The preparations for the U.N. Financing for Development Conference reflected, for the first time, the recognition that development is primarily a responsibility of developing countries themselves. At the same time, there was an appreciation of the shared responsibilities between developed and developing countries. There was also a greater recognition of the importance of good governance and of mobilizing all available resources for development. Good development also requires well-targeted assistance that helps countries attract and use effectively other financial sources that are in fact larger than Official Development Assistance (ODA). The domestic savings of developing countries, their external trade, and foreign direct investment are far more important sources of finance for development.

Mr. Larson reiterated that the MCA is aimed at obtaining concrete results by working with committed partners. Past experience and empirical studies have shown that there are enormously larger returns on development investment when assistance is given to countries that have a strong policy framework. For that reason, President Bush outlined the three broad criteria to which countries must demonstrate strong commitment: ruling justly, investing in their people, and putting in place an economic environment that rewards enterprise and entrepreneurship.

Selectivity does raise some fear that this approach will penalize people who live in countries with conflict or bad leadership and policies. It is important to keep in mind that the United States will continue to be the world's largest provider of humanitarian support, which is given on the basis of human need rather than internal policies. Mr. Larson reminded the audience that the United States was the world's largest provider of humanitarian assistance to Afghanistan when the Taliban was in power. Catastrophes like civil unrest, famine, or health crises have often washed away the hard-won progress of decades. The United States will continue to have strong foreign assistance programs to address these situations in countries that don't meet the high standards of the MCA.

The MCA will focus on working in true partnership with countries that have a strong commitment and are making an effort to put in place the right sorts of policies. Our objective is to achieve the most development impact for the investment and to lift the most people out of poverty. As this approach takes hold it will be a spur for countries that don't initially qualify for MCA to make policy reforms that can put them in a position to meet the standards. In addition, the MCA can have a strong positive impact on the development programs of other major donors. The U.S. focus on accountability and results is already having an impact on the multilateral development banks' policies.

Mr. Larson invited participants to provide input on the criteria. He cited a few examples of criteria that might be considered in each category. In looking at whether a country is ruling justly there are a number of indicators that could help inform a judgment about the accountability of government institutions, the strength of commitment to anti-corruption, and the strength of commitment to human rights. In the area of investing in people, one can look at the budget commitment that a country is making to education and basic health. The World Bank has identified primary school completion rates as an important indicator. In the area of economic freedom there are a number of indicators to look at, such as the openness of the economy to international trade and the availability of systems that help small businesses, such as licensing and land titling.

Mr. Larson emphasized that outreach is a serious part of the MCA strategy. There are many good ideas in developing countries themselves and in the NGO and business communities. The advice and input from these groups is very important. This public meeting is part of an active outreach process. In closing, Mr. Larson remarked that care and time must be taken to structure the MCA program to get the kind of results that the President desires.

**WILLIAM SCHUERCH**, DEPUTY ASSISTANT SECRETARY FOR  
INTERNATIONAL DEVELOPMENT, DEBT, AND ENVIRONMENTAL POLICY,  
U.S. TREASURY

Mr. Schuerch remarked that one of the most interesting aspects of the MCA effort is the level of teamwork in the government, among the Department of State, the Treasury Department, the National Security Council (NSC), and USAID. The current Secretary of the Treasury is very dedicated and focused on effectiveness issues in development. Teamwork is a hallmark of the current effort.

Mr. Schuerch commented that there has been a clear demonstration of failure of past foreign assistance programs. There have been successes on a project-by-project basis, but overall, too little has been accomplished relative to the resources that have been applied. This situation in Africa has evolved over two or three decades, exacerbated by the HIV/AIDS crisis in the region.

There is now an opportunity to create a new paradigm for foreign aid. The focus is appropriately on economic growth and poverty reduction, on the basis of increased effectiveness and utilization of resources. Creating analytically based performance measurements and resource allocation systems is an enormous task. The multilateral development banks and the Treasury Department have been wrestling with these issues for many years. In the current IDA-13 replenishment process, many issues have been encountered in creating a performance based contribution system, including how much should be made available to the institution based on institutional and country performance in different areas. A contribution system has been constructed that has a base with incremental increases in later years as a way of encouraging institutions to

focus more closely on development effectiveness. According to Mr. Schuerch, there is international consensus on a set of goals, but not on specific methodologies.

There are many issues related to the MCA, including how to measure progress towards the program goals and how to allocate resources effectively. There is a very strong recognition that public support is dependent upon on measuring and demonstrating progress and achievement in development assistance efforts. Mr. Schuerch noted that there are now more questions than answers. It is easy to define an ideal system with clear, concrete criteria, rigorously and fairly applied that is useful in predicting economic growth. In practice, creating such a system is extremely difficult.

The interagency groups are looking at existing criteria and measurement systems that can be applied or adapted to the three key areas of concentration. There are time constraints; the 2004 federal budget process begins in September. Mr. Schuerch commented that a pilot component to the project is under consideration.

Mr. Schuerch delineated the following issues for the MCA:

- Missing data (many countries cannot afford comprehensive statistics)
- Quality of the data (is it based on actual observation; are surveys being conducted?)
- Frequency and timing of data collection
- Aggregation of data
- Countries learning to “work the system” over time
- Selectivity issues
- Flexibility of judgment (quantitative data must be supplemented with qualitative information)
- Country exclusion due to other issues (narcotics, terrorism, human rights)
- Quantity of resources available to each country
- Absorption capacity of recipient countries
- Modality questions

Mr. Schuerch remarked that the new compact with its emphasis on accountability and transparency should be welcomed by all in the development field. This process can be used for gaining support for foreign assistance and making a real difference in people’s lives.

**PATRICK CRONIN, ASSISTANT ADMINISTRATOR FOR POLICY AND PROGRAM COORDINATION, USAID**

Mr. Cronin made three main points. First, the Millennium Challenge Account is a Presidential initiative, and it is incumbent on everyone to work together to preserve the President’s vision. This is a unique opportunity in the history of U.S. foreign assistance policy to rethink and reshape foreign assistance. This historical opportunity should not be corrupted by predetermining how to spend the money or by laying out one easy set of criteria. This process will take a lot of deliberation, especially with people on the ground who must implement the assistance.

The idea of freedom cuts across the three sectors that the President has articulated. This includes freedom from bad governance, corruption, and human rights abuses. There is freedom from illiteracy. At a recent meeting of the Organization for Economic Cooperation and Development (OECD), First Lady Laura Bush talked about the need for “education for all” and how education can help children see beyond a world of hate and hopelessness. Freedom from illness is also critical. America is the leader in trying to stem HIV/AIDS around the world and is contributing more to this effort than any other bilateral donor. Freedom from poverty must come from economic growth. Only through sustained economic growth can one hope to lift people out of poverty. Mr. Cronin suggested that the audience contrast the past success in the development of the “Asian Tigers” with the past twenty years when only one country, Botswana, has graduated from the ranks of the least developed countries. Keeping the President’s vision in mind is of utmost importance.

Mr. Cronin’s second point related to the ideas behind the criteria. The criteria are about encouraging reform. The Marshall Plan was ultimately about reform, encouraging the European countries to adopt reforms. Those economic reforms became a barrier to some countries, such as the Soviet Union. Stalin did not want to put up with the scrutiny of providing the information that would be required for good governance and economic growth, so he chose not to participate in the program. There are lessons to be learned from the Marshall Plan. The MCA is also designed to provide support for reformers on the ground, an incentive to change policies.

The third point that Mr. Cronin made is that partnership and outreach are key components of the MCA – partnerships with NGOs, universities, foundations, and the private sector and business. Four out of five dollars that flow to the developing world come from private sources. If this money is not harnessed for development, a great opportunity will be lost. USAID's Global Development Alliance (GDA) was designed as a way to change how business is done -- to capture the money, creativity, commitment, volunteerism, resources, talent, and hard work of a variety of stakeholders. The GDA provides a model for thinking about partnership. Outreach and partnership is also the recognition that people who are working on the ground--NGOs, universities, foundations--know what needs to be done, and how to do it smartly.

**ROBERT CHASE, ACVFA MEMBER, VICE PRESIDENT, WORLD LEARNING**

Mr. Chase remarked that for ACVFA members it was uplifting to be engaged in this new way of thinking about and acting upon development assistance. The dialogue is not just about additional resources, but, equally important, about working within a framework that will capture the lessons we have learned about development. The MCA could, it is hoped, provide a vehicle for a new global consensus around development, with the United States in the forefront.

Mr. Chase commended InterAction's MCA policy paper and urged the meeting participants to review it. He briefly paraphrased some of the issues presented in the paper:

- Focus on the Millennium Development Goals
- Funds should be in addition to current levels of foreign assistance
- Ensure that poor people in countries that don't qualify for the MCA are not abandoned
- Focus funding on a relatively small number of countries, such that a genuine difference can be demonstrated
- Serve as an incentive for other countries to pass the bar
- Disburse aid as grants, not loans
- Do not provide funding exclusively through national governments
- Reflect the traditional and abiding humanitarian concerns of the U.S. people.

Mr. Chase expressed satisfaction that so many of the Executive Branch speakers at this meeting addressed these issues in reassuring ways. He noted that the InterAction paper makes a special point of exhorting those engaged in the development of this instrument to conceive of it as a part of a larger mosaic – a multi-part, coherent strategy that defines a national leadership model for development. Official Development Assistance is but one tool in development. The entire tool kit of international interventions--trade, private investments, exchanges, diplomacy, and military interventions--must be used to the extent possible in mutually reinforcing ways to further the growth of poor countries and reduce poverty.

There are two other major principles, both of which are emphasized in the InterAction paper, that members of the NGO community believe should be incorporated into the design and implementation of the MCA. The first is the need for improved donor coordination. One of the primary constraints to the effective use of development assistance is that different donors have their own delivery modalities, accounting, and reporting techniques that, collectively, virtually require recipients to service the donors, rather than serving their own constituencies. The second principle is the need for genuine partnership and broad-based commitment from societies, not just governments. Mr. Chase quoted the executive summary of a World Bank paper presented at the Monterrey conference: "Assistance works best and can only be sustained when the recipients are strongly committed to development and in charge of the process."

