"THE MILLENNIUM CHALLENGE ACCOUNT: HOW

CAN COUNTRY COMPETITIVENESS DRIVE ECONOMIC GROWTH?"

HOSTED BY

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HALL OF FLAGS

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PROCEEDINGS

MR. CRONIN: Good morning. My name is Patrick Cronin. I am the Assistant Administrator for Policy and Program Coordination at the U.S. Agency for International Development.

I also am directing an inter-agency working group at the operational and administrative level, looking at the organizational challenges that are going to confront the future Chief Executive Officer of the New Millennium Challenge Corporation, which will be set up with the upcoming fiscal year. While we wait for, hopefully, positive action on the part of the Senate and the House to authorize this new body and provide a good appropriation for the first year of operation, we're working with USAID, State, Treasury, the Office of Management and Budget, Commerce, and other parts of the government. And, we are then reaching out from there to capture some of the best ideas.

Today, we are very grateful to the Chamber of Commerce for providing this rather large room. We expect this to be filled with large ideas. We invited some tremendous outside talent to help us bring in these big ideas. We also have a very distinguished audience here today. I trust you will participate very actively in this workshop.

This is supposed to be, notwithstanding the size and the formality of the room, a very frank discussion on the relevance and applicability of the country competitiveness framework to the Millennium Challenge Account. It's also, obviously, an opportunity to inform and discuss other ideas with respect to the MCA.

The agenda is very straightforward and hardly needs explanation. We're going to have some introductory remarks this morning from Assistant Secretary Tony Wayne. Unfortunately, Under Secretary of the Department of the Treasury, John Taylor was just called to the White House. He will join us somewhat later in the program, at which time we will gracefully open up a space to hear his comments. We're then going to have three brief presentations, those described in the agenda. You will have some time for discussions before we end at 12:00 noon today.

These proceedings are off the record; however, we will have a summary of the event. IRIS, working very closely with USAID, has helped to organize today's event. We're very grateful to them. They will help put together a useful record without attribution, I believe.

Now, I want to introduce Assistant Secretary of State, Tony Wayne, to help start us off this morning. I've worked with Tony very closely over the last couple of years. But, I had opportunity to read his bio for the first time this morning. It explains why he is such an impressive government official. His education, of course, was first rate: University of California, Berkeley, Stanford, Princeton, and Harvard. He was Special Assistant to two Secretaries of State: Secretary of State Haig, Secretary of State Schultz. He has served in Rabat and in Paris. He has helped run the counter-terrorism work at the State Department. He's been the Deputy Chief of Mission to the European Union and principal Deputy Assistant Secretary of State of European Affairs.

Mr. Wayne also took time out. Having started out in life wanting to be a journalist, he actually took time away from the Foreign Service to become the National Security Correspondent for the Christian Science Monitor, one of the quality national newspapers that we have in the Country.

It's very impressive, well-rounded experience. And now, he's responsible for so many critical issues that intersect what we are talking about today. So without further ado, I give you Assistant Secretary Tony Wayne.

(Applause.)

ASSISTANT SECRETARY WAYNE: Thank you very much, Patrick. I can say the most fun job I ever had was working as a journalist. Being a journalist was a lot of fun.

Being a government official, as many of you know, we try and get things done. It's not always fun trying to get things done, but it is important. And so it really is my pleasure to be with you here today and hopefully, to help spur a lot of good ideas- large ideas, as Patrick said.

We've been working over the past year and a half to develop a very large idea, which has a lot of other large ideas within it. And that is embodied in President Bush's proposal for a Millennium Challenge Account.

A key part of this proposal is indeed, to enhance competitiveness. It's also to accelerate the economic growth of developing countries by providing the kind of incentives that help bring that about and looking for results.

As you all know, development doesn't just happen. And many of my colleagues in the government have been working for the past 30 years, trying to encourage development and trying many different ways to spur that development growth in moving ahead. And one of the things we've learned is that it is really important to have the right set of incentives for people and for governments to which to react and respond. Part of that is also in the overall policy environment.

The policy environment, of course, is set by government; but governments respond, and different parts of the governments respond to the policy environments that they lay out. And, of course, so does the private sector. So do individuals. Money is an incentive in this process. There's no question about that. But we've also learned that just throwing money at problems, development really does not have any lasting impact on people's lives.

We've also learned that government mismanagement, and corruption are tremendous disincentives for development, that they really thwart that fundamental entrepreneurial spirit of citizens and businesses alike. And that's private citizens and public citizens, because a lot of what we do in the public service is also to express that creativity, that entrepreneurial spirit that helps motivate the private sector, if we are being good civil servants.

So what we tried to do, many of us in government, is put together in the MCA a set of incentives that would reward and encourage the right sense of behavior. And we're doing that first by setting policy and commitment-based eligibility requirements to qualify for MCA programs, of course, Congress willing, and we hope soon acting, providing some additional funds that would go along with that. And then third, by insisting that even after somebody's been eligible and been selected, that we work out with them a set of mutually agreed benchmarks and development objectives. So we'll be looking at the results and measuring them as we go forward.

We've also very much tried to base MCA on the fundamental importance of rule of law, of sound macro and microeconomic environments, including respect for property rights.

Third, is the very, very important area of the value of developing human capital. In a lot of ways, the MCA is really an idea of a very active reflection of the link between freedom and opportunity, creating the right sets of freedom, the right sets of opportunity, and then getting results from that, we hope. And we believe that it can come about.

We know very well that aid alone cannot lead to sustainable economic growth. Most of the developing world, ironically, as many of you know, already has much of what they need to really mobilize for economic development. That wealth is embodied in their own people, in the savings and earnings and creativity that's going out. But what they often don't have is the ability to pull that all together, the right environment to make that really bear fruit. And so what they have to do is attract and keep their own domestic capital. They have to then attract capital from overseas to make that happen.

I'm always struck by the example of Africa, where the estimates show that external assets of African countries exceed the stock of their external debt, a strong indication that there's a tremendous amount of capital flight out of Africa, a tremendous amount of domestic, home-grown capital, that could really be helping those countries develop.

Therefore, part of what we want to do with MCA is to encourage the right kind of investment policies, the investment climate that will bring that home-grown capital back, that will keep the home-grown capital and help mobilize that in the countries, and that will attract foreign capital at the same time, and all of this coming about in the kind of environment that will really unleash the productivity and creativity that is inherently there in at least every country that I have visited.

I think you all know that the trade investment flows dwarf both the five billion a year additional MCA proposal, and the about $50 billion a year in official development assistance that go out: we talk about close to $2 trillion a year in goods and services produced by the developing world in 2001, and foreign investment flows to and among developing countries of 180 to $200 billion a year. As I said earlier, that bigger source, which is the capital produced inside these developing countries, about $6 trillion of goods and services each year produced inside the developing world and about $1 trillion worth of savings, savings that could be much more effectively mobilized and used.

And so what we're trying to do, in part, in MCA is really provide the incentives and the practical support to support the sound economic policies and the practical capacity, building economically and politically that will make this all come together.

We know that there is a strong link between development progress and governments that support freer markets, individual liberties, and effective institutions and that sustainable development is also made much more likely to occur when there is good governance in place that is joined to a dynamic private sector. It's that vibrant private sector, as many of you know around the table, from living it daily, that really fosters human creativity and innovation and improves the living standards of every-day people.

Unfortunately, right now, too often we've seen the domestic capital, the domestic creativity of countries squandered. Sometimes it's by conflict, as we often see sadly, in Africa. But it's also due to economic policies that don't give individuals, families, firms the proper incentives to save and invest in their future and to innovate and to engage a productive enterprise.

So to qualify for the MCA, each candidate will need to have a set of policies that encourage economic freedom through good macroeconomic governance, through an efficient regulatory system, through an open-trade regime, and through a healthy climate for business formation and investment.

The MCA will then help qualifying countries boost their productivity, boost their growth by investing in areas such as agricultural development, in private enterprise, in building trade and investment capacity, in accelerating improvements and political and economic governance, and by investing in health and education.

When President Bush was announcing the Millennium Challenge Account, he concluded by saying, "The bottom line for us and for our developing country partners is how much development they're achieving." In that sense, it's quite clear that the MCA is only going to succeed if we select partners that have put in place the policies that are going to allow growth to take place, that are going to undertake their programs that are targeted at key bottlenecks in their economies, in their societies for development, and that will hold to the benchmarks that we will mutually agree with them for measuring progress to get to agreed objectives.

By requiring these policies in order to qualify for the MCA and tracking the funds through the developing programs, the MCA will promote sound policies that we very much believe will result in economic growth and prosperity for the participating countries.

I very much look forward to your thoughts and comments on this process today and to helping us as we move forward with this program and these concepts and put them into practice.

So welcome to everybody. I look forward to all of your ideas and to working with many of you as we put this into practice in the months and years ahead. Thank you very much.

(Applause.)

MR. CRONIN: Thank you, Tony. That really lays out the Millennium Challenge Account, the basic vision and principals, very nicely. We're now going to focus more specifically on the topic of this morning with Jose Maria Figueres beginning as the first speaker.

But, first, let me just say a few words following up on what Tony Wayne just said. We have not just a unique opportunity for setting up a more effective delivery of development that focuses on economic growth; there is a great opportunity to focus on the issue of private-sector development and how you get the private sector to be a more active participant.

Often missing is the opportunity to organize the different players who are critical to a country's long-term success and growth. We've recently done a study on competitiveness initiatives that USAID has undertaken, for instance. Some have worked very well; others are trying to get from the ground up.

Organization in a country like Mongolia, or with respect to Kashmir, for instance, was something that was a bridge too far. And yet, in other areas, it succeeded brilliantly.

This is where country competitiveness can play an extremely useful role. This is why we want to focus on this issue today. Competitiveness measures the ability of a country to achieve sustained rates of growth in terms of per capita GDP. We need to be able to get a good measure of that.

Measuring its impact and success on the ground is exactly what the Global Competitiveness Report, published by the World Economic Forum, attempts to do. It is one important example of a survey of the private sector's view of the competitiveness environment.

