

# Improving Development Effectiveness:

## Recommendations for the Millennium Challenge Account



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## SUMMARY AND INTRODUCTION



Catholic Relief Services (CRS) applauds the Bush Administration for the recent announcement of the Millennium Challenge Account (MCA), which proposes an additional \$5 billion in annual foreign assistance by 2006. The proposal reverses years of decline in foreign aid and represents an opportunity for a new approach that will increase the impact on the lives of the world's poorest and most vulnerable. CRS is especially pleased by the consultative approach the administration is taking to design the Account, and welcomes this opportunity to contribute.

The framework of Catholic Social Teaching (CST) guides CRS' approach to development. CST places the human person at the center, emphasizing that development and the economy are at the service of humanity rather than vice-versa. Consequently, the purpose of foreign assistance is to promote equitable human development and enable the world's most vulnerable to achieve a secure and dignified life. Broad-based economic growth and increasing incomes of the poor are critical to advancing this goal. However, effective development assistance also requires attention to poverty's political, social, cultural and other ramifications.

CRS applauds the Bush Administration for targeting the MCA to poverty reduction, but urges the administration to ensure that poverty reduction encompass-

es equitable human development and promotes local capacity building. A human-centered approach must assure not only basic needs such as health and education, but also access to productive resources and economic opportunities, human rights, and human security. It must also reduce marginalization by building local capacities and encouraging the participation of all men and women in their own development.

The recommendations in this proposal are based on findings from extensive consultation and research on impediments to development effectiveness. This new approach should not only help countries to better tackle their own problems, but must address policy failings by the US that have limited development effectiveness in the past. The proposal seeks to improve effectiveness by fostering participatory, democratic principles and a greater role for civil society.

After discussing effectiveness, the proposal argues that poverty levels should be the principal criteria for country eligibility and that demonstrating intent to improve governance, investing in people, and economic freedom are also important. The proposal then outlines guidelines for approaching the MCA. An explicit commitment to the PRSP (or other participatory strategy process) and to strengthening civil society forms the foundation for the CRS proposal. In adopting this approach, the Millennium Challenge Account should finance the development and implementation of national strategies, and ensure adequate attention to content and process. A second key element in the CRS proposal is that the MCA further encourage democratic processes by funding public/private partnerships between government and civil society that support national development priorities. Other guidelines address current problems of development effectiveness.

Finally, the proposal suggests ideas for administering the MCA, including a three phased grant process. Appendix A offers concrete suggestions to improve the PRSP or other participatory strategy process.

## DEVELOPMENT EFFECTIVENESS



In conducting research on development effectiveness, CRS identified a number of impediments on the part of both recipients and donors. Four are critical: weak local governance and civil society, lack of ownership, lack of policy coherence and lack of donor coordination. Both developing and donor nations alike have the responsibility to address these problems, and the MCA must be designed to overcome these impediments.

### Local Governance and Civil Society

CRS agrees with the administration that the primary responsibility for development rests with the developing nations themselves. Weak and authoritarian governments have impeded progress and maintained or worsened poverty levels. However, fundamental change will only originate from the people of the country in question. Foreign assistance cannot impose change, though it can promote it by building civil society capacity and increasing democratic voice. Effective assistance should seek to strengthen structures for inclusion and representation of all people, especially the poor and marginalized.

Historically, government has received the lion's share of aid resources, and government to government funding arrangements have typically been made through official channels without broad public knowledge. Uninformed, uninvolved and disorgan-

ized, civil society has been unable to hold government accountable. Limited public awareness has fostered systems which lack transparency and allowed governments to invest funds for other purposes or to siphon off resources for individual profit.

Civil society has a vital role in assessing problems, prioritizing investments, and identifying practical approaches to service delivery. Informed and helped to organize, civil society is likely to hold government accountable more effectively than donors. Foreign assistance should therefore have an explicit focus on civil society development, with the necessary commitment of financial and technical resources.