Mr. Chase remarked that there is already an instrument in use that reflects these principles. It ensures government buy-in, as well as the participation and buy-in of large segments of civil society and the private sector. It is a vehicle that many donors have committed to use as the centerpiece of their own efforts to attack poverty. It is comprehensive and multi-sectoral, addressing economic issues, health and education, and also the rule of law and accountability. Mr. Chase revealed the instrument as the Poverty Reduction Strategy Papers (PRSP), national development plans required by the World Bank and the International Monetary Fund (IMF). Approval of the PRSP is a precondition for the Heavily Indebted Poor Countries to receive debt relief. While not

perfect instruments, the PRSPs are still at an early stage and offer a process already in place that captures many dimensions sought under the current MCA. However, the external perception is that the U.S. government is largely indifferent to this process, particularly vis-à-vis the European donors. Mr. Chase urged the architects of the MCA to take a fresh look at the PRSP and not duplicate it with a parallel system. He challenged the U.S. government to engage with it, modify it, and make it work. This is an outstanding opportunity for the United States to exert leadership among donors and leverage their funds and national budgetary resources, which together far exceed our bilateral aid.

Mr. Chase raised the issue of politics and its relation to development assistance. A significant reason why U.S. foreign aid has not achieved better results is that development assistance allocations have been made on the basis of short-term foreign policy considerations. Under such a system, foreign governments don't need to worry about effective development policies if they know they will be rewarded for particular political policies. This provides no incentive for governments to change. Mr. Chase remarked that the beauty of the MCA is that it is, at least in conception, genuinely developmental. Allocation decisions should not be held hostage to trade disputes, U.N. votes, or other political rewards. Fortunately, the President and the Secretary of State have committed themselves to the notion that poverty reduction is a foreign policy objective. As the program unfolds, it will be important to ensure that allocation decisions are as transparent as possible. There will be no simple way of making allocation decisions. The development business is so complex that standardized criteria or mechanical formulae are likely to be insufficient.

Mr. Chase also suggested that if the MCA were saddled with legislative earmarks, it would be rendered ineffective. A challenge has been thrown out to the non-governmental community to make sure that doesn't happen, and NGOs must adhere to this. Mr. Chase suggested that securing a buy-in from Congress would require bipartisan involvement early in the process. Mr. Chase also remarked that the MCA provides a wonderful opportunity to reach out and educate American citizens in new ways of thinking and understanding the development process.

Mr. Chase closed by thanking the President and the Administration for the boldness of the initiative and the Executive Branch for their openness in deliberation, a process through which, if sustained, a compact for development might be fashioned that realizes its full potential.

**Mr. Schuerch** responded to the comments of Mr. Chase about the Poverty Reduction Strategy Papers (PRSP). The PRSP process was created by the U.S. Treasury and grew out of a desire that the World Bank develop a more inclusive and participatory planning process. In Mr. Schuerch's opinion, the U.S. government is not neglecting the process, but there are some differences with other countries about fully embracing the products, primarily due to variations in their quality. The United States has favored a partnership equation, rather than full ownership of the product by the recipients, without any donor role in the use of the funds. The U.S. position is that the donors have important

responsibilities in the process. There remains a distinction between a World Bank country assistance strategy and how it draws on and uses the PRSP as its base. There is a lot of effort to move to standardization of criteria across countries, but that will be a long-term process. There are many issues in the allocation process, as well as questions of the modalities for expenditures. Within the regional development banks several methods of performance-based allocation systems are in place, at different levels of maturity.

## QUESTIONS AND ANSWERS/AUDIENCE DISCUSSION

**Ted Weihe**, ACVFA Member, asked if it desirable to have a new authorization for the MCA, which would provide flexibility on implementation modalities and would not be tied into some of the restrictions of the Foreign Assistance Act. He also noted that different accounts within the MCA would be another option and asked how that will be dealt with in the appropriations process.

**Mr. Schuerch** replied that there are still many questions about the strategy and whether to use existing authorities or create a freestanding one. It is likely that this process will result in a discrete MCA, but how it will be structured and where the account will be placed is yet undecided.

**Elise Smith**, ACVFA Member, inquired about gender considerations in the MCA criteria development process.

**Mr. Larson** made four observations on the question: first, groups that have an interest and expertise in gender issues will be included as part of the outreach. Second, as one thinks about investing in people, as an example, the commitment to gender equality is an important issue. Third, as the U.S. government becomes involved in outreach in developing countries, one of the things to be looked at, for example, is does the country have a process for involving women. In determining whether or not a country is ruling justly, one can look at whether there is a voice and vote for women in that country. Lastly, in agriculture, one must consider women and their access to education, extension, and other interventions.

**Stephen Moseley**, ACVFA Member, remarked that he was pleased to hear the commitment from speakers to keeping President's vision in mind. He also remarked that the development community has had to fight very hard over the years not to have to perform on a short-term basis. The President referred to the longer-term Millennium Development Goals as the framework for the Compact Fund. Mr. Moseley asked if interagency discussions have included how to ensure that education, health, and other sectors remain a key part of this new initiative. In addition, Mr. Moseley inquired about implementation modalities, and if USAID will be the main implementing agency, since it already is the chief agency responsible for foreign assistance programs.

**Mr. Larson** answered that it is important that the President has associated achievement of the new compact with the Millennium Development Goals. One must recognize,

however, that these are shared goals and both donors and recipients must share responsibility for achieving them. A significant amount of the resources should go for things like education and health directly, but ultimately countries must fund their own health and education systems. In order for that to happen, resources must also be devoted to achieving economic growth so that national economies can support these systems over the long term without dependence on foreign aid. This relates to the PRSP process noted by Mr. Chase. If a country's strategy includes investments in education and health, then commitment can be inferred even if all the funding is not directed to those sectors. Mr. Larson also remarked that although these are long-term goals, there is a need for good mechanisms for benchmarking progress along the way.

**Mr. Cronin** commented that the Millennium Development Goals don't necessarily have a strategy attached to them. It is important not to lose sight of the overall goal of lifting people out of poverty. Health and education are obviously part of the MCA, but the United States will continue to contribute to health and education through other programs. Health and education are an integral part of this Administration's approach to development. Over the past two years, USAID has increased its spending for education by 70 percent, and spending for HIV/AIDS and the Global Fund for HIV/AIDS, Malaria, and Tuberculosis has also increased significantly.

**Mr. Schuerch** remarked that economic growth is fundamental to poverty alleviation, and productivity issues are fundamental to economic growth. In countries with very low per capita income, it is hard to imagine success in education or health without economic growth. The largest resource that is available to those countries is internal domestic resources, and how they are allocated is a critical part of the equation.

**Charlie MacCormack**, ACVFA Member, asked how the MCA would orchestrate civil society, government, and private sector cooperation in achieving the MCA's strategic goals.

**Mr. Schuerch** replied that one of the things the United States brings to the table is a unique structure in which government relates to civil society in an open way and also works with the business sector in a regulated way. This is a difficult issue that bilateral and multilateral agencies will struggle with. There is no magic answer: it will be necessary to look at countries on a case-by-case basis to see where expenditures are being made and to consider the opportunities, strengths, leaders, and reformers to move society forward.

**Mr. Cronin** stated that the identification of a country's needs has to be done jointly from the bottom up and the top down. Another consideration is identifying the mechanisms that are most efficient for delivering assistance and services. There needs to be an inclusive process for consultation on the appropriate mechanisms. The needs of every country are going to be different, and should be considered on a case-by-case basis.

**Mr. Larson** underscored the point that development policy is more than development assistance policy. How countries use their domestic savings towards development is a

key issue. Whether the business community contributes to development is also important. Mr. Larson emphasized the importance of taking into account the international framework that supports development, of which trade and the Doha agreements are an important part.

**Jim Henson**, ACVFA Member, commented that many earmarks are the result of constituents across the country influencing their congressional representatives, and is the result of frustration and lack of perceived participation. He suggested that there would be great benefit in involving people outside of Washington, DC in this process as soon as possible.

**Cheryl Morden** from the International Center for Research on Women, asked about the extent to which specific bilateral policies that go beyond Official Development Assistance will be encompassed in the framework of the initiative, and plans for institutionalizing the teamwork that is already in place in the interagency design process.

**Mr. Schuerch** stated that these are issues that are being struggled with by the four federal agencies involved in the process. There will be public consultation and outreach to other agencies that have expertise on these issues.

**Nancy Alexander** from the Citizens Network on Essential Services asked the speakers to comment on basic principles for market-driven development. She also noted that since the U.S. government urged that half of all International Development Association (IDA) loans be converted to grants, discussions have been stalemated. She inquired about signs that the stalemate would be broken, and asked whether IDA grants would be used in the same way as is projected under the MCA. Finally, Ms. Alexander asked Mr. Schuerch to comment on the strengths and weaknesses of current aid allocation system of IDA.

**Mr. Schuerch** responded that in terms of the current IDA discussions, there is still disagreement over the issue of grants versus loans. At this point in the negotiations, most of the performance issues have been resolved. The World Bank technical experts have developed performance measures that will be turned into a final product after some minor revision. The Bank is committed to a broad measurement system, one that would be coordinated with the process of measurement of the Millennium Development Goals by the U.N. In terms of grants, the range of differences has been narrowed significantly, but it is not possible to predict the outcome. The flexibility within the structure is under discussion, but will probably result in a fairly flexible system focused on social sector areas. It will also be sensitive in the end to some range of debt sustainability issues. The largest single focus area will undoubtedly be HIV/AIDS. Mr. Schuerch remarked that grants are already part of IDA, but have not yet been used within the multilateral development bank system to offset prices of commercial services delivered to the poor.

**Mr. Larson** responded to the specific issue of the MCA and grants. He indicated that, without precluding options for the President, it is envisioned that between the United States and the recipient country the MCA would be a grant transaction. However, within

in particular countries funds might be used for loans to small businesses or other local initiatives.

**Lynn Macdonald** from the AFL-CIO Solidarity Center inquired about the mechanism that would be used to get stakeholder ideas and views in the development of the selection criteria, and how the mechanism would be made public.

**Mr. Schuerch** responded that there is a commitment to outreach and consultation as the criteria are developed. While the Treasury Department may be taking the lead, it is an interagency process and has already involved outreach beyond the Executive Branch to think tanks, to European donor countries, and others. There is a desire to get public input early in the process and on a fast-track basis, since plans need to be in place by the fall when the budget proposal is due.

**Sarah Lucas** from the Center for Global Development (CGD) remarked on three principles that were put forth by the speakers:

- 1) Using selection criteria to create incentives for policy change in developing countries (mentioned by Alan Larson);
- 2) This is a historic opportunity to reshape foreign aid (mentioned by Patrick Cronin); and
- 3) The importance of ownership and participation by developing countries (mentioned by Fred Schieck).

Ms. Lucas inquired about how to bring these principles together in an operational way.

Ms. Lucas asked if the CGD proposal for a two-stage selection process is being considered:

Stage One -- Eligibility based on very clear minimal thresholds

Stage Two -- Eligible countries would compete for MCA funds by proposing particular programs.