I now turn to our first principal speaker of the morning. He is Jose Maria Figueres. Mr. Figueres is largely responsible for the success of this and so many different issues at the World Economic Forum where he is Managing Director of Forum’s Center for the Global Agenda.

He was previously President of Costa Rica. If you were meeting him for the first time today, however, you would find a man who just wants to roll up his sleeves and talk about issues. He doesn't wear the title of president on his sleeve the way many lesser men and women may when you first meet them.

We’re much honored that he was able to fly in the middle of a storm last night, somewhat diverted from town. Thanks to Lee Howell, we got him here this morning; and we're very grateful.

Let me just say a few words about his background. Before becoming President, he was Minister of Foreign Trade and Minister of Agriculture, two critical issues for economic growth in the developing world, or anywhere else, for that matter. As President, he focused on a transparent, sustainable platform, strong macroeconomic indicators, and major investment in human development programs. Transparency, strong macro-economic indicator performance, and human development are a great combination to promote economic development and growth.

After stepping down as President, Mr. Figueres set up and founded the Costa Rica Foundation for Sustainable Development, where he was able to continue his passionate and informed concern for development, specifically focused on improving the quality of lives in Latin America.

It's a great pleasure introduce Jose Maria Figueres. Thank you.

(Applause.)

MR. FIGUERES: Muchas gracias, Patrick. Thank you very much, Patrick, for your introduction. And even more, thank you for inviting me to participate with all of you here this morning. I must say it is a privilege -- and I say that from my heart – to participate around this table, and discuss these issues.

Many of you have been working on the issues of competitiveness for a long, long time and have a tremendous amount of experience on the ground with what works and can further the equation of competitiveness. I have had the privilege of working with some of you in my country, such as Ken Lanza and Spence King, who are here this morning, that were in Costa Rica some years ago. And then, of course, I worked with Steve Brent and Richard Pascale on some of these issues later on.

So if I may, what I would like to do this morning, "amigas y amigos", is share with you some first thoughts on competitiveness, the way I see this and the tremendous opportunity that I see with the issues of competitiveness, then draw on some practical experiences of what we attempted to do in Costa Rica, where, on some issues, we were successful and on others, we were not.

There are lessons in both what went well and what did not go so well. And then finally, end up by sharing with you what we're doing today in this field at the World Economic Forum and the way that we would very humbly and respectfully love to participate with all of you on this very exciting journey that looks to readdress the issues of development.

So with that, let me begin by saying that aside from the personal interest in issues dealing with competitiveness and the passion for development, I have my hopes and expectations in this Millennium Challenge Corporation, because I am absolutely convinced that we need to think how we can re-tool, how we can reinvent the concept of development.

My impression is that we have gone as far as we could a long time ago, with the classical traditional concepts of development and that we need to completely reinvent it. If we could make a good business proposition out of development, if development could be angled as a good business proposal, something that we can invest in to create development my impression is that we would be much better off in being able to satisfy the very reasonable and human expectations of many people in this world who are under-served by opportunities. All they are looking for is a possibility to be empowered through some of these opportunities. Then with their own effort, begin to improve their own development and that of their families but, contribute to society as well.

Well, let me further address this issue of a good business proposal and reinventing development. When I discuss this with some sectors that are looking at this from a hard-core business angle, I like to tell them that the world would be a much better place if we had three or four billion consumers instead of just one or 1.2 billion consumers.

And here, I'm really being very, very crass with respect to many other considerations in which I deeply believe with respect to development. But the flip side of having a world of that order, that magnitude, is that we would have a lot of people living much better off than they are doing so today.

I am firmly convinced that today, we also have a much better possibility of doing this. One, we have a much better understanding of the issues underpinning development and competitiveness. Assistant Secretary Wayne already addressed many of those issues and I'm sure many others will come out today.

Two, we have more resources. And over the last 20 or 30 years, the world as a global society has amassed a tremendous amount of additional resources that today we could leverage as an investment in development in terms of making this even a better-functioning global society.

Lastly, what we have been able to do in terms of the technological revolution. From every aspect and point of view is something that today, can really allow us to leapfrog, but to move must faster in the development equation.

At the same time that I feel very positive about this, I also, quite frankly, feel that the stakes are much, much higher. Why? Let me just go over four reasons very rapidly.

First of all, the advance of globalization, at different speeds in different countries and different regions of the world, is leaving many people with a sense of disenfranchisement, a terrific sense of exclusion, and of not being able to participate and be in the process. That sense of exclusion is not only in economic terms.

Secondly, I would say that in political terms, we also see that from a different angle many more people today feel completely unrepresented by their political hierarchies- the democracies in their countries and their regions.

I find this tremendously worrying, in terms of the future of democracy and where we want to go with democracy and how democracy will be able to deliver the goods of development that people are expecting.

Third, we have this tremendous issue with what I would call the global commons. In the global society of today, who is responsible for the global commons? Who is responsible for the environment? Can somebody seriously say that UNEP is responsible for the environment at the global level?

And yet, we have really, no organizing principals or structure to make sure that at the global level, we are dealing with these issues which are affecting our lives at the local level, but also are ingredients of competitiveness as well.

That speaks to a fourth element of why I say the challenges are greater, because we are living in a time where the international architecture that we have set up over the last thirty or forty years seems unable to cope with many of these global issues and expectations and is really not providing the goods either.

So in terms of reinventing development, I would like to propose this morning that the theme, the work of competitiveness becomes an organizing principal for development, around which everything in the development equation revolves.

Let's have a red-thread here that cuts through everything we do in development, and let's have competitiveness be that issue, because competitiveness, understood in its true sense, is much more just from the macros or even the micros, as I'm sure Michael will tell us at the end of this morning. It is also looking at strategically investing in human development, especially in health and education, as Assistant Secretary Wayne already mentioned this morning.

It is also looking at having a very proactive environmental policy, which I'm firmly convinced is a tremendous business opportunity that can also help the development equation. If we begin to organize development around the axis of competitiveness, we will be going a long way towards beginning to reinvent the concept of development.

So on that basis, let me address the issue of the demand for development. In terms of supply and demand, I have the impression that many of you around the table have been on the supply side of these issues. I come from the demand side, from the developing-nation side. And I would like to address some issues on the demand side. I will break these issues down into political issues, economic issues, and societal issues.

Let me begin on the political level by saying that, as has already been stated, development is not easy. In Spanish, we say "Si el desarrollo fuera fácil, todos seríamos desarrollados". If development was easy, we would all be developed.

There is a very limited amount of political capital that democracies are able to invest or to spend in development, and they have a very finite time in which to spend it. And so when the goods of development are delivered in a different time frame than the actual governments that are in place, you begin to have much less of a political appetite to be able to tackle some of the fundamentals that are involved in development.

The third is an issue, which I particularly see and appreciate in Latin America, and which is another discrediting factor for the works of democracies. This is the fact that during all political campaigns, the platforms on which governments are elected are development platforms. Development is promised in a political campaign.

Yet, when they win an election and they become a government, what they do is, they govern with an adjustment platform, which is a very different factor and definition. So then to say that from the demand side, there is really very little political appetite left for the way that we have gone through or the way we have focused on development in the more classical traditional sense.

And here, I believe that competitiveness would be able to solve this issue, bringing more credibility to the political equation.

As for the economic front, I think we already have enough examples of how concentrating only on the economic factors hasn't achieved breakthroughs in terms of people's well-being and competitiveness of nations that we want to have.

We have concentrated very much on the macros in the last 20 or 25 years, but we haven't been able to connect that successfully with the micro. And that is a linkage which is absolutely and fundamentally necessary and where I would like to see a lot of work, in terms of reinventing development.

And, of course, we also have to face the fact that in many developing nations, the planning capability and capacity of the countries are very limited in scope and in their medium and long-term thinking. And so if we could develop competitiveness as a red thread in development, we could have and see competitiveness as this type of “North Star” out there, which guides our short-term decision-making process.

You really never get to the north star as per se, but you always have it out there as a signpost, a very credible signpost of which way to align the day-to-day decision-making process, in terms of being able to move forward.

From a societal point of view, development so far and these programs of adjustment have been top down, which means there has been little or no buy-in. They have been very uncoordinated within the internally within countries amongst the different sectors, with really no synergies.

And, of course, it's been a promise with respect to the delivery of the goods, which few have been able to see. So there's really no societal support for the classical type of development from the demand perspective. And that is also why, I feel so strongly about reinventing development. Competitiveness answers theses three issues.

On the political side, it gives a clear picture of what people want attempted, and it creates the possibilities of having more medium and long-term planning around which societies can coalesce.

On the economic front, working on competitiveness as a thread of development would allow us to move the paradigm of development towards sustainable development, where we not only concentrate on the macro and micro, but we look at what nations are doing in terms of their investment in social aspects that are so critical to development, as well as on the environmental front.

And on the societal side, competitiveness would allow us to create a very broad base for societal support by involving business, academics, civil society, and governments, which I consider are the four key groups to be involved at national level. And that would allow competitiveness and development to become not “una política de la administración” but “una política del estado”- not the policy of an administration, but the policy of the state, the nation/state that is larger than the government.

It would transcend government after government and that have a broad base of support amongst these different sectors, so that it gives it the stamina to withhold, shall we say, or to be able to cope with the changing directions that we often see in administrations and continue to concentrate on these longer terms of development and objectives.

Now, with this as a background, I'd like to mention a couple of points about the Costa Rican experience and then move to the World Economic Forum. In Costa Rica, of course, we had the benefit of a lot of groundwork that had been already laid out in terms of competitiveness, in terms of getting the private sector involved (in which both Ken and Spence were very instrumental in setting up at the beginning).

We had terrific support and aid in terms of beginning to have a national culture which I think is very important and has to be developed over time, a culture towards competitiveness as a thread in development.

During our term in office, we set up a national competitiveness center for sustainable development. We did this in one of the universities, instead of doing it within a government sector, because we thought that by grounding it in the universities, we would have a long-term commitment of the academic sectors and the private sectors; and we wanted to somehow try to take this out of the political sphere.

