Summary Report of Workshop, July 23, 2003

The Millennium Challenge Account: How Can Country Competitiveness Drive Economic Growth?

I. Introduction

This event, one of a series of policy sessions presented by United States Agency for International Development's Policy and Program Coordination Bureau (USAID/PPC), was designed to have outside experts address the relevance and applicability of the concept of the country competitiveness framework to the Millennium Challenge Account.

The Workshop was co-hosted by USAID/PPC in conjunction with the State Department's Bureau of Economic and Business Affairs and the Treasury Department's Office of International Affairs. Representing each host were: John B. Taylor, Under Secretary of International Affairs, Department of the Treasury; Anthony Wayne, Assistant Secretary for Economic and Business Affairs, Department of State; and Patrick M. Cronin, Assistant Administrator for Policy and Program Coordination, United States Agency for International Development. Each provided introductory remarks after which Dr. Cronin moderated the session and introduced the panel of the following outside experts:

Jose Maria Figueres, Senior Managing Director, Centre for the Global Agenda World Economic Forum
Michael Klein, Vice President, Private Sector Development, World Bank
Michael E. Porter, Bishop William Lawrence University Professor, Harvard Business School.

After their presentations, the outside experts entertained questions and comments from the audience.

II. Millennium Challenge Account

The launching of the Millennium Challenge Account comes at a time of opportunity as well as urgency. Mr. Figueres pointed out that the technological revolution has vastly facilitated communication (not only globally, but regionally and even locally) – an essential component of such an ambitious international development program; at the same time, globalization has increasingly sharpened the sense of political and economic exclusion throughout much of the developing world.

The MCA initiative's emphasis on governance, according to Mr. Wayne and Mr. Taylor, responds to three key theoretical insights, increasingly recognized over the past decade by practitioners and experts in the field of international development: (1) the central importance of economic growth, productivity, and job creation in reducing poverty; (2)

the crucial role of the private sector in achieving economic growth; and (3) the overarching importance of sound institutional foundations in enabling private sector development. The scale of private trade and investment in the developing world already dwarfs the amount of foreign aid flows, and has the potential to grow exponentially.

The speakers stressed that MCA can serve as a catalyst in engaging the powerful engine of private investment in target countries, both by investing directly in needed infrastructure (including, importantly, investment in human capital), and by helping to eliminate institutional barriers to investment. From a broader perspective, MCA can contribute to long-term economic growth by encouraging, both directly and indirectly, such basic institutional reforms as strengthening the equitable rule of law and reducing corruption – reforms which are key elements of good governance as well as indispensable to attracting investment capital.

In its selection criteria, MCA is designed precisely to reward and to motivate progress in enacting crucial institutional reforms, by including only those countries that demonstrate achievement in "ruling justly, encouraging economic freedom and investing in their people."

Mr. Klein observed that there are relatively easy developmental gains to be achieved simply by clearing some of the existing obstacles to investment, and in particular by improving the institutional environment, including such issues as, property rights protection, and market-based competition. Complexity of regulations, he noted, though not necessarily the most important of these institutional obstacles, is one of the more accessible targets of administrative reform.

III. The Competitive Economy

Sound governance is by now widely recognized as key to enabling the creative development efforts of both public and private sector actors. Governance reforms must address both macro- and micro-economic conditions. Macroeconomic reforms alone may produce a short-term spike in investment levels, but sustainable development also requires attention to the micro-economic conditions necessary for job creation and expansion of exports.

Dr. Porter and Mr. Figueres, along with many of the workshop participants, agreed that an appropriate development goal is not just poverty reduction or even economic growth, but a *competitive* economy. Competitiveness measures the ability of a country to achieve sustained rates of growth in terms of per capita GDP; a competitive economy is one which can derive benefit from international trade and financial flows. Dr. Porter suggested that a competitive economy may be especially appropriate as a focus of the MCA initiative, as it reflects a unique national U.S. strength. Mr. Figueres recommended that competitiveness become the organizing theme for all development work, and suggested that development might be "reinvented" by an investment perspective, framed as a business-plan approach.

Mr. Figueres further emphasized that, for a developing country to become economically competitive, it needs to develop a business plan tailored to its particular assets and circumstances. In Mr. Figueres' and Dr. Porter's vision, such strategic planning may be best undertaken by a “national competitiveness council” (discussed below), to bring together government, business, academic, political, and civil society leaders, to identify the existing constraints on private sector development, and to develop effective strategies to attract foreign direct investment and increase exports. Cooperation and communication between the public and private sectors will be essential to identify and remove the barriers to improving private sector competitiveness, such as corrupt administration and excessive or uncoordinated regulatory requirements. The ultimate strategic goal, especially for resource-poor countries, must be the development of a more educated and productive workforce, in place of a reliance on low wage levels as a temporary competitive advantage.

IV. Design of the MCA Program

Careful attention needs to be paid to the administrative design of the MCA program, both in Washington and in each recipient country, to ensure adequate coordination and communication and to structure positive organizational/administrative incentives.

A. Broad issues

Key administrative questions identified by several participants include the extent and manner of integration of USAID within the MCA effort, to avoid fragmenting U.S. assistance efforts; the need for broad coordination with other donor agencies; and the mode of program funding, to allow for long-term planning and commitments.

Additionally, some recurrent issues in economic development were identified by Dr. Porter, Mr. Figueres, and Dr. Klein in the context of the design of the MCA program.