**Mr. Larson** replied that the two-stage approach is one idea that is under active discussion as one possible sensible approach, but no decisions have been made. Issues of objectivity, transparency, effectiveness, and impact are being examined carefully. There is also a need for an element of judgment in the selection process. These issues tug in different directions, and have not yet been resolved. He noted that the interagency process for addressing these issues about the MCA is one of the most collegial and thoughtful processes in which he has ever been involved.

**Mr. Cronin** remarked that he appreciates the Center for Global Development's work. The first question is who is eligible for the MCA. Then the qualifying criteria come into play. Thus, it is really a three-stage process. The 20 criteria used by the World Bank and suggested by the Treasury Department provided a starting point for discussing and identifying the criteria for this initiative. There are sure to be criteria that the interagency group has not even thought about. For example, criteria related to property rights might be necessary, but there are issues related to the rule of law that must be addressed before

it makes sense to talk about property rights. The options will be debated in the weeks to come, and these issues are exactly what should be discussed in the breakout group sessions at this meeting.

**Emira Woods** with InterAction stated that recent studies have shown that 71 percent of U.S. development assistance stays in the United States. She inquired how the MCA effort could help change this situation so that a greater portion of aid reaches the intended beneficiaries.

**Mr. Larson** responded that international negotiations on the untying of aid have been extensive and difficult, not because the issue is unimportant, but rather there are other elements of the negotiations that have taken precedence. Mr. Larson questioned the source of the 71 percent figure, but noted as an example that if U.S. funding were used for an excellent educational consultant whose work resulted in improvements in educational quality, this would be an investment that directly benefited the recipient country and its people. Some European countries have adopted a policy of making large lump sum payments to governments if they like the overall policy orientation. This may or may not be a sensible development approach. In addition, there are concerns about whether the U.S. Congress and the American people would support this approach.

**AFTERNOON OPENING REMARKS: WILLIAM S. REESE, ACVFA CHAIR.**

Mr. Reese stressed the historic nature of this new presidential initiative. InterAction and the University of Maryland have conducted a number of public opinion surveys and have found a great deal of public support for foreign assistance. The leadership shown by the President and the White House in proposing the New Compact for Development is phenomenal. The ACVFA, the 150 Coalition, COLEAD, InterAction and a number of other organizations have all called for such leadership and proposed increases in foreign assistance levels over the last ten years. This new initiative brings significant new funds to assist developing countries. However, Mr. Reese reminded the audience that the work is not done. The program has not been proposed to or passed by Congress. There is much planning to be done and the non-governmental community must participate in this dialogue.

Mr. Reese called attention to the Millennium Development Goals, which are related to the MCA. They are easy to understand, comprehensive, people-oriented, and measurable--and form the basis for good "buy in" by the U.S. public. Mr. Reese remarked that President Bush has laid out a challenge that is both an investment and an incentive. There are many questions around criteria and mechanisms. It will be a complicated process. Explicitly, the MCA is about partnerships between the United States and developing country governments, but the dialogue and partnerships must also involve civil society.

Mr. Reese reminded the audience of Mr. Natsios' first speech to the ACVFA in which he talked about commitment to responsive governments, transparency and accountability, support of open economies and entrepreneurs, investment in health and education,

protecting the environment, and strong partnerships. Mr. Natsios' priorities a year ago are very much in line with the proposed MCA. Mr. Reese urged the audience to be as positive and constructive as possible in contributing to the dialogue about the MCA. This program and the amount of money that has been committed can make a huge difference. Mr. Reese stated that this process represents a great opportunity for the NGO community, with its positive, "can-do" spirit, to work together, identify successes, and help to shape the MCA into the best possible program. This would be in the spirit of the USAID-PVO partnership that the ACVFA represents.

**“CRITERIA AND SELECTION ISSUES: CONSULTATION WITH NGOS”**  
**PATRICK CRONIN, ASSISTANT ADMINISTRATOR FOR POLICY AND**  
**PROGRAM COORDINATION, USAID**

Mr. Cronin asked the audience to participate actively in the breakout groups in thinking through the tough questions that the interagency working group and stakeholders are facing. He urged participants not to lose sight of the President's vision of the Millennium Challenge Account. That vision is a motivation for those involved in the interagency process to use this money very strategically to lift an historic number of people out of poverty through economic growth and building upon best practices.

Mr. Cronin remarked that the thought behind the MCA can be summarized in the word “freedom” -- freedom from bad governance, freedom from illiteracy and ill health, and freedom from poverty. The MCA criteria should lead toward these goals. We must determine how we are going to build effective programs based on success that lift people out of poverty and create sustained prosperity. Mr. Cronin noted that President Bush stressed that aid is four times more effective when it is built on good policy.

The President's ideas for the MCA focus on reform. In thinking about the indicators, Mr. Cronin asked the audience to think about how to measure change and reform. The MCA will be a strong incentive for reform, both for those who receive MCA funds and for those who aspire to participate in the program.

Mr. Cronin commented that the MCA is also about partnership. It cannot be developed in Washington, DC. It must grow from the bottom up with participation by developing countries, as well as from the top down in terms of how the pieces will be coordinated. It is important to think about development in a strategic, integrated fashion. That means tapping into the expertise and ideas of many partners, including those in civil society.

Mr. Cronin introduced the breakout sessions and invited participants to contribute to the dialogue about the MCA criteria and indicators. He remarked that the criteria must be flexible enough to meet the needs of specific countries. He asked the audience to consider indicators that reflect the goals of the program and can be readily ranked by available data, but that don't disadvantage poorer countries that may not have the data. It will be important to consider criteria based on reform and developed in partnership in a process that is inclusive, particularly in the field.

A basic question to be considered in the breakout groups is how many measures should be used. The Ruling Justly group might consider issues such as what components to include in measurements of rule of law. Perhaps the most challenging set of issues relates to the economic freedom cluster--how can we be creative in devising meaningful, new indicators (e.g., the length of time it takes to start a business in a country might be useful as a measure). In the Investing in People group, the question of whether to measure immunization rates or public spending in the health sector would be relevant.

## **BREAKOUT GROUPS**

The full reports from the three breakout groups, Ruling Justly, Investing in Human Capital, and Economic Freedom are contained in appendices 2, 3, and 4 of this report. Appendix 4 also contains the speakers' slide presentations.

### **REPORTS FROM BREAKOUT GROUPS: "CRITERIA, SELECTION ISSUES, AND INDICATORS"**

#### **GROUP 1**

##### **TOPIC: "GOVERNING JUSTLY"**

**KEYNOTE SPEAKERS: JENNIFER WINDSOR AND RICHARD SOUDRIETTE**

**MODERATOR: STEPHEN KRASNER**

**RAPPORTEUR: STEPHEN MOSELEY**

Comments and Suggestions from the group included:

- There are many sources of data and indices to draw upon in developing criteria, including Freedom House's *Freedom in the World*, *Nations in Transit*, and the *Judicial Independence Guide*.
- The criteria should address whether a country is ruling justly, not just that it has instituted good governance policies. There is a distinction. Good governance can be viewed within a narrow purview of good policies and laws, and good enforcement of those policies and laws as they pertain to economic development. The accountability of a government to its people and respect for fundamental rights are critical to measuring whether or not a country is ruling justly. Political rights and civil liberties are interdependent, and a just system requires both.
- It is important for the MCA to focus on what behavior changes occur over time and how they can be measured.
- There must be a concern about the nature of the judiciary and the capacity to ensure that the rule of law is being implemented.
- There is a need to address the issues of transparency, integrity and anti-corruption.

- The MCA should use not only the U.S. model of democracy and justice, but should consider other models from around the world.
- The indices from which the criteria are drawn should include a qualitative narrative.
- Criteria and indicators should address the full participation of women.
- Governance is not just process and procedure, but it is participation by local citizens. Broad public participation should be part of the criteria.
- MCA programs should support the extensive use of media and other innovative means for education and literacy needed to promote broad participation of women, ethnic, and other disadvantaged groups.
- In addition to identifying the positive attributes, there is also a need to identify the disqualifying attributes. This might lead to a two-step selection process, as suggested by the Center for Global Development.
- Ensure that countries realize why particular criteria were selected and how countries can make changes to meet the criteria.
- There should be a gradation of criteria, recognizing that it is policy dialogue that brings about change.
- It would be worth considering using the PRSP (Poverty Reduction Strategy Paper) process, with whatever improvements are needed to make it better, as a basis for criteria. Projects would then already be consistent with the country's broad development strategy recognized by the international donor community.
- Perhaps a high-level, blue ribbon panel to advise the President on this program should be established.
- While the time frame is tight, the process of consultation on the MCA is authentic and participatory. There is concern about when developing countries will have the opportunity to provide input.

**GROUP 2****TOPIC: "INVESTING IN HUMAN CAPITAL"****KEYNOTE SPEAKERS: NANCY BIRDSALL AND GENE SPERLING****MODERATOR: BARBARA TURNER****RAPPORTEUR: CHARLES MACCORMACK**

This is a unique moment, decisions made in the coming months will influence policy for years to come. Social sector issues are high on the agenda, which has not always been

the case. There should be a fresh and open look at the experiences of the past 20-30 years in development.

Nancy Birdsall outlined seven principles for structuring the MCA:

1. Insulate it from political pressures
2. Focus on strengthening national institutions and the legitimacy of governments
3. Have a simple, automatic exit mechanism
4. Foster recipient country ownership
5. Encourage competition among nations and governments
6. Require full public disclosure and transparency
7. Complement existing development frameworks

Gene Sperling noted that the U.S. government spends as much on education in the entire world as it costs to build 13 U.S. high schools. The MCA provides an opportunity to tighten the global compact for universal education and inspire other countries to go forward in this effort.

Observations and suggestions from the group included:

- Criteria and delivery systems are interactive and influence each other.
- This should be a contract between the United States and developing country governments. Donors are looking for transparency and effectiveness. Partner governments deserve a security of financial support if they meet the criteria.
- There is a need to pay attention to strengthening public and congressional support for this program. The U.S. Congress will have a lot to say about it and should be brought into the process early.
- There are foreign policy advantages to cooperative partnerships and coordination with other donors, as opposed to a bilateral approach in which the United States gives a "seal of approval" to countries through the MCA.
- There is a need to consider whether countries must meet every criteria equally in order to qualify for the MCA. Perhaps the MCA should be designed to assist countries that meet performance requirements in major areas.
- It is important that the MCA both reward and encourage countries. The criteria should influence, rather than make, decisions.

**GROUP 3****TOPIC: "ECONOMIC FREEDOM"****KEYNOTE SPEAKERS: TESSIE SAN MARTIN, RACHID BENJELLOUN, THOMAS GIBSON****MODERATOR: DAVID COWLES****RAPPORTEUR: TED WEIHE**

Ms. San Martin's presentation focused on globalization and how to deal with economic factors and the downside of globalization. Mr. Benjelloun analyzed both the Heritage Foundation and the Cato Institute indexes, including indicators and objective measurements. Most countries are high on some indices and low on others. Mr. Gibson brought a different perspective and suggested that to get the desired results the focus should be on the middle class.