We worked a lot with Michael Porter; and, of course, we took advantage of the opportunity to think of this in a different dimension or in a value-added dimension, which is the regional dimension. I would argue that most countries today that work on competitiveness can really become even much more competitive if they are working within a cluster of nations in their geographic reality.

That not only helps the development across the board, but it also creates a type of competitive spirit within the countries that is very helpful in moving in this direction.

What are some of the pluses of what we did? Well, it did become very much "una politica del estado". It moved the paradigm of development to focus, with a more balanced equation, on the different components of competitiveness. When I think of what we should have done better, I believe we should have looked for a much broader base of societal support from the beginning. Mainly, the short-term period of a four-year administration, that by constitutional mandate had no possibility of reelection, caused this drive towards competitiveness be a much more heavy and from the top-down than we would have liked.

So if I was to look at other countries that are working on this, I would hope that they begin by establishing the broad base of support that this requires amongst the society, even though the start-up time may be a little slower. I am absolutely convinced that it will pay off in much larger dividends, even in the short-term.

Of course, one can look at what was achieved. Costa Rica, in only four years, doubled direct foreign investment from 3 percent of GNP to 6, 7 percent of GNP on a sustained basis.

Exports went up. The economy was growing 8 percent per annum at the end of all the shifts towards competitiveness. There is no doubt in my mind that this really pays off big time when you look at the whole equation of competitiveness as driving development.

In final two minutes that I have, let me tell you what we're doing at the Forum. I've been, with the World Economic Forum for three years now. And, of course, I encountered there what I was already very familiar with from the demand side - the global competitiveness program, which Patrick has already addressed.

So now, from the supply side, working with the Forum, let me share with you what we're trying to do with this report. Instead of having one or two reports per year, we are rapidly branching out to have a family of reports, that will not only contemplate the global perspective but that will zoom in and contemplate some regional perspectives, as well as some key fundamental drivers of competitiveness, which we feel that if properly focused on, can really help us move the equation forward much more rapidly.

Second, of course, we are a small organization with limited resources. But inasmuch as our capability has it, we are helping organize workshops in different parts of the world on competitiveness and helping the competitiveness councils within nations come together as to bring society around a national development strategy with development right at the center.

Columbia is a good example. Martha Lucia Ramirez, who is now Minister of Defense and used to be Minister of Foreign Trade, has organized now for a few years, two competitiveness national seminars per year. The President and his ministers participate along with 500 to 600 CEOs and leaders of civil society to address the issue of competitiveness. That is a spirit which needs to be recreated.

I just returned at the end of last month from a two-day workshop in Brazil on competitiveness with President Lula de Silva, the president of the Central Bank, Mr. Meirelles, his ministers on the economic side, as well as the social side, and a hundred and fifty top Brazilian CEOs. That is driving in the direction we want to go.

And the third thing we're doing at the Forum is now beginning to work on a competitiveness program on our web page, which will be much more inter-active with governments and private sector in countries that want to begin to work in this direction.

We would like to be very much involved in this. With AID, we are talking about the publication of a specialized report on which we would want to be a true partner. It will not be that AID works out in the field and we do the report benchmarking how competitiveness programs are doing in those countries where you have them, but where we really work together, both in the field to better measure the variables that comprise competitiveness and to amend our macro-economic model so that it takes into consideration more of the issues that deal with competitiveness.

Here, with respect to the Millennium Challenge Corporation, we would like to do exactly the same. We would like to be a partner of this very important effort, moving forward right from the beginning and hopefully, “aportar un granite” to the incredible work which we believe you can do.

Thank you, Patrick. Thank you very much.

MR. CRONIN: Thank you.

(Applause.)

MR. CRONIN: Thank you very much. That puts us very much in the thick of some ideas. And we're very privileged now to have our next panelist and a distinguished economist, Dr. Michael Klein, present to add to those remarks.

Very briefly, Dr. Klein studied in Bonn, New Haven, and Paris. His doctorate in economics is from the University of Bonn. Before joining the World Bank, he was very active in Amnesty International since 1974. He was, among other things, Chief Economist of the Royal Dutch Shell Group, where he advised on worldwide economic developments in industry issues.

Now, Dr. Klein is Vice President for Private-Sector Development jointly for the World Bank and the International Finance Corporation, as well as the Chief Economist at IFC.

We're very grateful that you have come to join us this morning. Thank you, Dr. Klein.

DR. KLEIN: Thank you very much. Now, in 1982, I went over to the Dark Side. (Laughter.) So it's also for me a great privilege to be able to address you here today. And in preparing all of this, I tried to read world competitiveness - or the Global Competitiveness Report of the World Economic Forum. And by reading it and reading Michael Porter's article in there and so on, I thought maybe I'm not going to say anything that's terribly different from what is going to be said in the other sessions.

But maybe there's a little spin here and there which might cast a slightly different light on it. And particularly, I will not use the word "competitive" very much except in the first and the last slide. Let me dwell a little bit on this first picture here.

The reason why these days, one can hope for poverty reduction in a reasonable time span is the fact that growth rates of countries have accelerated. And it's now possible, as demonstrated by some countries, to double per capita income in a period of ten years or so. It's possible for people to get out of poverty within one generation, something that was historically impossible.

I know this is so, because obviously, some countries have moved ahead, and can be imitated. Therefore, one can grow much faster if one knows how to imitate. That, in fact, goes a little bit together with the remark about a business proposition.

We know today that the world leaves, in the words of economists, big bills on the sidewalk. You know that joke from economists that the professor walks along with the student across some campus. And the student says, "There's a five-dollar bill lying on the floor." And the professor says, "Can't be; somebody would have picked it up."

At the same time, we see here that a lot of countries have a lot more potential to be where they could be, and it's now happening as quickly. It's happening already more quickly. Some bills are getting picked up, but huge bills are still lying around. And the question is why doesn't more happen?

There would be a real business proposition here if one could credibly say, "This is the way to get there; there is huge benefit out there, very clearly," and then investing in whatever it takes to get there would be a very clear-cut business proposition if the way was clear. But the way is not yet clear. All we know is it can be done, and it's a matter of catching up with world best practices.

The countries that the Millennium Challenge Account and others in development are concerned about are those that are catching up, not those at the front here trying to innovate. Thinking about development has come away a little bit from pouring money at problems and investing in physical capital, to broader factors.

And this is just one example of studies that exemplify the order of magnitude of issues here, and it's a little bit ingenious in the sense that it compares the productivity of workers that have immigrated into the United States from a variety of countries in comparison to what they produced in their own countries.

So here, this is all normalized. These immigrant workers produce one hundred when they're in the Untied States; in their home countries on average, they produced 23. And then the question is what makes up for the difference? It seems that the better physical capital stock that surrounds workers here in the U.S. accounts for maybe a third or so of the rest of the overall difference.

But the biggest part, the two thirds of the difference here has to do with the institutional environment that they find themselves in the United States. The capability of firms, the way the markets are organized, the way institutions work, etcetera, etcetera. And so that big, black box is what we need to understand better, to see how to get to pick up those bills on the sidewalk.

There is a “Washington consensus” about the four kinds of topics, for example, that I mention here, including macro-economic policy, property rights protection, market-based competition, property incentives, and all of that. And if somebody challenges this, this is a list from the recent paper by Dani Roderick, who is not to be suspected of having too right-wing sentiments about the Washington consensus.

Why is there a consensus? Why can't we call it a consensus? Well, because communism has collapsed. Some people think there might be something else in the future. But for the moment, there is nothing else that we know about. It's also clear, when thinking about the black box and what belongs to it, that there's a complicated and ever more complicated balance between corporation and competition that underlies goals and economic development.

Here are a few quotes: The first is on businesses and their role, more and more complex businesses play in development, and the known market structures of coordination that they use internally. The second quote illustrates the rise of rule- based systems, the rule of law and others, property rights included, over the last 150 years or so.

This is all historically very recent. This is all phenomena of the last 150 years, this rise of complex institutions, where rules on the one hand govern, and at the same time, there's a lot of competition between firms. And that ever more evolving balance between cooperation and competition clearly is extraordinarily important for development, but we don't quite know how to engineer it.

And so we're left at the moment with a feeling that in some short form of capitalism, if you like, is obvio usly to pass forward for now. But there are lots of variations on that theme. We know that partial reforms work. Some countries surprise enormously. Why on earth does

China do so well? There's lots of stuff that China doesn't do the way one would have designed it from an economics technocrat's point of view, as in other countries.

For example, a completely different set of policies. El Salvador in 1992 provides an approach to economic development that worked, but was much more orthodox. Very few people would have recommended it in 1992.

It's clear that those processes don't uniformly permeate countries. It's certain sectors that grow like mushrooms. There's an article by Arnold Harberger of the Chicago School, saying that it grows like yeast or like mushrooms. Is everything growing at the same pace, or is it popping up here and there? It's the popping up here and there, and it happens differently in different countries. We don't quite know -- can't quite predict -- exactly where it will pop up; we have trouble engineering it precisely.

Then there are the reform dynamics, which differ from country to country. Some people believe industrial policies- some activist government intervention- can help a little bit. And in some cases, it seems to do so - Korea, Japan, etcetera – although the total size of these advantages is relatively small, as best as we can say.

The political dynamics are also different from country to country. Different compromises have to be struck between different constituencies. These variations can sometimes lead to a situation where it jump-starts the economy; in other cases, it's a cul-de-sac and nothing happens. And we still don't quite know a way through this.

Underlying all of this is there is one common theme that I would hypothesize one finds when looking through all these different experiences, whether it's China, Chili, El Salvador, or whatever, or Vietnam. Opportunity for firms to enter the market matters a lot. They need to be opened up to challenge incumbents to bring in new methods of production, new ways of organization, etcetera, and at the same time, hard budget constraints, such that those who don't perform don't get money and are allowed to fail in some form or fashion.