1. Political capital may be limited for longer-term development initiatives; a first step for country leadership is to establish a broad base of domestic support.
2. The micro-economic level is rarely integrated into macro-economic approaches. One possible model for designing and measuring micro-economic reforms is the National Accounts System, used to track macro-economic policies.
3. Coordination among sectors and donors, though essential, is the exception.
4. Development planning tends to be over-centralized, lacking grassroots input.
5. The time horizon of development efforts tends to be limited by changes in political administration as well as by shifting institutional or political priorities (“agendas”), whether in donor countries, international organizations, or recipient countries.
6. Excessively rigid criteria may impose an inappropriate level or sequencing of reforms on potential recipient countries.

Dr. Porter and Mr. Figueres suggested that these issues could be ameliorated by the creation of independent National Competitiveness Councils in each participating country, which would work with the Millennium Challenge Corporation (MCC).

B. National Competitiveness Councils

It was generally agreed that several essential partners must be coordinated in the MCA effort: the local private sector, civil society, academia, and government (both central and local). The aim is to create an institutional commitment to program goals that can survive political changes. This was the approach successfully adopted in Costa Rica in the 1990s, as discussed by Mr. Figueres, by building a national competitiveness council which was based in the universities rather than within the government.

Dr. Porter suggested that MCA promote the creation of an independent National Competitiveness Council within each participating country, to foster a cross-sectoral and long-term perspective in forging development strategy. In his view, each participating country should be required to present a "competitiveness assessment" for specific projects, formulated by its own National Competitiveness Council. Moreover, MCA contracts could in many cases be enacted with the Council rather than the central government. Such councils should include representation from the business sector (including trade/industrial associations), universities, and government (at every level). He cautioned that NGO participation should be carefully considered from the vantage point of maintaining the focus on economic competitiveness.

C. Selection and targeting issues

As currently envisioned, two separate "competitions" will be held for MCA grants; one for the poorest countries and the other for moderately poor countries. Benchmark criteria for inclusion, geared to these two distinct levels, will include micro-economic measures (e.g., the time required to register a business) as well as macro-economic measures (low inflation, stable currency). To have a motivating effect, Dr. Porter emphasized, the selection criteria must be straight-forward and clearly formulated. He noted that important questions remain in the design of selection criteria: whether to focus on outcomes or on institutional features; how to weight different factors; and how to register improvement over time.

In Dr. Porter's analysis, a clearer focus is needed also in targeting areas of MCA investment, in order to avoid duplicating existing programs, to achieve synergies, and to make the best use of the U.S. relative advantage in the field of development. He proposed some broad investment criteria for MCA:

1. Invest in productive assets, not consumption;
2. Invest in self-sustaining projects;
3. Find ways of leveraging investments; and
4. Target a distinctive focus, such as competitiveness, that best reflects U.S. "added value."

In each participating country, a careful assessment will be needed to identify the most effective uses of development funds to stimulate and facilitate private investment. As both Mr. Figueres and Dr. Porter pointed out, an important further dimension of development can be achieved by expanding the focus to a *regional level* of operation, fostering not only synergies and regional cooperation, but also a healthy competition among neighboring countries for a share of the expanding levels of overall investment.

D. Monitoring and evaluation

Monitoring and evaluation are key components of the MCA. Dr. Klein in particular emphasized that monitoring must be built into the operation of the program as well as into the selection criteria, to provide definite indicators of its impact. Just as a system of national accounts allows tracking of macro-economic indicators, he suggested, similar "accounts" might be developed for assessing micro-economic reforms.

At the same time, a long-term horizon needs to be kept in view: effective infrastructure investment may take several years to produce measurable economic results. Indicators, Dr. Klein observed, cannot be regarded as absolute but must be interpreted in context; reliable program evaluations would require the use of control groups, though this is admittedly an expensive approach. Monitoring tools must be designed as carefully as the rest of the program, to ensure both that positive results are being measured, and as Dr. Porter emphasized, measured results are significant. Intermediate indicators, he suggested, might include the number of companies that meet ISO standards, as well as survey data of business leaders' experience. (Job creation is not a reliable indicator, as it is subject to short-term subsidy effects.)

IV. Conclusion

On the whole, the panel agreed that competitiveness could be a valuable focus of MCA. First, the selection for the MCA may engender a healthy competition among countries in the area of institutional reform, as well as a more focused awareness of the requirements of international economic competitiveness. Second, the overarching goal of the program can be defined in terms of improving the trade competitiveness of particular industries, countries, and regions. This perspective, according to Mr. Figueres and Dr. Porter, should inform program strategy within each country and should be given institutional shape in the form of a National Competitiveness Council. Finally, within a participating country, as Dr. Klein suggested, competitiveness can be structured into each project contract. Localities and districts might be encouraged to compete with one another by the adoption of a tailored benchmark or "report card" approach.

Viewed from a competitive standpoint, Dr. Porter suggested, the MCA program would itself benefit from a design which makes the best use of U.S. national strengths. In addition to the long-standing competitive, entrepreneurial U.S. culture, he enumerated other national strengths, including: enormous trade opportunities; the presence of great numbers of country nationals in the U.S.; the commitment of U.S. multinational corporations to economic and institutional development in their areas of operation; and a depth of institutional and professional expertise in international development as well as economic and market policies.