Observations and Suggestions from the group included:

- Many in the group thought that the MCA should focus on the world's poorest countries and poverty alleviation.
- In economic indicators, middle income countries score better. Criteria should be set so that poor countries will meet the requirements.
- Economic indices measure many things and are full of built-in biases. However, an objective index based on already available statistical data offers the best basis for making country selections without political bias.
- Many of the current economic indices are too complex.
- Data for most of the poorest countries is not very good or not available at all.
- There is a need to examine economics at the micro level, as well as the macro level.
- Criteria should be simple and transparent.
- The process is most important. There should be an eligibility process and a selection process. The selection process should include sector and programmatic considerations. It is of utmost importance to select the "right" countries (from among a group of eligible countries that would include the poorest) so as to demonstrate success.
- There are many issues with how to measure economic reform and change.
- Countries can play with statistics to make them more eligible for the program. But countries should set their own targets for the indicators and performance judged against those targets.

- Impacts from the global economy and world trade must be factored into the process. These may have little to do with internal policies.
- Rural infrastructure is important and should be addressed by the MCA.
- There are many issues with fitting economic growth programs into the MCA five to ten year time frame.
- There was consensus in the group not to simply take one of the current indicators and use it.
- There is an issue of what happens if a country meets some, but not all, criteria for eligibility.
- Reforms are likely to be more sustainable in countries where local stakeholders are involved. This should be considered in the selection process.
- Once a country is in the MCA, there needs to be an agreement on expectations and benchmarks needed to stay in the program.

Mr. Reese thanked the meeting participants and adjourned the meeting. *The next ACVFA Public Meeting is scheduled for October 9, 2002.*

**“The New Compact for Development: Designing a Blueprint for Change”**

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**Advisory Committee on Voluntary Foreign Aid**

**Meeting Agenda**

**Annex 1**

# **Advisory Committee on Voluntary Foreign Aid**

## **Public Meeting**

**Wednesday, May 22, 2002**

**8:30 a.m. – 5:00 p.m.**

**Marvin Center, George Washington University  
800 21st Street, NW, Washington, D.C.**

### **Agenda**

#### ***"The New Compact for Development: Designing a Blueprint for Change"***

- 8:30**            **Registration**  
*3rd Floor Foyer*
- 9:00**            **Opening Remarks: William S. Reese, ACVFA Chair**  
*Grand Ballroom – 3rd Floor*
- 9:10**            **Introduction of Frederick Schieck, Deputy Administrator, U.S. Agency for International Development (USAID)**  
*Grand Ballroom – 3rd Floor*
- 9:15**            **Message from Andrew S. Natsios, USAID Administrator (videotape)**  
*Grand Ballroom – 3rd Floor*
- 9:25**            ***"The President's New Compact for Development"***  
**Frederick Schieck, Deputy Administrator, USAID**  
*Grand Ballroom – 3rd Floor*
- 9:45**            **Questions and Answers**
- 10:00**            **Panel: *"The Millennium Challenge Account: Developing Effective Partnerships, Criteria and Measurements"***  
*Grand Ballroom – 3rd Floor*
- Moderator: Peggy Curlin, ACVFA Vice Chair**
- Lead Speaker:**
- **Alan P. Larson, Under Secretary for Economic, Business and Agricultural Affairs, U.S. Department of State**
- Panelists:**
- **Patrick Cronin, Assistant Administrator for Policy and Program Coordination, USAID**
  - **William Schuerch, Deputy Assistant Secretary for International Development, Debt, and Environmental Policy, U.S. Treasury**
  - **Robert Chase, ACVFA Member, Vice President, World Learning**

**11:15      Questions and Answers**

- 11:45**      **Lunch** (*participants on their own*)
- 1:30**      **Opening Remarks: William S. Reese, ACVFA Chairman**  
*Grand Ballroom – 3rd Floor*
- 1:45**      **"Criteria and Selection Issues: Consultation with NGOs"**  
**Patrick Cronin, Assistant Administrator for Policy and Program**  
**Coordination, USAID**  
*Grand Ballroom – 3rd Floor*
- 2:15**      **Breakout Groups on Criteria, Selection Issues, and Indicators**  
*Purpose: To obtain input from a broad cross-section of NGOs and other civil society organizations on criteria and issues related to the proposed new fund in order to inform the interagency process.*
- 1. Governing Justly:**  
*Keynote Speakers: Jennifer Windsor, Executive Director, Freedom House and Richard Soudriette, President, International Foundation for Election Systems.*  
  
*Moderator: Stephen Krasner, Director for Governance and Development, Directorate for Democracy, Human Rights and International Operations, National Security Council*  
*Doyle Room*
  - 2. Investing in Human Capital:**  
*Keynote Speakers: Nancy Birdsall, President, Center for Global Development and Gene Sperling, Director, Forum on Universal Education, Brookings Institution.*  
  
*Moderator: Barbara Turner, Senior Deputy Assistant Administrator, Bureau for Policy and Program Coordination, USAID*  
*Elliot Room*
  - 3. Economic Freedom:**  
*Keynote Speakers: Tessie San Martin, Partner, PricewaterhouseCoopers Consulting; Rachid Benjelloun, Principal Associate, Nathan Associates, Inc.; Thomas Gibson, President, The Institute for SME Finance.*  
  
*Moderator: David Cowles, Acting Deputy Assistant Administrator, Bureau for Economic Growth, Agriculture and Trade, USAID*  
*Kayser Room*
- 4:30**      **Reports from Breakout Groups**  
*Amphitheater 3rd Floor*

**5:00      Adjournment**

**“The New Compact for Development: Designing a Blueprint for Change”**

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**Advisory Committee on Voluntary Foreign Aid**

**Breakout Group One  
“Ruling Justly”**

**Annex 2**

**ACVFA Public Meeting, Wednesday, May 22, 2002****Break-Out Group on Issues Relating to Governing Justly**

**Moderator: Stephen Krasner, Director for Governance and Development,  
Directorate for Democracy, Human Rights and International  
Operations, National Security Council**

**Speakers: Jennifer Windsor, Executive Director, Freedom House  
Richard Soudriette, President, International Foundation for Election  
Systems (IFES)**

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**Jennifer Windsor:** The MCA promises to provide a concrete reward for countries that have embarked on a democratic path, undertaken the right economic policies, and taken care of their own populations. The investment of U.S. taxpayer dollars will be better utilized if key democratic concerns are taken into account. Experiences in Sudan, Somalia, Zaire, and other places show that if democracy and human rights concerns are ignored, investments in social and economic development can be easily washed away. The bottom line is that politics matters.

President Bush stated that he wanted to reward countries that are ruling justly. Specifically, he mentioned those countries that are upholding human rights, adhering to the rule of law, and rooting out corruption. The question for discussion should be “What criteria should be used to determine that a country is ruling justly?” This is different from instituting good governance policies. One can view good governance within a narrow purview of good policies and laws, and good enforcement of those policies and laws as they pertain to economic development. The concern is that the political realities will be ignored. Freedom House would argue that the accountability of the government to its people and respect for fundamental rights are critical to measuring whether or not a country is ruling justly. Therefore any definition of good governance must take into account policies and laws that protect political rights and civil liberties. They are interdependent, and a just system requires both. Without the check of the vote, both popular and parliamentary, civil liberties will be steadily eroded.

Freedom House produces three annual surveys that contain both quantitative and narrative assessments:

1. *Freedom in the World* (described below)
  2. *Nations in Transit* (civic, political, legal, and economic trends in former communist countries)
  3. Freedom of the press survey
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*Freedom in the World* rates 192 countries and related and disputed territories. Governments per se are not rated, but rather the rights and freedoms enjoyed by individuals in each country. While there are some that disagree that a political process should ever be quantified and that comparisons across countries don't make sense, it is useful to understand broad trends towards democracy around the world. Freedom is defined as the opportunity to freely engage in fundamental political as well as social, economic, and cultural activities independent of restrictive controls of government.

The survey is divided into political rights and civil liberties. Political rights are defined as the ability of the public to participate freely in the political process, including the right of all adults to vote and compete for public office and for elected representatives to have a decisive vote on public policies. Civil liberties include the freedom to develop views, institutions, and personal autonomy apart from the state. There is a checklist of questions in which the raters assign raw scores from zero to four per checklist item. The scores are totaled for a final quantitative score (on a scale of 1-7, with 1 representing most free and 7 least free) for political rights and civil liberties separately.

Examples of questions under political rights:

- Are the voters able to endow their freely elected representatives with real power?
- Is there a significant opposition vote?
- Is there a realistic possibility for the opposition to increase its support or gain power through elections?
- Are the people free from domination by the military, foreign powers, totalitarian parties, religious hierarchies, economic oligarchies, or any other powerful group?

Examples of questions under civil liberties:

- Is there a free and independent media?
- Is there freedom of assembly, demonstration, and open public discussion?
- Is there an independent judiciary?
- Does the rule of law prevail in civil and criminal matters?

*Freedom in the World's* criteria places more emphasis on behavior than on laws. In *Nations in Transit* there is an attempt to provide a comparative look at countries to assist policymakers and scholars. It is divided into a number of areas including political process, civil society; independent media, governance and public administration; constitutional, legislative and judicial frameworks; privatization; macroeconomic policy; and microeconomic policy.

*Freedom in the World* averages all of the scores so there aren't different weights for particular questions. Differences are reflected in the narrative. *Nations in Transit* is more detailed and tries to get at how the progress of reform happens within the countries; its scores are broken into sub-areas so trends can be identified. The U.S. government has to think about the importance of particular criteria to its ultimate aims. Accountability to the population and problems with freedom of association will ultimately impact on rule of law and corruption.

Measuring performance will require continuous monitoring by non-governmental entities to avoid power struggles within bureaucracies from impacting evaluations and ratings. The ultimate judgment about countries has to be within the U.S. government, but the actual ratings should not be distorted in the process.

In addition to rankings and quantifiable numbers there must be narratives to describe how the quantifiable rankings are derived. The process is inherently subjective, but Freedom House and its methodologies demonstrate that when conducted correctly, an annual evaluation of a country's performance according to defined criteria of democracy and human rights is both possible and valuable. Assistance alone is not going to accomplish the objectives, particularly in the area of democracy. For the MCA to work best, it should be accompanied by continuous policy dialogue.