That's a unifying theme. That's, of course, the definition of competition. But still, it doesn't get us into micro-engineering very far. When it comes to efforts to understand the detailed features of that black box a little bit better, I just want to mention one effort that we're carrying out at the World Bank at the moment, the so-called doing-business indicators project. It tries to provide a new set of measures which complement those that are now out, for example, in a global competitiveness report based on surveys of industrialists, etcetera, which are also being picked up in the latest version of the World Economic Forums Report.

We're trying to measure what the law and regulations say about certain processes, business registration, labor regulation, creditor rights, and bankruptcy systems. Contract enforcement is out this year. We can all see that on our web sites. The full report is coming out in September.

One of these indicators has also been picked up by the Millennium Challenge Account as one of the screens for determining eligibility. And next year, we're trying to look at tech systems, harassments, a variety of other things, property rights for land, and so on.

I'm just going to mention a few overall results that come out of this. It's very clear that low-income countries, on average, have much more complex regulations for the same sets of topics than developed countries. As development proceeds, with exceptions, outliers and so on, regulation becomes simpler.

More areas may be regulated in advanced countries, going together with this rise of rule-based, complex organizations, but it becomes simpler. And there are outliers there. France is doing rather well with a relatively complicated set of regulations and always comes out on top of total factor productivity studies in the world of manufacturing, rivaling the U.S., although there is less work but same productivity for those hours worked.

There are other countries which have relatively simple regulations, like Jamaica, which have problems advancing. But on average, this is the picture.

It's also very striking how Scandinavian countries have deregulated and made life simpler for businesses. Denmark outperforms the U.S. on all of our five indicators at the moment, even in liberal market regulation, more flexibility,

And so the Scandinavian countries, particularly after the 1992 financial crisis, have done a lot to deregulate the productive sectors in the economy, to enable their activity to rise and to provide those tax revenues that maintain what remains a very large social safety net.

There is also a lot of talk about developing countries having reform fatigue and after years and years of structural adjustment and badgering by institutions such as mine, "This is enough, and now, where is the beef, and we don't see anything happening."

When we actually look at who reforms most, it is the advanced countries. The more advanced they are, the more they're reformed, continuously. It’s less reform effort that’s actually detectable, at least in the indicators that we looked at here for developing countries.

So it may be politically difficult to do the reform. And in that sense, there may be fatigue. But it's certainly not the overall reform effort that one can observe.

And finally, there's this current truism that one size doesn't fit all. But in a number of gray areas, it does fit. There are best practices around to solve a bunch of detail problems, and we're trying to point that out. These are all little steps towards putting a little bit more structure into that black box that I talked about.

What are the particular issues for the Millennium Challenge Account, as I can see it? One is the indicators -- the definition of eligibility. It's clear from what we know about how that black box works or doesn't work that no indicator is there that tells the whole story, nor is there a full theory. There needs to be judgment at the end of the day, and a judgment may be wrong. A lot of effort needs to be put, and I think that is happening more and more, not just talking about indicators and how they're being looked at, but how is judgment formed at the end of the day about what they mean?

And there is a question of who makes that judgment, how is it done, what's the independence of the judges, what's the processes that shield them from undue influence, that one wants to avoid by virtue of the whole philosophy of the Millennium Challenge Account?

Then after having made the judgment, the question comes to actually investing. I think here, again, at this level of the MCA, the micro-incentives matter. It's not just that somebody's eligible and then we pour money into it, regardless of how and things will happen. But the detailed structure of incentives and evaluation matter.

And I think there are broadly two sets of criteria. One is in those cases where investments are made into, say, firms or other organizations that respond to market incentives, where there's a price system providing feedback about whether things work or not. Then one can rely on the price system, and it's important to assign the credit risk to those who invest, to some degree, so that they are punished by making the wrong decisions and have an incentive to watch their money.

When there is no price system feeding back whether things are desired or not, when it's about subsidies and grants, there is a question of how do we know that we achieved something, and what is the incentive system to actually go for that?

There's some class of problems which can be dealt with by introducing contractual discipline. And a lot of infrastructure projects, I would argue, have that feature. When you look at a concession contract or a U.S. style regulated utility, you have lots of documentation when a private investor comes in that define what is the expected output, who is to be served, what quality, what standards of service, what pricing structure needs to be there, what's the mix of subsidies and prices, etcetera, that's all contractually laid down.

And you can then construct a proposition that says, here is an offer for you, private investors, to go into a water project, electricity project, or whatever it may be, and we credibly guarantee payment of a subsidy if and when performance is achieved. As opposed to giving you the subsidy imbedded in the up-front cost of capital and then paying it out when I have sold it. The most detailed scheme of that nature exists in Chile in the water system.

When that is not possible – when it comes, for example, to training programs for small or medium enterprises, the real issue is what would have happened without the training program? Typically, evaluations find out whether training has happened. That's a good thing. Did the firms actually create more jobs or do well? That also is a good thing; at least it's a no-harm thing. But have we actually achieved something that wouldn't have happened otherwise? That's very rarely looked at, and I think it's also a little bit expensive to do.

It can't be done for everything, but 5 percent, 10 percent or so of all projects, probably, would benefit from up-front establishment of control groups to evaluate them.

In closing, the whole fact that we have now bills on the sidewalk that can be picked up is a process of social evolution. The European miracle, it has been called, brought industrial revolution, whereas China, the centralized states, stagnated. It was the competition amongst the struggling European states of principalities that waged war against each other and had to raise taxes and get an economic base to survive, that somehow led to this.

And the spirit of this is captured by this historically completely incorrect statement from the movie, "The Third Man," an Orson Wells movie from right after the war. Historians will point out that the Swiss were actually rather militaristic at the time and that the Borgias were unpleasant but actually didn't kill that many people.

But the spirit is there that competition amongst jurisdictions has in the past yielded a lot of results. And it raises the broad question, where is the limit to how much governance one wants and how much uniformity one wants over all?

We're moving more and more from evolution to introducing design and trying to get to grips with things that we otherwise left to lassie faire forces. I conclude here by pointing out that the Global Competitiveness Report and our doing business project are little contributions to enhancing the role of design in determining the future, as opposed to pure evolutionary forces.

At the end of the day, one of the big challenges to which, all those thinking about results measurement would rise is will we ever create something equivalent for microeconomic phenomena - for structural issues - that is equivalent to the national account system for macroeconomic policy?

Macroeconomic policy as we have it today was not possible before the Second World War and for so many reasons, because there was no system of national accounts. There couldn't be an Alan Greenspan who talks about the relationship between the output gap in interest rates and inflation, because you couldn't define an output gap.

So the whole conduct of macroeconomic policy, which has made great strides through the 20th Century, would not be possible without the underpinning statistical system.

Now, in microeconomic phenomena, when it comes to giving structure directly -- black box, the regulatory environment, etcetera--, we don't have an agreed and well-grounded in theory system of “accounts”. Maybe we will never have one. But I think if we want to move towards more design, that's a challenge to consider. Thank you.

(Applause.)

MR. CRONIN: Thank you very much. We now want to move right into some questions and get the audience involved. Let me first ask Michael Klein, following up on what he said: when you think about the Millennium Challenge Account and how it's trying to deliver systems, one of the questions we're facing is what the World Bank and multilateral institutions bring to the table, as opposed to the bilateral donors, especially the strengths and weaknesses with respect to private-sector development.

You've indirectly answered that, Michael. But I wonder if you could share some insights with us on that issue, from your experience at the World Bank.

DR. KLEIN: It's kind of hard to say at the moment, because we don't quite know what the Millennium Challenge Account will exactly bring. In terms of thoughts, of course, we all learn from each other. We all have the same information base. I don't have any deeper insights at the World Bank than anybody else.

So what is it we can do? I think one of the principals underlying the Millennium Challenge Account, if I understand it correctly, is to deal with this challenge of aid effectiveness. Where there has been a growing consensus so far is that you have to put aid into environments where the policy is basically right, and then it will do some good.

And if you put it into environments where the policy is bad, it might actually distort and lead to rent-seeking and all sorts of bad things. This was contrasted to the way of giving aid, which is very much influenced by foreign policy considerations, which may have been at odds with that.

Some countries, like the Dutch and so on, have moved that way without a formalized system of indicators. The U.S. is trying to move on that with a set of formalized indicators, maintaining on the one hand, sort of an aid window that is more foreign-policy related and on the other, one that's maybe more technocratic, if I may use the term here.

One reason for thinking about multilaterals is that by virtue of not belonging to any single government, they're somewhat at arms length from the foreign-policy consideration of any one of them. So I would have thought the multilaterals or the Millennium Challenge Account type of approach are all similar institutional mechanisms to shield provision decisions from foreign-policy type considerations.

And I think this is important, because when I worked at Amnesty International, to take that example, we used to testify in Germany on asylum cases. There were always three organizations asked to testify: the Secret Service, the Foreign Ministry, and Amnesty. And Amnesty would always agree with the Secret Service, and Foreign Ministry would always say, well, the government is not that bad, and it's trying to improve, and it's getting better and just wait another year.

This is the syndrome that one needs to deal with. And I think both in the Millennium Challenge Account, as well as multilateral institutions, there are two approaches to having this arms-length relationship.

MR. CRONIN: That's very helpful. Before I introduce Under Secretary John Taylor to share a few remarks, I want to just ask a quick question of Jose Maria about his perspective, because he talked about the demand side, coming from the developing world.

What is the guidance you would give, Jose Maria, to the suppliers, to the donors, about how far they can go in trying to encourage competitiveness, and commitment in particular? Obviously, we can't create the commitment. The commitment has to be developed on the ground.

You reflected on this partly in your remarks, but I wonder if you could elaborate a bit?

MR. FIGUERES: Again, number one, as was just mentioned by Mr. Klein in his presentation, I don't think that there's one size that fits all. However, in setting up the Millennium Challenge Corporation, I would respectfully submit that it affords the luxury of being set up in a very different way, where it provides a supply against certain criteria that have to be met, and it allow nations to live up to those criteria.