### Ownership

Lack of developing countries' ownership of development strategies may be the single biggest problem to effective aid. Donors tend to approach countries with proposals born out of their own concerns and perceptions of solutions. Many countries have no overarching development strategy, and given the vast need, accept financial support along with whatever terms that may be imposed.

The International Financial Institutions (IFIs) in particular have imposed conditions on loans in order to oblige economic reform. Countries often accept conditions without necessarily believing they are appropriate, and reforms remain unimplemented or are overturned once funding is received. In some cases, higher-level government officials may agree to certain approaches, while lack of involvement of lower ranking functionaries and targeted communities leaves them uninvested in the outcomes. In other cases, programs and reforms have been so culturally or technically inappropriate that target populations or other stakeholders have actively opposed them.

Much analysis on the ineffectiveness of conditionality led the World Bank and IMF to embrace the HIPC-related Poverty Reduction Strategy Paper (PRSP) process. The PRSP is a bold new approach for the IFIs, as it calls upon donors to tailor their aid to a government's own nationally developed strategy,

rather than impose outside agendas. The PRSP breaks with past assumptions that focusing primarily on economic growth will inevitably lead to poverty reduction. The process has also identified a critical role for civil society and sought to incorporate a broad consultative approach to defining strategies. By actively involving the affected populations, the PRSP more effectively sets priorities and helps civil society feel invested in the outcomes. Bilateral donors should use the PRSP or a similar national strategy process to enhance development effectiveness, building on lessons learned and improving the quality of both content and participation.

### Policy Coherence

A lack of clear goals for US bilateral assistance has also hampered aid effectiveness. Currently, the US Foreign Assistance Act, as amended, pursues at least 32 distinct goals, reducing focus and promoting competition among priorities. With no new authorizing legislation since 1985, US bilateral aid has also suffered from competing special interests and unrestrained earmarking by Congress during the annual appropriations process.

Greater inconsistency is caused by the uncomfortable tension between the humanitarian aims of US foreign assistance and its more strategic and self-interested purposes. In many cases, trade stances toward developing nations contradict development programs. Cases abound, including USAID's successful efforts to help Bangladesh increase textile exports, only to be met with increased tariffs high enough to undermine the intended economic benefits to the country. Similarly, the Africa Growth and Opportunities Act (AGOA) provides limited US market access to some African goods, but in the case of textiles, requires that products be made from American cloth and thread. Subsidies for US producers are yet another source of incoherence, with the World Bank estimating that cotton farmers in West Africa would earn an additional \$250 million per year if US production was not subsidized. Similarly, short-term geo-political goals have also

taken precedence over anti-poverty goals. Most evident during the Cold War, but not limited to this period, the US has approached foreign assistance as a means to motivate developing nations to comply with certain shorter term US strategic goals. Though this approach has often achieved the desired political behavior, it has hindered development outcomes and reduced accountability. In such cases, the US is unlikely to cut resources for non-performance on development outcomes. In these instances development assistance can actually support poor practices and inefficiencies.

To resolve these conflicts, the US must separate political and trade goals from development goals, using funds for the sole purpose of poverty reduction. The US must also give higher consideration to anti-poverty goals in order to improve policy coherence. In his speech announcing the Millennium Challenge Account, President Bush cited the growing gap between rich and poor and the challenge that it presents to world stability. Poverty leads to hopelessness, and the seeds of violence are more easily cultivated in the soil of despair. Reducing that despair must share an equal place at the policy-making table with other US interests. In his speech, President Bush announced that "the advance of development is a central commitment of American foreign policy."<sup>1</sup> To honor this commitment, policy makers must adopt a longer term vision which understands that reducing poverty, suffering and inequity is in the larger global interest.

### Coordination

Poor donor coordination has also reduced aid effectiveness by creating and maintaining inefficiencies. The number of donors has proliferated over the last 20 years, and each demands their own set of goals, procedures and requirements. This approach has led recipient countries to create duplicative administrative systems to manage multiple assistance programs. Parallel systems and sometimes contradictory approaches undermine and overburden local institutions rather than strengthening them. Recipient government ministries may also independ-

ently negotiate many separate agreements with multiple donors, while little oversight is provided by the national government. The lack of transparent systems and failure of donors to coordinate facilitates corruption. Lastly, the financial support each donor contributes to a country's overall needs is often so small that uncoordinated efforts have minimal impact on the country's macro situation, and can more easily hide corruption.