**Richard Soudriette:** This public meeting is a great opportunity to marshal the resources within the NGO community to provide the kind of guidance that is necessary for the MCA to be successful. USAID has been one of the leaders in helping to support democratization around the globe. The International Foundation for Election Systems (IFES) was established in 1987 with the support of USAID. It has worked in over 120 countries around the world, not just supporting elections, but addressing the range of issues needed to promote democracy. While elections are important, attention and resources also need to be focused on helping to support effective governance and the involvement of a vibrant civil society.

In Indonesia, IFES is assisting civil society organizations in developing their advocacy skills and played a key role in the development of an Indonesian equivalent of C-SPAN. As a result, the parliamentarians are making more of an effort to fulfil their responsibilities. In Bosnia, IFES and USAID helped local governments connect with their citizens by producing guides to government services and serving as a conduit to connect local political leaders with their constituents to address fundamental issues, such as infrastructure repair or installing health posts. In Sierra Leone voters recently went to the polls in an historic election. It surpassed everybody's expectations in terms of the incredibly high voter turnout, the level of peace, and the attitudes of the people.

IFES experience has shown that it is necessary to look at the relationships between elections, rule of law, civil society, and governance. It is also important to seek the views of people in other countries. Governing justly requires a combination of factors: an independent judiciary, a functioning system of rule of law, a vibrant civil society, effective government, and a transparent and open election process.

This effort will also help to raise the awareness of the American people in terms of the importance of foreign assistance. People in the U.S. don't always recognize how much is spent on foreign aid, and its impact. The efforts of everyone working together will be important in getting this message across.

**Stephen Krasner:** Something that must be confronted in developing criteria is the issue of quantitative versus qualitative assessment. The advantage of using quantitative criteria is public availability and transparency, but the picture is not necessarily complete. Qualitative assessments will inevitably be more opaque.

**Participant:** How will women be encouraged and empowered to participate in democratization? Some countries have used a quota system for female candidates.

**Ms. Windsor:** It depends on the level of detail in the criteria. In *Freedom in the World*, there is a specific question related to gender equality and women are considered in terms of voter participation. In *Nations in Transit* there are a number of sub-questions related to how women are represented in the media and media associations, whether there are anti-discrimination laws, as well as political participation figures for women. The quota system is very controversial. Gender participation will take creative programming and creative diplomatic efforts.

**Mr. Soudriette:** In many countries where women have been shut out of the traditional political process, they have become actively involved and quite prominent in civil society organizations. Often there is a tendency to put women on the ballot as a gesture, and list them at the bottom of the ballot. In Mexico the major political parties instituted a system that listed alternate male and female candidates, resulting in more equal representation of men and women.

**Participant:** There is a need to identify effective criteria for change. Funds need to be allocated for effective and ongoing survey research. There is also the issue of education and the involvement of women, ethnic groups and other disadvantaged groups in government. Education through the media and C-SPAN-type programs and other innovative means should be explored.

**Participant:** Change cannot come from the top down only. Developing leadership in countries through economic and civic associations is a bottom up approach. In the final analysis, it is the grassroots that will make the difference.

**Ms. Windsor:** There is nothing in the Millennium Development Goals about village participation. MCA funds might be directed at making sure that countries have a certain level of local participation, as well as better legal systems and all the other criteria.

**Mr. Soudriette:** There must be local buy-in for programs to be sustainable. Things don't happen over night and there are no blueprints. One model won't work everywhere. Training and leadership development are crucial.

**Participant:** Political parties in many countries need to be reformed. Some issues: How democratic are political parties? How inclusive are they of women and other minorities? What

internal democracy structures do they have? How do they reach out to voters? How well do they perform at election time?

**Participant:** Allocation and resource criteria should be preceded by a clear statement of ethics and moral values.

**Participant:** What are the criteria related to governing justly that have been developed already?

**Mr. Krasner:** The Treasury Department has been looking at publicly available lists and measures, things like Freedom House that measure ruling justly, investing in people, and promoting economic freedom. The process is not any further along than that. There is a wide range of views about every one of the issues. No decisions about criteria have been made.

**Participant:** The MCA could easily eliminate almost all of the poor countries in the area of ruling justly. Are there any poor countries that you could imagine would potentially qualify?

**Ms. Windsor:** One of the reasons why countries are poor is that their governments are more devoted to their self aggrandizement than taking care of their populations. But, there are a number of countries in the “free“ category and in the top part of the “partly free” category that could be considered for the MCA. Mali might be a candidate.

**Mr. Soudriette:** There are some places where civil society is leading the charge and there is more going on at the grass roots level than nationally. Ghana, while not perfect by any means, might be an example. It is problematic to say that the MCA will only work in countries that have outstanding national governments.

**Mr. Krasner:** The interagency working group is aware of that issue and hasn't made any decisions about what income level countries will be eligible for the MCA. The studies do show a correlation between almost any criteria and income levels, once a country reaches the \$1200-\$1500 per capita range. The correlation is much weaker in poor countries, although some correlation does exist, especially in the education and health areas.

**Participant:** According to the World Bank report that takes into account political and economic factors, one can only be confident about conclusions at the extremes. For the bulk of countries it is difficult to make any firm conclusions. There is a need to look at criteria that would exclude countries with particularly bad records, particularly in human rights. This criterion should predominate. Countries that are not on the negative list should be given an opportunity to present proposals under a competitive system.

**Participant:** The best way that you can inform a subjective analysis is to incorporate both qualitative and quantitative data. The system should also allow for identifying emerging opportunities.

**Participant:** *Nations in Transit* is the best resource out there for trying to measure democratic and economic progress and linking the two issues. It could be a model for all the regions.

**Participant:** Freedom House's *Judicial Independence Guide* establishes a baseline for minimal criteria for judicial independence in every region of the world. It should be considered in this process.

**Participant:** There is time lag issue with data sources. By the time one gets the results from these kinds of reports, the government with the strong performance may have been thrown out of office. The power of an objective index is the incentive that it provides.

**Participant:** What is the intended purpose of the criteria? Is it merely eligibility or is it also for planning? Also, what structural safeguards can be put into place to keep the focus on governing justly in the proposal process? Most leaders already think they govern justly.

**Mr. Krasner:** This will require more thought and input from this group and others.

**Participant:** A vibrant civil society is a good barometer of a healthy democracy. However, the question is not whether it exists, but what role is the government playing proactively in order to bring it about? Is there a political and legal enabling environment?

**Participant:** The International Center for Not for Profit Law looks at these questions. Transparency is essential to good democratic governance, but it needs to be unpacked a bit. Even in countries where there is a free press, the government is not always a willing partner in terms of sharing information with the public. Also, should devolving authority be one of the criteria?

**Mr. Soudriette:** The issue of decentralization is important. In some countries, the idea of getting citizen input on health, infrastructure, or education, is a rather novel idea. There is no question that political parties play a role. The challenge now is to develop training for political parties to help them move away from personality centered entities to institutions.

**Ms. Windsor:** The ratings in *Freedom in the World* are available on December 31st. Many countries schedule major events at the end of the year, so sometimes an entire rating can change at the last minute. The issue is how to produce a timely product without sacrificing quality. Information can be posted to the web quicker than it can be published.

*Freedom in the World* is designed as a broad measure. *Nations in Transit* gets down to this issue of eligibility versus development planning. Its purpose was to track not only how countries are doing in relation to a universal standard, but also to document progress along the way. *Nations in Transit* and *Freedom in the World* are helpful because one can see which countries have changed over time.

Decentralization used to be included in *Freedom in the World* ratings. It was removed because of objections that it was an American cultural imposition. There is a need to look at different models rather than use what we feel most comfortable with.

**Participant:** It is important to use some of the MCA funds to improve governance in the countries that qualify. They will need technical assistance to build capacity and to involve civil society.

**Mr. Krasner:** There is a hope that the criteria will be relatively transparent so they will serve as an incentive to countries that don't initially meet the criteria. However, if the criteria are too aggregated, it may be difficult for countries to understand the process. How can the criteria be used to provide a signal to countries that they will be rewarded if they change policies?

**Ms. Windsor:** The *Nations in Transit* format is more in line with those concerns. *Freedom in the World* is a broad survey instrument. What is this group's thinking on whether the MCA would really be an incentive for governments that lack the political will to change?

**Participant:** Another issue is: what happens in year two of the program? Is it a new set of countries or a few extra added to the original set?

**Mr. Krasner:** This is yet to be decided.

**Participant:** What is the purpose of the criteria? Is it a basic eligibility decision or is it an analytical tool? A huge amount of the \$5 billion could be spent simply assessing whether countries are ready to go or not. If the need is to establish eligibility, then one shouldn't spend time and money up front on massive analyses.

**Participant:** A two step approach would be best. The initial eligibility process should be very transparent and include negative aspects. The second step should get at the program level. There is also a need to build in an exit strategy. Countries could get funding for fixed-grant cycles for specific projects; then there is a natural ending point.

**Mr. Krasner:** In this proposed two-step process, the proposals would be assessed by a U.S. government group. Is the NGO community comfortable with that? Would it be adequately transparent? Would it provide adequate signals to the ineligible countries? How many countries does the NGO community think should be included?

**Participant:** The broader the selection criteria are up front, the harder the competitive process is later. But if it is narrow up front, the value of later competition will be undermined. This is a difficult task. With regard to the NGO community's level of comfort with the selection process, there should be technical review boards, made up of people outside of the U.S. government, to make recommendations to the government agencies.

**Ms. Windsor:** It is worth considering using the PRSP (Poverty Reduction Strategy Papers), with whatever improvements are needed to make that process better, as a basis for criteria. Projects would already be consistent with a broad development strategy and have recognition within the wider donor community.

**Mr. Krasner:** How comfortable would the NGO community be if the MCA relied on the PRSP process? This might be something that would relate to programming rather than selection.

**Participant:** The question is how does one measure commitment? One way to measure commitment is looking at current government reforms. Another consideration is quality of proposals.

**Participant:** This is a question about the use of the money. What do one-shot injections of large amounts of foreign aid do in areas like corruption, respect for human rights, and rule of law? There are some things, like reconstruction after natural disasters that lend themselves to this type of intervention. Democracy and governance are long-term problems and don't lend themselves to these types of interventions. Once eligibility is decided, could the MCA be broken down into country accounts and drawn down according to the proposals that the country presents to the U.S.?

**Participant:** How should the NGO community provide input into this process in the coming weeks and months?

**Mr. Krasner:** A follow-up session would be good. InterAction has already written a very helpful paper. One approach is to contact USAID and they can direct comments to the appropriate working group. The proposal must go to Congress in the fall. The criteria are being addressed first. Then the use of funds and other issues will be considered.