So I think it can be something around which you structure a true partnership from the beginning and that is not seen as something that is being imposed or sold. I think that that would go a long way in terms of also reinventing this issue of development along the lines that we have discussed.

MR. CRONIN: Thank you very much. Rather than go into further questions right now, I want to take advantage of the presence of Under Secretary John Taylor, who's been able to make his way here from important engagements this morning at the White House.

We're very privileged to have him. He's been a linchpin inside the administration, helping to develop the ideas behind the Millennium Challenge Account. He is the Under Secretary for International Affairs at the Department of the Treasury. He obviously advises the Secretary of the Treasury on critical international, economic, and financial issues.

He's experienced in government work. He has served, for instance, as a senior economist on the Council of Economic Advisors, as well as a distinguished scholar in academe. He was, before becoming Under Secretary, the Roberts Professor of Economics at Stanford University, globally recognized on international monetary and financial issues. He's produced extensive research on monetary policy and fiscal economics, fiscal policy and international economic policy. He has been a delight to work with in inter-agency circles, where he has worked with Under Secretary Al Larson, Gary Edson, Robin Cleveland, Administrator Nastios, and others, to bring together the new ideas behind the president's vision of a Millennium Challenge Account.

I'd like to call on him now to share a few ideas with us this morning. Under Secretary Taylor.

(Applause.)

UNDER SECRETARY TAYLOR: Thank you very much, Patrick, and thanks for all of you for coming to discuss this, I think, extraordinary initiative of President Bush.

One thing that I just might say at the beginning, is the fact that there has been such a government-wide inter-agency cooperation, getting this initiative going, is quite remarkable itself. President Bush laid out the vision for this last year in his speech at the Inter-American Development Bank, and the implementation of that vision has really been a cooperative effort which has reached out to people in the development community, the academic community, the business community, at the same time, us working together here in Washington, the State Department, the Treasury Department, OMB, and, I think in a very important and constructive way, USAID. I could go on.

I think there's been a specific effort to reach out to the economic agencies, including the Council of Economic Advisors, as well as the Treasury and OMB. And I think that's actually benefited the initiative quite a bit.

But what I think is great about this meeting is this emphasis on the private sector, which is, I think, where you're going to get the reduction in poverty in these countries.

It's the essence of poverty reduction - to have an increase in production and productivity - which has got to come from the private sector. There's absolutely no alternative. If you look at why countries are poor, the answer in an economic sense is simple. Productivity levels are abysmal, compared to productivity levels in the countries that are rich.

A country where income per capita is a dollar a day, rather than roughly a hundred dollars a day, as it is in the United States and other developed countries, that one to a hundred difference is a difference in productivity. Their incomes per capita are different is because productivity is different.

On average, productivity in these poorest countries which we're focusing on here is one hundredth of productivity in the United States.

When you think of this as from an economic perspective, you ask, "Why?" Well, you know, in regions where there have been disperse differences in productivity like that in the past, they've closed. In the United States, you can go back a hundred years ago, and you see wide differences in income per capita in states in the United States. They largely have closed as the poorer states in the south a hundred years ago have grown much more rapidly than other parts of the country.

If you look at the developed countries, the countries that joined the OACD when it was started back in 1960, there is wide dispersion in income per capita in those countries. Relatively poor countries grew more rapidly, and their productivity rose more rapidly than the other countries. And so the differences have closed substantially.

But, unfortunately, globally, that's not the case. There are still lots of countries that are well behind. And I think the reason is because of the constraints on the private sector to move capital around, to innovate and to bring new ideas into the workplace.

Sometimes, they're old ideas, importing through technology transfer, ideas that are used in countries or areas or regions where productivity is higher. So removing those barriers to private sector is how we're going to deal with this poverty problem.

In many respects, the Millennium Challenge Account goes through where there have been barriers to the private sector and its development and tries to take them down through the policies that the countries themselves, for the most part, must follow.

So let's go over it. President Bush emphasized three basic areas in his vision -- and we've heard a lot about these in the last few months and today -- governing justly, investing in people, and encouraging economic freedom. In every one of those areas, you go through the list of what goes on; it's really an endeavor to reduce the barriers that countries face and people face, more importantly, to improve their well being.

So, for example, in ruling justly, part of the effort here is to improve the rule of law, to reduce the amount of corruption. We have indices of the actions that countries follow, indices developed by Freedom House and by the World Bank Institute, that indicate what countries are doing to improve rule of law, to improve the rights of individuals to hold property, and to deal with the corruption problems which are so problematic.

And that in itself begins to free up the movement of capital. Capital, of course, as everyone needs to be reminded, is a coward. And if there's a threat of a switch in a regime because of an arbitrary decree not following the rule of law, capital won't want to go there. So capital movements are diminished. And, therefore, the ability for a worker to have more capital to raise its productivity goes down.

So by trying to deal with that rule of law problem or encouraging more capital flows in that is one of the key ways you can raise productivity. If you go to the next category, investing in people, well, human capital is an essential part of any modern economy, that the workers can go to the workplace and read and just be literate, is a tremendous build in to productivity and allows us to use the technology much better.

You know many examples of this, but I have just one quick one of what the amazing things that can happen if people just have basic skills. In Ghana, there's this great investment in data processing, where ACS has invested in operations. They're employing hundreds of workers; all they do is come in and complete insurance forms for car wrecks in the United States.

You know, way over in Africa, people are coming in and going to the computers. They are mostly very energetic, well-trained young women, coming in and doing this work and raising their income levels of their families by levels never heard of. And that's because they have a minimal degree of education in human capital. So that's why that's so important. Another part of investing in people is better health care. And that goes part and parcel with good education.

The third category, I think, is the most obvious to think about: how you can improve growth through the private sector. And that's through encouraging economic freedom. There are some macroeconomic policies that are important there in keeping inflation low. That, of course, reduces a lot of the uncertainty about business investment.

If you keep inflation low and stable, that creates more macro stability, and fewer concerns about exchange rates flying off in a direction where you wipe out your investment or that you can't insure against. So better inflation is part of it.

A better policy with respect to fiscal considerations is important. That's part of encouraging economic freedom. Have a relatively sound budget picture, so budget deficits don't go off the scale. Those are the more macro side of encouraging economic freedom. But the micro-economic side is at least, if not more, important.

If you look carefully at some of the indices here that measure good policy, I think you see exactly what we're trying to do. One of the measures that we have listed in responding to the President's vision is the time it takes to start up a business. This is an index which has been developed in the last five or six years. It’s a great index, and it shows just the kind of thing you would guess if you're wondering why you are not seeing growth in certain parts of the world.

By these measures we look at, it takes two or three days to start up a business from scratch in the United States or in Canada. Actually, Canada is a little better than the United States. If you go to poor countries, it's measured in months, sometimes many months. And if you can reduce the burdens of regulations and licensing and steps you've got to go through in the bureaucracy to get into the day category, not the many- months category, you, of course, unleash enormous opportunities for small firms to startup.

I actually stress quite a bit in thinking about development that the gains can come from small businesses starting up with the right encouragement -- in this case, it's largely just getting the government off their back, letting them move, letting them go. It's nothing more than that.

Another part of the urgent economic freedom, though, is openness to trade. In this case, we're using the Heritage Foundation Index of Trade Openness, where clearly, reducing barriers to the movements of goods encourages greater productivity.

You can get relatively cheap imports from a neighbor to build a more successful operation. There's a lot of emphasis in discussions these days in development about reducing barriers to trade from the poor countries into the richer countries. And that's very important. But equally important is to reduce the barriers to trade that the poor countries have put up, themselves. Many poor countries are small. They need to have good trade with their neighbors, and barriers to such trade create another example of the restriction on private-sector development.

As I go through these measures of the policy, the opportunities that I see for a country that starts to do these things are really just tremendous. As you know, we have a competition for the very poor countries that are starting out without incomes, for capital less than $1500 a day.

And then we're opening it up to countries with incomes per capita are less than 3,000 today. But even when we open that up with the proposal, it's going to be a separate competition. The reason we have to do that is these indicators work. The countries that score very low in these indicators are the poorest countries. And so to give them a chance, we have to have this separate competition.

But these indicators work. The president's vision was based on the idea that taking the right policies will really make a difference in raising economic growth. And, again, it's not magical. It's because of individual entrepreneurs in countries or outside the countries going there to invest that's going to make all the difference. I think the Millennium Challenge Account, to the extent that we run it the way the president called for in his vision, will make all the difference.

So thank you very much.

(Applause.)

MR. CRONIN: Thank you, John. Before Professor Porter joins us, we have time for a few more questions.

QUESTION: This is for anyone who would wish to respond, I would like to just ask a quick question about the politics of mobilizing competitiveness thinking.

Jose Maria talked about the importance of the four categories of groups that would be involved. But why is it so hard in many cases to get a domestic process running, even where the president of the country, as in your case, was very proactively trying to lead this? And you had many successes in Costa Rica, but as you yourself have said, it was not easy. Why is it hard to get these processes started?

MR. FIGUERES: One of the reasons is because in many developing nations that I'm familiar with, the development issue is not seen as a societal responsibility but is, rather, seen as a governmental responsibility. And so the academic sector or the private sector or civil society just kind of sits back and waits in the most classical of senses for the government to take the initiative. Of course, the initiatives are going to be very far, wide apart, and very small.

So there is a tremendous amount that can be accomplished in terms of getting a broad-based national coalition behind your competitiveness drive as a theme for organizing development. That, I think, is done by reaching out to these sectors, which, perhaps, are very laid back in terms of their getting involved. But that's also because they're, quite frankly, not used to somebody getting them involved.

And I think that there's a lot of canvassing support, a lot of support that can be given by going out to the universities and by going out to these other sectors to start getting actively involved and get these coalitions going.

QUESTION: I have a question for Mr. Figueres. You know, one of the issues that our partners are running against around the world and we're talking about -- implementing reform -- is actual implementation. It's not so much the policy, which we are very good now at supplying, the best in expertise and developing good policy, but actually, the ability of government at the local and regional levels in a lot of countries at implementing reforms.