By providing a focal point for investments, locally-owned development strategies can help eliminate coordination problems. Channeling all investments to a single plan, donors can facilitate harmonization of procedures and approaches, more efficient operating systems, more effective targeting of funds, and better accountability – all of which result in better overall performance.

## MCA ELIGIBILITY CRITERIA



In proposing the MCA, the Bush Administration has set good governance, investment in people and economic freedom as the criteria for participation. Depending how they are defined, the criteria identified by the administration can facilitate the effective use of development assistance. However, limiting funding to only those countries that have already

adopted desired reforms is likely to eliminate the neediest from participating. Rather than simply rewarding success, CRS recommends that the MCA be used to foster achievements in the areas of governance, investment in people and economic freedom by building stronger linkages between governments and their people.

To ensure that the MCA is appropriately targeted, poverty levels must be the primary eligibility criterion. CRS recommends that the MCA support IDA countries. Within this category of countries, the US should then assess the status of the above criteria by examining the potential and willingness of eligible countries to improve policy and practices in these three areas. Countries should not be expected to have all measures in place, but rather demonstrate the intent and potential to improve. When assessing a country's standing, the administration should consider the following:

Good Governance: Some interpretations of "good governance" would exclude most poor countries.<sup>2</sup> A government may be capable of enforcing basic human rights policies but may be years away from the more difficult task of creating viable democratic institutions. The administration must recognize the complexities of the democratization process, and use the MCA to reinforce small steps taken along the way, such as decentralized decision-making and the application of participatory processes.

There is no question that governments receiving US foreign assistance should uphold internationally recognized human rights norms and have adequate accountability to ensure that funds are not diverted away from poverty reduction. Accordingly, CRS suggests that the standard be whether the country engages in systemic violations of human rights and/or has systemic high-level corruption. We recognize that defining a reliable mechanism is difficult, and note that most countries have some level of corruption which cannot be viewed as systemic or sufficient to deny eligibility.

## GUIDELINES FOR APPROACHING MCA



Investment in People: The most important measure of this criterion is the willingness of a government to implement development activities for and with the concerned populations. Defining investment in people purely as a budgetary percentage devoted to social services could fail to take into account budget constraints and limited resources of the poorest nations, and risk ignoring geographic, ethnic or other disparities in access to social services. The existence of a plan developed and implemented with the active involvement of civil society is a better measure of a government's commitment to its people. This criterion is best assessed not as a specific eligibility criterion but rather as part of evaluating a country's PRSP or equivalent national strategy.

Economic Freedom: Economic freedom should be defined more broadly than the traditional tenets promoted by the IFIs – fiscal austerity, trade liberalization and privatization. The administration should instead look to improve participation in the local economy. Economic freedom is constituted by policies that allow the poorest to participate in the economy and enable indigenous small businesses and local entrepreneurs to flourish. In assisting countries to promote economic freedom, the administration should support an environment in which local investment thrives, recognizing that foreign investment cannot precede strong local enterprises and markets.

CRS wishes to continue the dialogue with the administration on measures for the proposed criteria. Broad dialogue is necessary to avoid definitions which could exclude countries where the potential MCA impact is greatest. A general assessment of capacity to meet these criteria along with the development of a participatory national strategy will facilitate improvements in these areas, providing a better approach by which to promote change and include the neediest nations.

An explicit commitment to the PRSP (or other participatory strategy process) and to strengthening civil society forms the foundation for the CRS proposal. This approach is consistent with both American democratic values and the desire of the American people to provide development funds to the neediest populations, limiting bureaucracy and the potential for corruption. With the exception of humanitarian and disaster assistance, which play distinctive roles, all other development aid should eventually make the same commitment to participatory national strategies.