**Participant:** Has the President thought of convening a high-level group of development experts to advise his program?

**Mr. Krasner:** It is an interesting suggestion that should be considered.

**Participant:** To what extent and when will there be some input from developing countries?

**Mr. Krasner:** Sooner rather than later is the plan.

**Ms. Windsor:** Freedom House is very willing to host further dialogues around these issues.

**“The New Compact for Development: Designing a Blueprint for Change”**

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**Advisory Committee on Voluntary Foreign Aid**

**Breakout Group Two**  
**“Investing in Human Capital”**

**Annex 3**

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**ACVFA Public Meeting, Wednesday, May 22, 2002****Break-Out Group on Issues Relating to Investing in Human Capital****Moderator: Barbara Turner, Senior Deputy Assistant Administrator, Bureau for Policy and Program Coordination, USAID****Speakers: Nancy Birdsall, President, Center for Global Development  
Gene Sperling, Director, Forum on Universal Education, Brookings Institution**

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**Barbara Turner:** The Millennium Challenge Account presents the U.S. government and the development community with a unique opportunity to think about how best to set up the Fund before having to present it to Congress. There is time to get input from a variety of partners in the process. This public meeting kicks off the dialogue with the private and non-profit development community. Meetings have been started with developing countries and some donor countries through World Bank meetings. The MCA will bring new resources to development that will add to and strengthen traditional programs.

There is a window of opportunity to reshape the thinking around development. Social sector issues do not always get to the top of the development agenda. The President included social sector issues in the MCA, both in terms of eligibility to receive funds and in terms of delivering assistance.

**Discussion**

**Participant:** The Administration views this as the beginning of a dialogue, but most development professionals have been talking about selection criteria for aid programs for decades. Is there a sense within the Administration of which or how many countries will be eligible? Is there an effort to look at past exercises in establishing criteria and how those could feed into this process?

**Ms. Turner:** One of the first steps has been to identify groups that already have indicators, groups such as Transparency International and the World Bank. There are almost no social indicators that cover all countries. It is difficult to find a comprehensive set of indicators. Within USAID, the Development Fund for Africa has its own indicators. From past experience, one could easily come up with a list of likely candidates for the MCA. Quite often aid allocations have been made on the basis of political decisions. This process proposes to make decisions based on what is happening in country. Experience shows that the best investment is finding the countries that are moving in the right direction and helping them along in the process.

**Participant:** What agency is leading the agenda and how are coordination and consensus building taking place?

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**Ms. Turner:** The White House is going to be in charge. USAID will be advising the White House on the final selection. It is a very interactive process. There are five working groups headed by different agencies:

1. Legislative -- Office of Management and Budget
2. Selection Criteria -- Treasury Department
3. Modalities and Operations -- USAID
4. Outreach -- State Department, with subgroup at USAID
5. Pilot Project -- State Department

There are no written reports from the committees yet, but the process has been very interactive and fairly transparent.

**Nancy Birdsall, President, Center for Global Development (CGD):**

Noting that discussions of selection criteria inevitably overlap with thinking about the aid delivery mechanism, Ms. Birdsall suggested that the MCA provides an important opportunity to think about the whole question of how to improve the effectiveness of development aid overall. Regarding the strategy for the MCA, staff at the CGD have laid out seven general principles, some of which are similar to those developed by other groups, including InterAction:

1. Insulate the MCA from political pressures. Think of the MCA as an experiment in finding the most effective way of delivering aid and use it only for development purposes.
2. Focus on strengthening national institutions. Support good, honest governments committed to the right kinds of policies. Ideally, MCA funded programs would be endorsed by and channeled through governments. They should be under the umbrella of government, as part of a national strategy, even if NGOs implement the programs on the ground. Eligibility criteria should be simple and transparent. This would permit Congress and the U.S. public, as well as people in developing countries to monitor and understand the program.
3. Build in an easy exit mechanism for donors. It is easy to decide when to start a program in a country, but it is difficult to determine when to exit.
4. Foster recipient country ownership. Country based programs, such as the World Bank Poverty Reduction Strategy Paper (PRSP) approach would be consistent with recipient country ownership.
5. Encourage competition. Though eligibility should be simple and transparent, selection of country programs should be competitive and based on an application process. This promotes ownership of programs. Governments can include their own progress benchmarks in their proposals. Successful programs can have continuity, but there would be a fixed term for exiting. This could also lay the groundwork for a competition approach among U.S. agencies and donors.
6. Insist on full public disclosure. All documents should be made publicly available, allowing all parties to have access to information to monitor accountability.
7. Complement existing frameworks. Build on the Millennium Development Goals, the PRSP process, the New Partnership for African Development, etc.

To operationalize these principles, the CGD suggests a two-step process.

*1. Determine basic eligibility each year.* The MCA should be aimed at the world's poorest countries and the three areas President Bush identified – ruling justly, investing in people, and economic freedom. With regard to ruling justly, countries might be excluded for inadequate press freedom, government budgets that are not available to the public, jailing of political opposition leaders, etc. Regarding economic freedom, countries might be excluded for official violations of property rights and inability to enforce contracts, etc. For investing in people, countries would be excluded for failure to spend some specific amount of government revenues on basic health and education, or for failure to increase spending to the minimum target. This basic eligibility should be seen as a minimum below which countries would not be eligible.

*2. Select countries based on proposals.* In this competitive process, a technical advisory board or boards would rank proposals from eligible countries. The proposals could be for budget support for the entire PRSP, or for specific initiatives in education, judicial reform, or other areas. This ranking would be submitted to the appropriate U.S. agency.

The World Bank paper, *Achieving Education for All by 2015* sets a critical benchmark, primary school completion rate. It looks at the countries that have a high primary completion rate and examines the characteristics of their systems. These inputs or standards are useful for countries proposing new programs. They can propose specific interventions to address these standards. For example, they include standards like the percent of GDP spent on education, teacher to student ratio, and average teacher salary to GDP ratio. Gender is not included, but it could easily fit. This is an example of what could be done in health and other sectors. To the extent that USAID and other agencies use and extend the information in this paper, the MCA would be off to a good start.

**Gene Sperling, Director, Forum on Universal Education, Brookings Institution:**

The U.S. government spends as much on education in the entire world as it costs to build thirteen U.S. high schools. Everybody likes the phrase “Global Compact.” It is essentially a contract. Donor countries give aid, but they have expectations about how it should be used. Developing countries want the aid, but they do not want to be micro-managed and they want to retain their sovereignty. This is the fundamental tension that must be managed.

On debt relief there is a very clear understanding among heads of states about what needs to be done in order to receive assistance. In education there isn't that level of certainty at this point. Focusing on primary education is a long-term approach. Education ministers don't have a lot of political pull. There needs to be a strong global contract to inspire world leaders to make educational reforms.

One must recognize the recurrent costs in education. The focus on completion rates is also extremely important. The World Bank analysis concluded that thirty-two countries were off-track to make universal primary education by 2015 when enrollment was the focus. When the

focus shifted to primary completion, eighty-eight countries were off-track. Twenty-nine of those countries will not make it unless they have enrollment and completion growth at a rate never before seen in the history of the world. That is quite a challenge. Completion is also a proxy for quality. Parents have to decide it's worth the time and money to send their children to school.

In looking for accountability and performance, one must be careful about imposing a “one size fits all” standard. It isn't even clear what works in the United States. The question is “What is reasonable education policy for this particular country?” There has to be a degree of flexibility and judgment.

The strict accountability needs to come on the budget and the transparency side. Is the money going exactly where it is supposed to go? There must be budget transparency and specificity at a level that does not exist in many countries today.

Developing countries need to have a great certainty that particular actions will receive a specific amount of support. One strategy is to have an overall global education initiative with a peer advisory review that includes developing country experts. Money would go out in a coordinated, agreed upon manner. The challenge is to create a program with a significant degree of certainty that actions will bring support and a certain degree of coordination without creating a whole new bureaucracy.

There are two possibilities for the MCA. One version is that MCA funds go to countries that meet a list of specific performance-based criteria -- an “all or nothing” approach. The other version would be more flexible. It would keep the President's vision and the Millennium Development Goals at the heart, but there would be room for flexibility and judgement. The second approach is more realistic. Nobody is great at everything.

The MCA should be designed to assist countries that meet performance requirements in major areas. A country that has an inspired and major HIV/AIDS prevention strategy or universal primary education strategy (e.g., Ethiopia) should not be denied because it doesn't meet a long list of criteria. If it can't demonstrate where the funds are being spent, it should be denied. There is an opportunity right now to tighten the global contract for universal education and inspire other countries to go forward in this effort.

**Ms. Turner:**

This is a good opportunity for USAID to look at its other development assistance programs and possibly target those funds in a different way.

**Participant:** It is important that the MCA both reward and encourage countries. Criteria-based systems are difficult to implement and don't necessarily reflect reality. The criteria should be used to influence decisions, rather than to make decisions. Criteria could be used to identify the steps that countries need to take in order to achieve the three MCA objectives. Criteria could

also be used to influence modality decisions. Countries that have made a certain amount of progress may be ready for sector assistance, rather than particular project assistance.

**Participant:** With regard to channeling everything through governments, what will this mean for people living in failed states?

**Ms. Birdsall:** This is a particular approach to development. It is not for everyone, and not for failed states. The MCA program should go through the government, although the government might then channel the money through trust funds or other mechanisms. USAID's traditional development assistance would still be available for conflict countries and states that don't meet the MCA criteria.

**Participant:** The ACVFA Results Committee came up with an insight about indicators and criteria. In sectors where the problems are understood, quantitative indicators are very appropriate. In other areas, such as good governance or democracy, qualitative indicators are the best that is available. Environment is probably somewhere in the middle. How will the MCA address those sectors where it may not be possible to reach agreement on quantitative indicators?

**Ms. Birdsall:** Any system for the MCA should be one that will make changes. There are 60 or 70 IDA eligible countries. If the first MCA selection process produces 40 eligible countries, then the U.S. government will need to tighten the requirements for the following year.

**Mr. Sperling:**

One can think about this process on three levels:

1. Nonfunctional governments in which NGOs have made progress in education. These would not be included in the MCA under the current thinking.
2. Governments that meet a certain minimal level of criteria could be eligible for ambitious sector level projects
3. Governments that meet all the criteria and would be recipients of widespread aid

**Participant:** One group missing from this discussion is congressional staff. While it is still early, involvement with staffers should begin before the concept is totally worked out. Another group not represented at this meeting is the overseas staff that may view the criteria from a different perspective. What are the plans for including these perspectives?

**Ms. Turner:** Congressman Kolbe was scheduled to attend this meeting, but was unable to. There have been discussions with the major congressional committees. People feel that the timing is right for an increase in funding, but what it will look like has not been decided. There is a heavy emphasis from the White House on making it a field-oriented program, jointly planned and managed with the host countries. There is an effort to have an aggressive outreach plan to the field and host countries.