What did Costa Rica do right, that we can draw lessons from, in understanding the nature of implementation, actually getting bureaucrats to implement this simpler and more-business-friendly regulation?

MR. FIGUERES: There are some things in Costa Rica which I think are unique to Costa Rica. For example, the situation that we had in the country which does not allow administrations to run for reelection, then allows governments to really concentrate on what has to be done in terms of development, in terms of focusing on, "What can I do in light of the upcoming campaign four years from now," which is a very different perspective, not applicable to many other countries.

But I would argue here that what is applicable to other countries is the whole notion that we haven't really been able to put the carrot in front of the horse in a way that is meaningful to these countries. In other words, so far, we've said, "Look, go back, do your homework, do your macroeconomic reforms, do the set of measures, one, two three, four." We've had a very cookie-cutter approach, not really respecting local idiosyncrasies and local differences that are so obvious. And some time down the road, you will begin to see the results. It is really very, very difficult for countries to move down that track, whereas I would argue, that it’s better if you come in and you say, the objective here is to be number one in competitiveness. The objective here is to be more competitive in your region, to be more competitive on your continent, etcetera.

Then you begin to create a very healthy spirit of competition. You would be surprised at every time we publish the competitiveness report to the World Economic Forum, the amount of interaction we get from different countries. "How come my neighbor's number 34 and I am number 65? What am I not doing right, that they are getting squarely and positively correct?"

That type of healthy competition, I think, is a tremendous driver in terms of beginning to organize societies for development. And we need to have more of that. That is achieved in part by benchmarking, such as the report or many other reports can help us with.

But people begin to feel a sense of pride, which I would argue is very important in terms of development, by being able to coalesce and work together, with the objective of being much more competitive where we are coming from.

MR. CRONIN: Okay, this gentleman.

QUESTION: There's so much to appreciate in all the remarks that have been made. But I want to pick up on Under Secretary Taylor's question about why is it that poor countries don't wise up, which is a summary of your question, I think.

I appreciate all the talk about incentives around the room, but I'm concerned that we conflate incentives of regimes and countries with incentives of firms and officials in those countries. And it seems to me that the visibility that MCA gives to outcomes and objectives are ones that are not presumed that individuals in countries share, particularly if it's in Costa Rica, where you've got a president who's got a limited term, and so they have a shorter time horizon, or if you've got a dictator who isn't constrained, for various reasons, to be so accountable, the incentives to achieve MCA objectives seemed to me weaker.

The MCA objectives inform us about a goal, but they don't tell us what to do to get to those goals. The competitiveness stories that we have from Jose Maria Figueres are examples, to my view, of ways of overcoming some political economy barriers by pulling together these extraordinary groups, the competitiveness councils that create incentives for regimes that may lack them in the ordinary course.

And so my question is whether, as you think about MCA benchmarks moving ahead, whether there are ways to worry about governance institutions and measuring specific undertakings that make permanent some of the openness to participation, accountability, and transparency of policy making that aren't by themselves driven by the specific outcomes we measure with a Millennium Challenge Account.

This is an implementation issue, I guess, but some way so that we're not just saying we presume that there is an encompassing objective inherent in a regime that's not heretofore been accountable. If there were, we would have heretofore wised up and adopted policies that we can all get across the internet.

My concern is that the MCA itself doesn't get into the specifics of governance reforms. It presumes that people will want them at the margin.

MR. CRONIN: John, do you want to say something to that?

UNDER SECRETARY TAYLOR: Yes. It's a very good point. The policies, we can agree on; and we have lots of evidence that they make the difference. They raise productivity, which is I think, really the way to measure competitiveness.

But the question is how do you get them? And this is a political/economic question. I think you're right. The structure that these councils provide is wonderful. You can go way back and look at what Singapore did, to bring attention to productivity. They had a productivity council. That's what they called them. Still do, I believe. That's an example of how to move things.

But I think there are many others. I think the movement for these free-trade agreements helps, because it gives an incentive to the political system to move in the direction of, in this case, reducing barriers to external trade, so that they also can lock them in. Once you're in a trade agreement, they're locked in.

So the problem you mentioned about a president coming in for a short period of time and then the next president changes, that's made more difficult once these things are locked in. There are other ways to lock things in, of course, as with El Salvador's dollar rise; that locks in a good monetary policy. And there's this -- some of the countries in Eastern Europe are thinking of joining this -- the European Monetary Union. That's another example.

I think there are a lot of ways to do it, but to just to go back to the idea of the Millennium Challenge Account or those competitive indices, they do bring attention to the importance; and, therefore, countries can think about how their own political system will deliver the results.

We've noticed this same kind of thing as the competitive indicators have. We're seeing that when we meet with finance ministers from other countries now, frequently, the Millennium Challenge goals come up in the discussion. And they say, "Geeze, we're moving ahead on this area," or "I'm sorry, we have problems in this area. Can you overlook those?" And, of course, we say, "No." But I think the direction of movement is very promising.

QUESTION: A question for Dr. Klein. Some of the comments here reinforce the fact that the indicators have a powerful incentive and set out a goal there for folks.

You suggested that we ought to be considering a set of national account systems for microeconomic indicators, similar to what we have for macroeconomic indicators. I wonder if you would just take a minute and discuss how we might actualize that if the international community really felt that was a worthwhile effort.

What are some of the early steps that have to happen in the international groups that would need to be engaged in that?

DR. KLEIN: Well, I would have thought that in terms of ambition, this is something that is clearly on the agenda. Efforts like the various reports that we've talked about and indicator sets that we've talked about all try to grapple with this.

What is missing is a full-fledged or reasonably robust theory about how all these things hang together. And also, there is at the moment no concerted effort to seriously drive in particular directions.

At the moment, there are a little over 30 different institutions that put together indicator sets about economic freedom and things like that, from a variety of sources. Most of them draw ultimately on the same sources and put them together in different ways and add on a sprinkling of surveys of various types, some of which are representative, most of which are not, and so statistically, not necessarily valid. And so these are all efforts.

Then there's this particular effort that I mentioned that we're undertaking, which is a new departure. We'll see how far that leads. But there is no international concerted effort to seriously work on that agenda, and there's no guarantee that it will succeed.

But clearly, rather than having a lot of individual efforts to pull together existing data, it might be worth having an effort similar to that with the national accounts on the macroeconomic side. So what exactly one would do, I'm not going to spell out here. But there are a number of ideas about what else could be measured, how to do so systematically in ways that don't necessarily duplicate all the different things that people do. Nowadays, nobody duplicates measures of GNP. There only tends to be one institution that looks at that. It gets revised from time to time, but maybe that ambition is worth thinking about.

MR.CRONIN: It's now a great privilege to introduce Professor Michael E. Porter, Bishop William Lawrence University Professor of the Harvard Business School. He is a leading authority on competitive strategy and the competitiveness in economic development of nations, states, and regions.

Dr. Porter is a prolific author. Maybe Steve Brent and Ken Lanza, who are here, have read all of his 16 books and more than one hundred key articles. But clearly, I think everyone in this room has been affected and has read some of his work, including his 1990 book, The Competitive Advantage of Nations.

He co-chairs the Global Competitiveness Report that we've been talking about this morning, and he's co-author of a body of work on the sources of innovation and national economies, which we are taking varying interest in as we think about how this could apply to the Millennium Challenge Corporation.

He's a much sought-after analyst, and we're very privileged to have him here this morning. We're delighted he was able to make some time. The Administrator of USAID, Andrew Natsios, has done something that was rather remarkable for the Agency for International Development. When he had Professor Porter in for a briefing at the agency, he videotaped him. And with his permission, he then sent out that videotape to every single mission director around the world. They have since been required to watch and digest the video and to try to make things happen.

I don't want to embarrass Professor Porter, but that's great testimony from Andrew about the importance of the ideas, the persuasiveness, and the powerfulness of these issues. So it's a delight to introduce Professor Porter. Thank you.

(Applause.)

PROFESSOR PORTER: Well, thank you very much. I have visions of how my students feel when they're forced to consume my work. I probably should stay out of the AID Missions for a little while anyway. I apologize for arriving at this eleventh hour before I had to speak. I was very interested in all the dialogue this morning, because this is a big opportunity that we have here with the MCA, and we don't want to waste it. And we don't want to get caught up in making the same old mistakes.

And I know that knowing the other speakers, there's been a lot of useful thoughts already put on the table; and I'm probably going to duplicate some of that. But I guess what you'll know is that I'm not responding to what anybody else said, because I don't know what anybody else said.

I'm also going to be a little bit blunt, frankly, because I'm a tenured professor, and I can't be fired. And, therefore, I think, that's my role, is to try to tell you what I found and what I believe about some of these issues, based on many, many years now, of working with countries, trying to improve their economic development and not just studying it, but actually being out in the field.

I've probably worked with at least 25 different countries at all levels of development, over at least a 15 or 20-year period. So there's a good bit of on-the-ground learning here.

I think many of you in this room are experts; you know a lot of this as well. But I do want to cover some of the basics that I think we've learned as we talk about this, this opportunity that we have.

Well, I think that as I read and listen to the discussion on the MCA concept, I think that first of all, it makes me very proud to be an American, because I think we're stepping up and doing something important. And we're doing it, I think, with the right spirit.

I think it's a program where the United States is showing a kind of a step function, higher level of commitment to international development, and we're in the process of doing this. We're trying just not to do the same old things. We're trying to do things in a new way.

And that comes through very clearly in all the writing, in all the documentation about this program and in much of the discussion, doing things in a new way along a variety of dimensions, the process, the use of measurements, the criteria for selection of countries being more harder criteria, and so forth.

So all of that, I think, is good. But the challenge is to do it in a way that works, to be sophisticated about how we implement this approach. Now, I think we have already probably covered this morning the fact that a lot of the things that seem obvious about development in aid have proven, actually, not to be successful.

And you're all familiar with the Easterly work that suggests that there is no link between educational spending and development. It's not at all clear. I have found the same in our Global Competitiveness Report.