In adopting this approach, the Millennium Challenge Account should finance the development and implementation of national strategies, and ensure adequate attention to content and process. The US must begin now – with existing funds – to assist countries currently engaged in these processes, as well as those yet to undertake the effort. Current staff and programming should begin to refocus to ensure the best possible support and eliminate potential contradictions in approaches. Sufficient time is vital to build a solid process which will form the foundation for future funding. Next steps should include an examination of the PRSP process in order to build on the lessons learned. Several critical weaknesses exist in the process, including the adequacy of content, funding, timeframes, participation and approvals. In

Appendix A, CRS notes several problems and recommends changes in key areas.

Based on the above, CRS offers the following guidelines and ideas for administering the Account:

- **Fund public-private partnerships.** Strengthen the relationships between governments and civil society by transferring the majority of funds to those governments that partner with civil society organizations. A significant level of funds should directly finance civil society's involvement in the design of national strategies, as well as the implementation of funded activities.
- **Use civil society to promote accountability.** Support a watchdog role for civil society in monitoring development outcomes, and establish feedback mechanisms that allow rapid response by decision-makers. Fully develop the role of monitors to increase transparency and information dissemination, including the publication and broadcast of funding levels and expected outcomes.
- **Promote a regional approach.** Too many of today's problems are not contained by borders, and events in one country affect those in another. Use the MCA to improve success rates and enhance policy coherence by examining national strategies for regional commonalities. Promote South-South dialogue during strategy development to foster mutually reinforcing approaches to shared problems. Include peer countries in the review and funding processes to reinforce regional coordination.
- **Promote long-term development.** Provide longer timeframes for results, recognizing that "investing in people" is long-term. National strategies should have five to ten year horizons, measuring process successes along the way and impact at the five- to ten-year period.
- **Improve donor coordination.** Use the national strategies as investment guides to inform decision-making among donors. Seek complementarity in funding and collaborate for full financing of anti-poverty strategies. The US should take the lead in promoting coordination among donors to eliminate duplicative systems and separate, burdensome administrative requirements.
- **Improve policy coherence.** Ensure equal consideration of poverty reduction and development goals with US international trade, finance and foreign policy concerns. Establish an inter-agency policy committee to promote better policy coordination and a broader vision for equity and stability in the world.
- **Prohibit earmarking, tied aid, and other funding restrictions.** Eliminate earmarking and competing special interests in the appropriations process. Eliminate tied aid for technical assistance in the funding process.
- **Engage Americans.** Include an explicit public education mandate for the office which administers the MCA. Re-establish programs such as USAID's former "Lessons without Borders", or other mechanisms such as sister cities which actively involve and educate Americans on anti-poverty activities. Maintain the recent high profile given to development assistance by high level officials, including the President.
- **Leave no one behind.** Recognize the great need of the people living in countries which may be considered "failed" states or where intense conflict prevents active engagement with the government. Explore funding alternatives to help those nations advance, such as channeling development assistance through civil society organizations, and promoting dialogue and pressure from peer countries. Establish a task force of public and private development professionals to identify creative alternatives for meeting needs and advancing development in the most difficult places.

## ADMINISTERING THE MCA



The structure which administers the MCA must reflect the commitment to strengthen both government and civil society, and to participatory processes. Its administrative design should efficiently exploit the participatory mechanisms of the PRSP and reinforce local ownership. Whether incorporated into USAID, or a separate entity, MCA decision-making at every level should include the perspectives of development experts from both the US and developing countries, representing both government and civil society. While not wishing to be overly prescriptive regarding the administration of the MCA, CRS suggests consideration of the following mechanisms for approaching the grants process and overall implementation of the MCA:

### Grants Process

- Establish the pool of candidates first through poverty levels (IDA countries), followed by a general assessment of status and potential to improve practices in the areas of governance, investment in people and economic freedom.
- Evaluate the quality of the PRSP, or national strategy, according to criteria suggested in Appendix A. Candidates for funding should be given the opportunity to rectify weaknesses which are iden-

tified. Countries without such a strategy must agree to develop one prior to receiving MCA program support, and should receive funding and technical assistance for developing such a strategy.