**Mr. Sperling:** There is a dramatic underestimation of the bilateral versus coordination issue. The U.S. government giving the “seal of approval” to these countries may create some unintended problems. There will be cases where aid doesn’t work. There will be tremendous political pressures. Experience may show that coordination with other donors is better than a totally bilateral approach.

**Participant:** The U.S. should implement the MCA under the Education for All (EFA) framework, which is already widely accepted. Concentrating on narrow criteria such as primary education as being the equivalent of “education for all” ignores other EFA objectives including early childhood education, adult continuing education, HIV/AIDS awareness, and others. The EFA should be accepted as the proxy for eligibility criteria and then overlaid with other analyses that address variables connected to MCA objectives, including transparency, program quality, and institutionalization. Secondary education, continuing education, even higher education cannot be left out of the equation if there is going to be a serious policy dialogue with the countries that are already beginning to work towards the EFA goals.

**Participant:** There is a need to look at “education” for all, not “schooling” for all. Huge numbers of kids who do finish primary school are not entering secondary school. There are other alternatives including non-formal or informal education models that can prepare kids for successful entry and performance in civil society. Focus on school measures forces governments to think only in terms of formal schooling.

**Mr. Sperling:** The World Bank proposal looks to UNESCO for formulating their policies. There must be a certainty of finance. If there is no donor commitment to funding, there won’t be a commitment from countries to make reforms. As more money is put forward there will be dramatically more scrutiny, as well as people involved at higher political levels.

The goal of universal primary education is not the only means to the goal, but now there are 88 countries that are not on track for universal primary education. Alternative education is not inconsistent with this, but there is a need to identify criteria and develop a global commitment to financing.

**Ms. Turner:** Traditionally, education has not been a top priority for development funding. The EFA has helped to elevate the importance of education. When countries are selected, those that have an EFA plan should receive funding. The EFA framework looks at civil society, not just government plans.

**Mr. Sperling:** If the U.S. makes clear that it supports the EFA plan, it would reinforce the global effort for universal education. U.S. actions can be an important incentive for countries to move their plans forward.

**Participant:** There is a need to distinguish between micro and macro level indicators. Selection criteria should be based on micro indicators. Performance evaluations a couple years down the

line should be based on macro indicators. Another important criterion for selectivity is whether a country is putting resources into collecting data on development.

**Participant:** How is the American public going to be reached with a new message about development? It hasn't happened very effectively up to this point.

**Participant:** Trade, aid, politics are interconnected. The message to the American public has to be that the developed world has a role in the lack of progress of developing countries. This also has implications for the criteria. Regarding education criteria, perhaps they should be broad, to include things like non-formal youth programs and leadership training, which are very important for development and should be considered in the education discussions.

**Mr. Sperling:** The MCA program should have the flexibility to work with countries on specific issue areas, like education, independently of whether or not they have met all of the other criteria.

On public education, the development community could pool money and do more general development education, not focused on specific organizations (similar to the dairy industry advertisements). Prior to this time, congressional representatives didn't talk about foreign assistance to their constituencies because they were afraid of being attacked. Since President Bush has spoken out, Members of Congress will be more willing to talk about these issues.

**Ms. Turner:** Generally, people are more open to foreign issues since Sept 11<sup>th</sup>. Americans are not going to be influenced by USAID officials getting on television and talking about foreign assistance. It is going to happen through PVO citizen participation programs that let people know what can be done in a positive way. This is a tough question, and one that the MCA probably isn't going to solve.

**Participant:** What is the time frame for developing the MCA?

**Ms. Turner:** USAID submits a budget to the Office of Management and Budget in the fall, which is then debated by the White House and others. The President presents his budget in January. Then, the Congress will start asking a lot of questions. Certainly by fall many of these questions will have to be answered. There still has to be some flexibility and there will be some unanswered questions. By fall there will have to be a package that stands on its own, makes sense, and has the key questions answered.

**“The New Compact for Development: Designing a Blueprint for Change”**

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**Advisory Committee on Voluntary Foreign Aid**

**Breakout Group Three**  
**“Economic Freedom”**

**Annex 4**

**ACVFA Public Meeting, Wednesday, May 22, 2002****Break-Out Group on Issues Relating to Economic Freedom****Moderator: David Cowles, Acting Deputy Assistant Administrator, Bureau for Economic Growth, Agriculture and Trade, USAID****Speakers: Tessie San Martin, Partner, PricewaterhouseCoopers Consulting  
Rachid Benjelloun, Principal Associate, Nathan Associates, Inc.  
Thomas Gibson, President, The Institute for SME Finance**

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**David Cowles:**

The Millennium Challenge Account (MCA) challenges developing countries to take shared responsibility for their future. It also challenges development professionals to show results.

**Tessie San Martin:**

This is a fascinating and challenging time to be in the development business. How should these additional significant monies be channelled to achieve development successes? Economic freedom can be defined in a variety of ways-- economic growth, growth in entrepreneurship, etc. What exactly does this mean in an era of globalization?

Globalization means more choices and more opportunities than ever before. Economic freedom means enterprise growth to create jobs, increase incomes and pull people out of poverty. The access to markets, ideas, capital, and other resources that entrepreneurs have now is unprecedented. The challenge is to help countries leverage these opportunities to the maximum extent possible. Winners and losers in globalization is a real issue. The process of economic growth must be as inclusive as possible.

There are certain pre-conditions that need to be in place for economic growth, including macro economic stability, prudent fiscal management, responsible public finance, and stable monetary policies. There are countries that have made all the right choices for macro economic stability, but the desired supply response does not follow.

One must consider both macro and micro level issues. How can the MCA reward not just the outcome, but the process through which stakeholders are engaged in the dialogue about economic reforms? Institutions that have inclusive, participatory processes yield more sustainable outcomes. The people side of the equation should not be forgotten; institutions and policies are made by people. Process matters for long-term stability. Inclusiveness is important -- how it is rewarded, what types of programs go with it, and how to engage local stakeholders and enhance the economic foundations of competitiveness in a way that will yield inclusive outcomes.

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This is about changing the way governments think and operate through retooling and skills development. In Africa, due to the HIV/AIDS pandemic, there are shortages of experienced people and it is necessary to prepare a whole new generation of civil servants.

**Participant:** How can one develop the trust necessary for transactional activities?

**Ms. San Martin:** A lot of work has been done in terms of institutional development over the last few years. It takes time and must be built on processes that encourage information sharing. It is important to build some small successes as a foundation.

**Participant:** El Salvador gets \$1.9 million in remittances which go directly to families and communities. It is a small country with very poor institutions. How can the people be engaged to change the institutions when the government is not interested in making reforms?

**Ms. San Martin:** Shedding some light on the possibilities can be a successful way of getting bottlenecks dislodged.

**Participant:** Please address the issue of enterprise reform.

**Ms. San Martin:** If enterprises are competitive they will grow and create jobs. That will be good for everybody. Enterprise development involves working with the elite. How do they view social responsibility and what type of investments and commitments are they ready, willing and able to make?

**Mr. Cowles:** Ms. San Martin identified several points to consider in the development of criteria:

1. The importance of stakeholder participation
2. The importance of the micro economic environment
3. The relationship of trade and country size

**Rachid Benjelloun:**

The following analysis is based on two publications on economic freedom from the Cato Institute and the Heritage Foundation/Wall Street Journal (HF/WSJ). The HF/WSJ defines economic freedom as the absence of government coercion or constraint on production, distribution and consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself. The HF/WSJ definition centers around government intervention or the lack thereof. The Cato Institute has a similar definition, but it is centered on the concept of freedom itself on a personal basis. It says that the core ingredients of economic freedom are personal choice, protection of private property and freedom of exchange. There is a strong correlation between economic freedom and income and growth, corruption, human development, poverty, and life expectancy.

HF/WSJ's Economic Freedom index, which covers 161 countries, is focused on the extent of government intervention in the economy. The ten equally weighted components are trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, and black market. Both organizations try to make the indices as objective as possible and use quantifiable data to the extent possible.

The Cato Institute index, which covers 123 countries, has seven areas and 21 components, each of which has its own assigned weight. It uses a statistical method, a principal component analysis for looking at the variance of each one of the components and how it affects the dependent variable. The Cato Institute's index focuses on personal choice, protection of private property and freedom of exchange. The seven areas the Cato Institute looks at are size of government, economic structure and the use of markets, monetary policy and price stability, freedom to use alternative currencies, legal structure and security of private ownership, freedom to trade with foreigners, and freedom of exchange in capital markets.

The top ten countries from both indices are about the same, but there are some big differences on other countries. Both indices get their data from similar sources. Differences result from the timing of the calculations and assigned weights.

In the more comprehensive *Economic Freedom of the World* index of the Cato Institute, countries that are fundamentally strong in their economy and institutions have a higher ranking. Countries like Argentina and Bolivia actually decline in the ranking.

Things can happen to economies that cannot necessarily be controlled by internal policies. For example, the World Bank and other donors would like to see Egypt devalue its currency to develop its export potential. However, many people are afraid that the result of devaluation would be massive inflation. Many countries don't have as much control over trade policy as they would like, particularly in setting tariffs. If they raise tariffs the World Bank and the International Monetary Fund might take away funding. The target of these indices is the impact on business, but are the indices equipped to handle the economic policy impact on health, poverty, gender, and other issues?

The time lag issue must be considered. The government that instituted the reforms may no longer be in power by the time the economic indices are published.

Generally, there is resistance to things that seem to be imposed, rather than participatory in nature. There is a need for a customized solution to measure economic freedom. There are many variables to consider including data subjectivity, availability, and credibility.

Suggestions:

- Establish an expert panel to assess economic freedom progress on a case-by-case basis.

- Establish national commissions to regularly measure economic reform progress against their own targets. There are National Competitive Councils (involving private sector, government, and civil society leaders) in some countries. They could be involved in setting targets, conducting measurements and managing funds.
- Use some of the PRSP processes, rather than creating something totally new.
- Eligible countries should lead the reform process. There is no substitute for ownership.
- Technical assistance will be needed for sequencing and analyzing policy impact. Countries want the United States to show them why particular policy reforms are good for them.

Process Recommendations:

1. USAID could help set up and strengthen local reform-minded groups that are interested and eligible for the MCA.
2. Set a deadline each year for these local groups to make presentations to a U.S. team and submit proposals and timelines for intended reforms.
3. If the proposal is accepted, set some monetary benchmarks.
4. Offer technical assistance to measure the potential impact of reform and help local groups build consensus for reform.
5. Present the results against the benchmarks to the same panel. The team should propose how the money should be used and accounted for.