So what we've got to do when we approach this topic is not kind of simply repeat a lot of our historical assumptions, but we have to really approach this new opportunity with a new level of rigor and with a sense that we are going to probably be experimenting a little bit, rather than simply doing things that are tried and true.

It's also clear, I think, to all of us who work in this area that the way that foreign aid and development support is now delivered is extremely short of perfection.

I just put four points here on this slide that I have found most vivid in my travels around the world and working with countries.

First of all, the activities of foreign aid organizations tend to be fragmented and uncoordinated. Yes, there are occasionally, now, efforts to have steering committees in countries, but my experience has been that those steering committees don't work very well. There's not a lot of coordination. There are hundreds and hundreds of disparate programs that are supported.

I was just in Rwanda. They told me that AID gives $3 million to Rwanda -- that's a big number -- but apparently, it's spread over like 160 different programs. This is very typical. That's just one development organization, and there are dozens of development organizations.

And I think what this tells us is we've got to be careful that MCA is not just one more fragmented organization, operating on its own, with its own kind of agenda, because if that happens, it's just going make things worse. It's not going to necessarily make things better.

Now, this is not just about money. What we all have to understand is that we have spent billions of dollars in particular countries over a 25-year period, if we add it all up; and it hasn't produced success.

This is not just about money. The money, in some sense, is a small part of the challenge here. It's the process. It's the structure. It's the agenda. It's the institutions within the countries that I think are fundamentally important here. So we have to make sure that we don't create yet another organization that creates yet another agenda that makes the process in the institutional structure even less functional than it is today.

Number two, I think it's very clear that aid organizations develop very quickly their own agendas and favorite project areas that may or may not connect to the agendas of the countries.

And it happens -- it just seems to be one of those laws of human endeavor. It makes you want to cry when you listen to foreign leaders talk about how they manipulate their requests and their programs in order to hit the hot buttons of the agencies. They have to propose certain programs, because if they don't propose them, they won't get supported for other programs.

And let's put aside the debate about whether the agendas of the aid organizations, including our own aid organization, by the way -- I'm not exempting USAID from any of this criticism -- putting aside whether these are good programs or good agendas, clearly, the process now is overwhelming countries with complexity, forcing them to take on hundreds of different things at a time.

They're all agenda-choked. They all have too many priorities. They all have too many things they have to do. And instead of simplifying that, the aid process makes it worse by forcing them to add new things that they're really not ready to do that now; but in order to get the support, they have to add an indigenous people, economic empowerment program, or whatever is the current agenda.

So when we think about this, we have to be hard nosed. We have to think about how to make this work rather than just add another level of criteria, another level of standards, another of level of programs to the mix.

But there's the whole question of how to organize the process of working with countries. Typically now, we see the process of working largely with a central government; or more recently, we see programs that tend to bypass the central government and go off budget, because I guess the aid organizations don't trust the central government. And that may be legitimate.

But, again, the process itself is quite complex and convoluted. And I think one of the things I like about the discussion of this program is our effort to really change the model of what process we use and how the work with countries is going to proceed.

And then I think we have to confront the issues of incentives and goals, of both the donors and the recipients. Again, it's well known, but donors often have their agenda, which may or may not be truly focused on the economic development of the country.

And recipient countries have agendas, too, particularly government officials who have to get reelected, who need to get support in the rural areas, who need various kinds of support. And that kind of skews and distorts where money goes. That's real. So we have to factor that into our thinking about how we structure this venture.

And one of the things I'm a little concerned about, as I read the literature about this venture, is that rather than kind of tackle these things and wade in, in some sense, we're opting out. We're saying, "Oh, no, this is all a mess; so we're going to set up our own separate, new thing and do it differently and just ignore everything else."

And I don't think you're going to be able to ignore everything else. I think you have to see how -- whatever MCA is, the MCA Corporation is and however it works, it's inevitably going to be caught up in this larger scheme of development. And we have to avoid making these problems. Ideally, we should help address these problems in the way we structure this venture.

There are four areas I want to talk briefly about, in terms of kind of a strategic focus of MCA. Number one, how do we pick countries?

Number two, what do we invest in? What areas do we choose to support? Number three, how do we structure the process of working with a country, and then number four, how should we organize ourselves here at home? How should the whole team be organized, not just the folks in the country?

In terms of the recipient countries, I think it would be hard not to be excited about the whole notion of eligibility benchmarks and some kind of a structured process, in order to create incentives for countries to want to participate and to have some hard criteria for participation. And I think that's a good thing.

I also believe that corruption should be the threshold. That is, of all the things that destroy development efforts and stunt progress and derail countries that are doing well -- of all the things I've observed out there in my practice, corruption is number one. It is absolutely dispiriting.

If you get something going in a country, people see positive change going on, and then corruption hits you. A president is corrupt; a government is corrupt. It just stops the whole process in its tracks. So I think the idea of putting that in a category by itself is absolutely appropriate.

However, I'm a little bit concerned about the criteria, as they grew, for a number of reasons. Number one, it's an awfully complicated system. There are a lot of measures. Do we really need 16 criteria? How are we going to weigh them?

Some of the criteria have to do with outcomes. Some of the criteria have to do with more causal factors. And as somebody who studied development a lot, what I understand and what I've learned is that the different measures and attributes of a country's environment are necessary and become governing factors at different stages of the development process.

But it's through these criteria that we're forcing these very poor countries, to tackle stuff very early to get on the list that they really don't need to tackle right away. You've got to start walking before you can run.

I'm also very concerned about the notion that you have to be above the median. It seems that the criteria are focused on level of success or achievement rather than rate of change.

And I personally would rather see much more weight on progress than static, because otherwise, we're just going to reward the people that are the richest countries in their income group, rather than the countries that are making the greatest, the strongest, and the most vigorous effort to change.

So perhaps we should have some minimum thresholds. But once you reach a minimum threshold on various metrics, then we reward people who are making progress, and we try to encourage their progress rather than reward people who, because of historical reasons, may be higher, given investments that 20 years ago, the government then in place made. And I think we can fine-tune these criteria and make this process a little bit less convoluted.

I've actually been out in the field and talked to a number of government leaders in the last few months. And since I knew I was going to do this, I always ask them, "Well, what do you think about the MCA?"

And, invariably, they say, "we're not quite sure what we have to do to qualify and how we're going to meet these criteria and what these criteria really are."

So I think that's telling us that if the criteria are supposed to be motivating and creating the right incentives, as they're currently written, they're too complicated and perhaps a little bit too much skewed towards the leading or most developed or most prosperous countries within the income group, rather than the kind of incentives that the spirit of this attempts to create.

What do we invest in? Well, I think that right now, the thinking on what to invest in is relatively general. In fact, if we look at the documents that I've seen and we look at the list of things that might be areas to invest in I think my reaction is that list is incredibly broad.

It looks like if I got a list of all the areas that all the aid organizations in the world invested in, the list that I've seen for this program is not all that different than the list I would see for other aid organizations.

And I find the fact, that it's a very broad set of areas, troubling, and I also find the list --the fact that it looks like what other aid organizations are doing as troubling.

If we're going to make this program important and significant, it's got to have a focus. It's got to have a strategic focus that reflects what we believe is an under-served or under-invested-in area, or set of areas, that are linked. And it's got to have a focus that draws in some way, on unique aspects that the U.S. can bring to the party.

This is the U.S. program. It's not the international program. So I think we have to ask ourselves, "What does the U.S. bring to the table? How can we mobilize unique assets and unique things through a program like this, that couldn't otherwise be put into place," okay?

So as a strategist, that's the way I think about how we should design this. And right now, I think we've set the territory too broadly and perhaps really not been focused enough. Now, let's just talk a little bit about how we might focus. At a very broad level, I think there are some principles of how to provide support to other countries in developing their economies and their prosperity that I think we ought to try to build into the program.

Number one, we ought to be investing in assets, not in consumption. We shouldn't be supporting income. We shouldn't be doing things that are pure consumption, a pure standard of living enhancement but not asset building.

And the problem with this distinction between investment and consumption is that people are pretty clever in making everything investment. Everything can be called an investment in something.

There are lots of aid organizations and lots of charities and lots of donors providing support in hunger and all kinds of other areas. And I think what we have the opportunity to be unique at here is to really invest in assets that are going to achieve long-term returns in the country.

Number two, I think we need to be looking at programs that are sustainable, things that if we make an investment, it's something that is a sustainable thing, rather than if we make an investment, others have to keep investing for the next 15 years before it's going to be successful. So I think we need to look for things that we can achieve more of a self-contained support on.

We ought to be looking for things that are leveraged, things that will affect, hopefully, many other areas of the economy or many firms, rather than sort of stand-alone projects that only benefit one, narrow constituency or one narrow region. As I said earlier, I believe we ought to have a distinctive focus for this program. And finally, I think we ought to have a program where the U.S. actually adds value, not just gives money.

So I think part of our value-added is – the criteria part of our selection process; but hopefully, we can add other kinds of value.

Now, in thinking about what our focus should be with this program, I think at the very broadest level, there's a distinction that's popping up in this field over the last five or ten years, that I really want to raise, at least as part of our thinking about how we design this particular effort.

There's been an enormous effort lately to frame the issue of development in terms of poverty reduction. And, indeed, there are many organizations that use that as really their principal goal definition.

There's another way to think about the same agenda of poverty reduction, and that's to think about it in terms of increasing jobs, income, and wealth.
And my own personal feeling is that this is a very important difference of perspective that poverty reduction, unfortunately, takes you down the path of consumption and social investments.

If we understand, though, that sustainable prosperity cannot occur without income, jobs, and wealth creation, I think that leads us, perhaps, in a somewhat different, simpler direction. That doesn't mean that we can ignore the social needs, and it does not meant that we can ignore hunger or any of the issues that affect people's day-to-day lives, their safety, their health, all of those things.

But, again, those areas are well covered in the field of international development. There are lots and lots of organizations that are focusing on those areas.

I think we have the opportunity to be unique if we actually focus not so much on the poverty-reduction agenda, but on the "income, jobs, and wealth" agenda.