- Consider for funding proposals submitted by governments and civil society organizations which directly support the goals identified in the national strategy.

### Management and Decision-Making

- Establish a public/private Advisory Board to provide input to the overall approach, guide higher-level strategy and coordination efforts, and ensure special attention to the quality of participatory processes.
- Establish a Funding Approval Committee, which reflects the diverse stakeholders in development activities. Members would include US government and civil society representatives. Representatives of other donor nations and from recipient countries could be invited as non-voting participants to provide input and foster regional approaches. This committee should be responsible for evaluating national strategies, making recommendations for addressing weaknesses, and for funding decisions regarding activities proposed within the strategies.
- Establish a “Consumer Affairs” office with an outreach function to all stakeholders. This office could complement the complaint boards proposed for the national strategy process (see Appendix A). Such an office can also make use of feedback to monitor accountability concerns as well as other problems which arise in implementation.
- As proposed in the guidelines, establish an inter-agency policy committee to ensure a coherent US policy approach toward developing nations, and to elevate the consideration given to global poverty. As a pilot in MCA countries, establish field-based policy monitors to maintain contact with

and participate in policy dialogue with the US agencies present in the country. Monitors could report to the above inter-agency committee, citing contradictory approaches as well as complementary ones.

### Funding Decisions

- As suggested in the guidelines, fund governments only where proposals include implementation through public-private partnerships with civil society.
- In addition to governments, fund proposals from civil society which support goals within the national strategy. Disburse funds directly, rather than depending on governments to channel funds. Where concerns exist regarding accounting or absorptive capacities of local civil society, ensure oversight by providing funds through international private voluntary organizations, or possibly through an organized committee representing the diverse stakeholders.
- Fund American PVOs, universities and other potential recipients only where they partner with credible local civil society organizations, and where activities clearly fall into the national strategy.
- Promote democratic principles by encouraging increased responsibility for district and municipal levels of government.

### CONCLUSION



Though much responsibility rests with developing countries themselves, the US needs to recognize its own contribution to limitations on development effectiveness and use the MCA to rectify past problems. Promoting locally-owned national poverty reduction strategies can help redress these problems. A new commitment to ownership and participation also challenges Private Voluntary Organizations (PVOs) to modernize more traditional approaches. PVOs will need to ensure that all activities they support correspond directly to national strategies, and to adopt an explicit mandate to strengthen the link between civil society and government.

CRS applauds the Bush Administration for the proposed “New Compact for Development”. The Millennium Challenge Account presents an important opportunity to take a new approach to foreign assistance and to achieve greater impact on the lives of the poor and vulnerable. We urge the administration to promote equity and global stability by dedicating all development assistance to improving the condition of life of the world’s 3.2 billion impoverished citizens. As the administration moves to design the MCA, CRS hopes to continue the dialogue and consultative process. We look forward to working with the Administration to ensure that development assistance transforms the lives of the poorest, and builds a more equitable, just and safer world.

## APPENDIX A

### IMPROVING THE NATIONAL STRATEGY PROCESS



To effectively support increased ownership and more democratic principles through the MCA, the Administration will need to build on the lessons learned from the PRSP process. A strong national strategy is vital to the success of the activities to be financed within it. One problem CRS, UNDP and the World Bank have identified in assessments of the PRSP process is that the documents often reflect only existing policy prescriptions as established by the IFIs. Similar policy prescriptions under World Bank and IMF Structural Adjustment Programs have disproportionately affected the poor. Poverty reduction is often addressed only through proposed increased spending in the social sector rather than by tackling deeper structural concerns. Solutions insufficiently address critical issues such as democracy and decentralized decision-making, human rights, gender equity, land tenure and access to resources, information and technology, etc. To strengthen the quality of anti-poverty strategies, CRS recommends the following:

#### Timeframes and funding

Give developing countries adequate time to plan and organize. Rushed timeframes for PRSP submission have contributed to poor processes, superficial assessments and truncated debate. Many countries do not have experience, and require technical assistance and funds to proceed. Because the process requires extensive consultation with civil society –

and because both government and civil society structures tend to be weak – adequate timeframes are vital. Depending on the country, one to two years should be allowed to complete a strategy, with an initial assessment to identify capacity problems (at the level of both government and civil society).