**Mr. Cowles:** Relying on a variety of data sources may have some mitigating effect on the extent to which countries can manipulate the data to their own advantage. Although there is a great deal of overlap between the indices, there are some significant differences in ranking. What is the implication of this for the selection criteria?

**Ms. San Martin:** It makes sense to think about distribution of income, outcomes, and benefits. This has to be part of the equation.

**Thomas Gibson:**

One of the problems in foreign assistance is that programs are designed to support the existing structures. Poverty alleviation programs tend to focus on people in the bottom strata of society. Other aid programs focus on the upper strata of society with reforms in infrastructure, financial institutions, and so forth. To really encourage economic growth, the focus needs to be on the middle class.

Societies with larger middle classes are more economically and politically stable. The smaller the middle class, the more poverty and instability. Building the middle class will cause good development to happen throughout society. Middle class people are innovative. They build civil society and press the government to reform through legal and organizational means. They produce doctors, lawyers, scientists, writers and teachers. Terrorist activities, overthrowing

governments, drug trafficking, and sending money off to foreign countries is not typical of the middle class.

Small and medium enterprises (SMEs) are most common in the middle class. SME entrepreneurs want freedom from instability. They would like to be able to bet on something and know that six months later the conditions for that bet are still there. They also want freedom from unfair competition from the elite, freedom from a disproportionate tax burden, and freedom from excessive “steps” in registration, permits, and licenses. Short-term high interest rates and highly collateral is another burden. The SME sector in the middle class is tapped out on cash and collateral. In order to expand the SME sector there must be new money.

Measurements of success in building the middle class include growth in the following areas:

- Number of formal independent SMEs
- Sales and employment of SMEs
- Corporate income tax payments
- Bank financing of SMEs
- Local private and institutional investment

One of the most important aspects to examine is the level of growth in local private and institutional investment. There should be a public-private partnership for SME risk capital. Non-collateral based financing is critical. SMEs need to be financed on the basis of potential, rather than current wealth. This means risk capital funds and non-bank institutions. Local governments must finance SMEs without interfering or controlling their development. Local private and institutional capital must be attracted. Trust must be built. As long as the government and the private sector don't trust each other, there is limited potential to move forward.

The U.S. Small Business Investment Company (SBIC), which has been in operation for 50 years at the Small Business Administration, is really what starts venture capital in the U.S. The government brings money to the table where it hasn't been investing before, to attract equity investors who will then receive a greater return on their investments. The government must step back and relinquish control of the process. This is being tried now in some developing countries. The government makes the lower cost loan to the SME fund, and local investors invest equity in the SME fund. The control comes from the local investors, private sector and the local fund managers. It only works if the SMEs are growing and there is a high level of trust.

This model is being tried in Namibia with a partnership between USAID and the Central Bank of Namibia. Namibia has the smallest proportional middle class of any country on earth. Similar programs are being started in Rwanda, Pakistan, Mozambique, and other African countries.

It is important to determine at the outset if a government is really committed to supporting SMEs and growing the middle class. Unless this is the case, the mistakes of the past will be repeated.

**Participant:** Helping businesses increases incomes and grows the middle class. That in turn creates the resources for better education, health care, and other important social programs.

**Participant:** There is a big difference between correlation and causation. Proving causation is extremely difficult. The high inflation countries are those that have problems, so that inflation is not a measure of the state of policy, it's actually the outcome. Those sorts of problems are deep and pervasive.

There is empirical evidence that labor market freedom works for economic growth and economic governance. Labor market freedom should be part of an MCA measure of economic freedom.

**Participant:** Is there a consensus among economists about the nature of the relationship between individual income tax rates and rate of growth of the economy as a whole?

**Mr. Benjelloun:** I don't know whether the Cato Institute and the HF/WSJ indices can show a correlation or a cause and effect relationship.

**Participant:** A lot of these studies show correlation, but not causation. A new United Nations Development Program report shows that in many countries where there has been macro economic growth, there has also been a rise in inequality between the wealthy and the poor. The poor have actually been getting poorer. A Food and Agriculture Organization study of sixteen countries that opened their economies found that those countries now have greater food insecurity.

In terms of the criteria, it's important to ensure a gender component in the economic criteria. Studies have shown that investing in women increases the investment in the next generation. Women are more likely to invest in education and healthcare for their children.

There is also a need to calculate the impact of the informal sector. Many jobs, particularly women's jobs such as selling food at the market, are not accounted for in the formal sector. Finally, criteria should make the link between macro and micro economic indicators.

**Participant:** USAID has been criticized for having discrete and sometimes artificial sectors that do not reflect real life. Clearly there are some themes and issues that impinge on each other in the President's three areas. There needs to be some thinking about that in the elaboration of criteria and indicators. Because the issue of corruption is so important across the board, what is the state of the art in measuring corruption in a rigorous way?

**Mr. Gibson:** Programs at the field level often address issues in a more cross-cutting manner than people in Washington, DC, but this issue should be addressed in the criteria development process.

**Participant:** The U.S. government is going to face a big problem when it seeks to convert some of the continuous variables into a binary yes/no decision. It will be difficult to find a conceptual basis for any given cut-off point. Also, by virtue of having a lot of indicators on the table and inviting people to add more, the impression is given that this will be a comprehensive measure.

Any choice of indicators is subjective. The question of objectivity should be discarded. There is a need for clearly defined indicators and consistent, transparent processes. What would serve the MCA best is to think of the eligibility criteria as minimum thresholds. The extent to which a few yes/no variables can be identified, the clearer and more transparent the process will be. This is not an effort to be comprehensive. The variables should be chosen because they are sentinel and important. The second stage of competition could follow.

**Mr. Cowles:** How does one determine that the necessary policy framework is in place to deliver effective assistance? In the early days of the MCA, when the program itself is fighting for validity, it should err on the side of limiting assistance to countries in which there is a high confidence of success.

**Participant:** Indices are highly controversial and complex. The criteria could be determined on a country by country basis. Each country could have five to ten indicators that the local mission director helps to develop. The country should be judged on their progress in meeting those locally relevant indicators.

**Mr. Cowles:** There are some problems with this approach, but the point is taken that objective criteria are severely limited. Knowledge of what is happening on the ground is important.

**Participant:** An expert panel could become very political. It adds room for special interests and lobbying, as does the case by case approach. Within a simple framework of eligibility criteria, it would be useful to have some kind of a scaling to measure variables over time.

**Participant:** Four out of every five development dollars come from the private sector. The private sector is making decisions continuously about where to put their money. There's a whole slew of qualitative and quantitative indicators available. There are many concrete suggestions and solid foundations that this community uses on a daily basis that could be applied to economic freedom.

**Participant:** There is an internal contradiction in the MCA between the goal of reaching the poorest and the principle that aid is most effective when the proper policy framework is in place. That is why it's so hard to figure out how to select countries. The Heritage Foundation

index shows that economic freedom is negatively correlated with poverty. Using that index, the poorest countries would be excluded. There is a difference between the eligibility criteria and results indicators. The criteria could identify the poorest nations, but the results indicators could involve the policy framework.

**Mr. Cowles:** There is still a development program for countries that are not MCA eligible, which might include many of the poorest countries.

**Participant:** The binary nature of discussion is a concern. What would work best is a matrix that sets out the essential developmental objectives, essential program responses, and the attributes of those responses that make them effective or ineffective in each situation.

**Participant:** A lot of the options presented were relatively devoid of local voices and how economic freedom affects them. Trade regulations, stocks, bonds, and income taxes are irrelevant to the rural poor. There is a need to collect data and develop indicators that might approach what the rural poor are dealing with economically. The mechanisms are not in place for involving local people in this process.

**Participant:** The focus of the MCA is poverty reduction. A priority should be determining whether the policy environment in a country is reaching out to the rural poor and the informal sector. Supporting business means nothing if the program is not also addressing the needs of the poorest people.

**Participant:** Significant, sustainable economic growth does not happen without electricity. Privatization over recent years has left the rural poor in the dark because there is no incentive to bring electricity to rural areas. Most donors over the last decade have quit doing infrastructure projects. The MCA should look at some of the problems in funding infrastructure. The first and the primary beneficiaries of electricity are women and children in homes and schools.

**Participant:** Making investments in rural infrastructure is one of the best ways to alleviate rural poverty. Then the question is how consider existing infrastructure in the criteria. Infrastructure typically is a large-scale investment that might be appropriate for the MCA.

**Participant:** The MCA could be exhausted through building infrastructure. It could be use to attract private capital investment.

**Participant:** It is necessary to identify countries in which the policy environment is changing sufficiently to build on, but things are not so successful that the MCA is not really needed.

**Participant:** Poverty should be the first eligibility criteria. The group of poor countries may be the IDA or IDA-blend, or other countries. Other criteria come into the picture after that group is identified.

**Mr. Cowles:** Should the MCA consider middle income countries?

**Participant:** There are middle-income countries with very large pockets of poverty that perhaps should be eligible. There is a need to define a cut-off point, while ensuring that the process is transparent.

**Participant:** If the language is poverty-oriented, there has to be an agreement about overall purposes. The indicators presented are really more significant for advanced development than basic development. Regarding best practices, there is a lot of knowledge documented about certain elements related to gender or education. These have to be added to the formula. Maybe there needs to be a few different experiments to identify the best indicators.

**Mr. Cowles:** There is consensus that poverty is the important issue that needs to be addressed. If there is some measurement of results within a five to ten-year time frame, that would be consistent with the Millennium Development Goals.

**Participant:** Could a set of needed reforms be developed for each participating country?

**Mr. Cowles:** One of the speakers in the morning session suggested that after a country is selected for the MCA a list of reforms should be developed in a participatory process. This would be a compact under which the MCA would provide the funds and the country would undertake certain reforms.

**Mr. Gibson:** Policy reforms do not tell the whole story. There must be quantitative, objective criteria. There are all kinds of hidden measurements that will tell whether or not reforms are actually working. For example, in measuring corruption, one could look at whether or not there is a working limited liability company law. There are hidden indicators like that in all fields. There is a need to be cleverer about the objective criteria because broad macro economic criteria can easily be manipulated to tell the wrong story.

**Participant:** Countries should set their own targets for the indicators. Success or progress should be judged against those targets. Funds could increase or decrease depending on performance.

**Participant:** Good policy reforms and legal redress need to extend to the poor, not just to the small entrepreneur.

**Mr. Benjelloun:** There is a need to form a reform-minded group with participation from NGOs, PVOs, and donors. This group should be involved in setting and measuring targets, and eventually maybe helping to direct the funds. Again, infrastructure is key. Poverty reduction has to figure in the criteria. It is the program goal.

**Mr. Gibson:** The MCA should start with the poorest countries. There is a need to identify indicators that measure intent, and then work with countries that score highest on that scale.