Countries with experience should be tapped to support those with less experience, and all levels of South-South exchange should be employed to enhance the process. International private voluntary organizations can be used to support the consultative process, and help build links between local civil society and the government.

#### Participation

Ensure adequate inclusion of all stakeholders in the process. Problems have arisen where local levels of government were assigned limited roles, and where national parliaments were excluded from the process until it came time to ratify the content. In other cases, governments appointed civil society representatives creating distrust and resentment. Similar frustration occurred where governments confined civil society to comment only on the social content of the strategy, and/or failed to adequately include or respond to input.

Future support for national strategies must address these inadequacies by demanding active participation of all levels of government (national, district, municipal, parliament), freely chosen and broad representation from civil society, and better access to information. To ensure outreach to the various ethnic groups, the government should provide documents in local languages, and fully exploit the role of the media. Again, international PVOs can help build links and strengthen civil society's capacity to respond.

#### Accountability

Use civil society to increase accountability. A positive development in some PRSPs is that civil society organizations took on a watchdog role. This role has supported not only financial accountability, but has

also helped ensure results. Examples can be seen in Uganda, where NGO monitors assess and report on service delivery – noting whether personnel, equipment, training, etc, were provided as planned; and in Bolivia, where local civil society successfully advocated a governmentally decreed social control mechanism to monitor resource use. One reason monitoring has worked in Uganda is that transfers of funds and their intended use are published in the newspapers. Communities know what resources should be coming to their region and are empowered to act by this information.

The national strategy process should encourage this role and build in mechanisms and funding to support it. Complaint boards with representation from all stakeholders (public and private) should be established to receive and act on feedback provided by stakeholders. Staff of complaint boards should have access to high-level decision-makers and sufficient authority to rapidly address problems.

### Approvals

Broaden the approval authority over the national strategy process. The World Bank and IMF currently “endorse” PRSPs, leading the content and approaches to coincide closely with traditional IFI philosophy. Such an “endorsement” process can undermine ownership. Approvals should be structured to maintain a broader perspective, and reflect the democratic principles and participatory processes being asked of recipients. Assigning primary responsibility to poor nations for their own development requires donors to empower countries to make their own decisions – even where final documents may not reflect the donor’s preferred concepts and approaches.

In evaluating national strategies, the designated review committee should consider the depth of the poverty content as well as the quality of participatory processes. CRS suggests that national strategies meet the following minimum requirements for the MCA to accept proposals for funding:

- Adequate inclusion of all stakeholders in the process.
- Reasonable timetables and benchmarks for assessing the success of the programs.

- Mechanisms for independent (civil society) monitoring of project implementation and expenditure of funds.
- Assessment of the quality of social services and proposed approach to improve service provision.
- Sufficient depth of content to address root causes and systemic issues which perpetuate poverty.
- Assessment of the small and medium enterprise sector and strategy to promote increased local participation in the economy.

<sup>1</sup> President George Bush, Remarks on Global Development, Federal News Service, Inc, March 14, 2002

<sup>2</sup> See, e.g. the World Bank’s proposal for a comprehensive development framework, in which “rule of law” is defined as an “effective system of property, contract, labor, bankruptcy, commercial codes, personal rights laws, and other elements of a comprehensive legal system that is effectively, impartially and cleanly administered by a well-functioning, impartial and honest judicial and legal system. ([www.worldbank.org/cdf/cdf-ext#part1](http://www.worldbank.org/cdf/cdf-ext#part1), 21 January 1999).



For more information, please contact Lori Pearson at 410-951-7406  
209 W. Fayette Street, Baltimore, Maryland 21201