Now, what creates income, jobs, and wealth? What creates a competitive economy? Well, there are a lot of factors that matter. It's widely recognized that you have to make progress on social issues like housing and health and so forth, that you need to have a sound political system, a good legal framework, sound macroeconomic policies – all those things matter.

But what I've been struck by is that none of this stuff works unless you fundamentally have a competitive economy. Now, you have a great macroeconomic policy. But unless you have a competitive economy with competitive firms and a competitive business environment, it doesn't matter.

You can have a great political system and great political stability; but unless you have a sound, competitive economy, it actually doesn't matter for prosperity. And I could go on.

So when we put all these things together, my conclusion is that where we can be really unique is if this program could really address competitiveness. That's an area that is not well covered by the other existing organizations. It's not that they ignore it; it's just not their central focus.

It's an area where the U.S. brings unique strength. And it's an area where I think we could set up a distinctive focus to this program that would allow us to deliver this program in a unique way.

The existing areas of focus are far too broad. If we're talking about agriculture, we're talking about health; we're talking about all kinds of areas. There's a high overlap with other aid agencies.

If we approach it this way, we're going to give up a great opportunity to bring something distinctive, and we're going to raise the complexity of the foreign development assistance process. We're not going to create less complexity and more focus.

I believe these funds should be concentrated on the upgrading of recipient country's competitiveness. That's the only way to create sustainable prosperity and improvements in standard of living and sustainable reductions in poverty.

And this, very much fits the spirit of what has been said and written about this program. There's a distinctly economic and sustainable competitiveness focus in what's been said; and I support that and encourage that.

The specific portfolio projects should depend on each country's unique circumstances. So I believe that every country needs to put forward a national competitiveness assessment, as really the front end of its proposal for what we would be asked to support.

I also would strongly suggest that we actively encourage countries to consider proposing projects that address multiple levels of geography, that we not just look at national projects that focus on national policies, but we also incorporate projects that focus on sub-national regions, provinces, states, cities, because I think we're learning that decentralizing a lot of economic initiative down to lower levels of government and lower level of geography is very, very powerful in producing faster rates of progress.

Also in the opposite direction, we're learning that if we can get groups of countries working together that are neighbors on competitive initiatives, they can achieve faster progress.

So I think that the basic theme and conclusion here is we need more focus. I think a good focus would be on competitiveness. And as we pursue that, I think we can bring a lot of assets to the table, which I'll cover in a bit.

Now, how do we deliver this, or how do we work with the country? Well, I think the old model is that economic development is driven by government and primarily the central government, the government in the national capital. It sets the broad economic policies that determine competitiveness and economic development.

I think what we've learned over the last decade of research in this area is that it's really not quite like that, that actually, successful economic development is quite a collaborative process.

Government surely is a player, but it's not the only player. And it's not necessarily the most effective player. And in seeing this as a government initiative-- versus a collective or collaborative initiative, involving companies, the private sector, industry organizations, universities, schools, community colleges-- I think, is a mistake.

The more prosperous regions, the more prosperous countries that we work with are the ones that can work across these traditional constituencies and work collaboratively in order to produce progress that is jointly planned and then jointly executed.

We found that the private sector has an incredibly important role in economic development. Part of the private sector has an interest in economic development, itself, because the private sector benefits from success in economic development.

The private sector also brings important assets to economic development. It brings expertise, of course; but it also brings continuity. The biggest problem I find in countries in trying to development competitiveness agendas is that governments change, ministers change, priorities change.

What we've learned about competitiveness is that everything matters. The schools matter. The roads matter. The policies matter. The capabilities of firms matter. The level of available technology matters. All those things matter, and it's a marathon, not a sprint.

You can't transform a country's competitiveness by waving a wand and setting one policy. Your free-trade agreement is not going to make you competitive. It may be important.

But in order to be competitive, you're going to have to do a lot of things -- many of them are little things -- steadily, over long periods of time, in order to improve the productive potential of the economy, in order to improve the sophistication of firms, in order to improve the efficiency under which business is done, in order to relax the constraints on firms that are holding them back from moving to high levels of productivity which allow them to pay more -- higher wages and expand their exports.

You need continuity in this process. You need a process that continues for years and years and years. And private-sector involvement tends to facilitate that continuity, because the private sector is going to tend to be there.

Now, obviously, private-sector leaders sometimes have the wrong goals. They're trying to monopolize and protect and achieve subsidies but as we understand development process, we need to figure out how to actively, intricately involve the private sector in the process of development.

How should we structure our process in the case of the MCA? First of all, the attention to measurement and accountability is welcome. The idea that we're going to actually measure what our money is being used for and have true accountability is great.

However, we're not the first people to have thought of that idea. Lots of other aid and development organizations have thought about this idea too. And it turns out not to be that easy to do.

And unfortunately, if we take this too literally, we're going to end up biasing what we support to just a few things that you can measure easily.

So, for example, building roads is easy. You know how many miles the road is, you know how many cars go on it, and you know how many minutes it saved in terms of truck transportation time between this border and that border. That's going to be easy to measure.

But some of the other stuff such as improving the policy environment for competition, having a real antitrust policy, those areas are much harder to measure progress on. So while I'd like to applaud the folks on measurement. I'd like to just have us be clear that we cannot apply the same definition of measurement to all the areas.

The second point made here is the MCA process is unlikely to overcome the fragmentation and lack of coordination among aid organizations unless it focuses on a particular agenda. The MCA should encourage a new model of economic development which goes beyond the central government. I think the spirit of it very much contains that thinking. The question is what does that mean? How do we set that up?

I think one key part of setting that up is involving the private sector in an explicit way in how this program is implemented. And when I say the private sector, I don't just mean local firms. I also mean foreign investors in that country.

And, indeed, I believe that foreign investors in that country are an amazingly powerful ally in what we're trying to accomplish and can be explicitly persuaded to participate in this program. I would suggest from my experience that we set up a national competitiveness committee, or we expect that the country will set up a national competitiveness committee to interact with the MCA or the MCC, in order to both set the priorities and also implement the program; that that national competitiveness committee is chaired by the head of state but includes relevant ministers of government and also representatives from the private sector and from other organizations.

We could also encourage that executives from U.S. multinationals that are doing business in the country also be appointed as some of the members of that national competitiveness committee. What we have found is that when you're trying to enhance competitiveness, first of all, you are addressing areas that cut across traditional government boundaries. So competitiveness is about the Department of Commerce, it's about the Department of Justice, it's about the Department of Environment, it's about the Department of Transportation -- it cuts across. So you need an integrating mechanism in order to have a consistent strategy.

We've also found that you need a way that brings the private sector and the public sector together in a setting of mutual respect, in order to come up with priorities and an action agenda. And, again, there's some learning about how to create these committees and how they work, that we can share.

We also find that it's helpful to have an independent think tank which I have called here a competitiveness institute, that's not in the government, that doesn't depend on funding from the government, to essentially be compiling and analyzing data and kind of monitoring and producing regular reports on how the country is doing. And that's an important part of effective competitiveness agenda. So I think some of these notions we could build into the structure of this particular initiative.

How about the U.S. role? Well, I've already said one of my key points is that we should try to leverage our unique assets, instead of pursuing areas that could be addressed effectively by aid organizations. If we're doing something that existing aid organizations could do, we're probably just going to add to the complexity of the problem facing both us as donors and countries as recipients.

What are some of the unique things that the U.S. could bring to the table through this program? Number one, obviously, we have some enormous strengths as the most competitive and entrepreneurial economy in the world. We know a lot about entrepreneurship. We know a lot about technology and a technology development.

We have the potential to bring a greater opportunity to trade with us to the party. So the trade and investment agenda needs to be integrated or integral to this agenda, because it's an enormous asset that the country gets if they can work with us effectively.

We have a lot of U.S. citizens and U.S. residents who have connections with other countries, or who come from that country. And so getting the Diasporas that happen to be in the U.S. involved in this process is a real asset in building business connections and expertise. And I've seen this process at work many times in countries. It's enormous and powerful if you can actually mobilize the people who care about that country, who have been living and working in the more advanced economies, and understand how those advanced economies work.

We have a large number of multinational companies in the U.S. with operations virtually everywhere. I can tell you from knowing those people very well that they're very interested in being helpful to the countries in which they're investing. They're very interested in the rational, successful development of competitiveness in those countries, because it helps them. It improves their markets. It gives them a more rational place in which to do business.

And so, think of what we could accomplish if we could actually mobilize U.S. multinationals in this agenda. The $5 million would be chump change, compared to the resources that could be mobilized by the Chevron, Texacos, the Exxons, the Hewlett Packards and the IBMs around the world.

So let's design that into this program, rather than have this yet be yet another separate government organization that's sort of set off by itself, trying to do good. We have a lot of U.S. Government development expertise in USAID and other places. We need to find a way to bring that to bear.

And then we have a lot of market-oriented policy expertise in various parts of the U.S. Government. Right now, we're deploying that informally. There are a lot of missions between the Justice Department and foreign countries, or lots of visits between the FCC and countries to exchange ideas about market regulation or financial regulation. And I guess the hope is that if we have this expertise and if it's already being deployed informally around the world, why not be more organized about that? Why not make that part of the program? Why not connect the countries in some structured way to our policy expertise, as well as our money, as well as our economic relationships with our economy, as well as our multinational companies, as well as the Diasporas that happens to be in the U.S.? What if we could put these pieces together? We could achieve tremendous impact. How do you organize the U.S. effort?

I personally believe very strongly that we've got to integrate this program with other U.S. efforts to assist countries, rather than isolate it.
I just think that if we end up with a separate corporation, with a separate staff, we're just going to create massive confusion and complexity where it's not welcome, where it's just going to make things worse.

And so I think that whether the MCA is a separate corporation organizationally is a detail. It's how it's imbedded in the overall structure for foreign assistance of the U.S. [that's important] And I think we have to confront the fact that we're going to need to integrate it rather than take the easy solution and saying, oh, well, if we just separate it out, it won't have any of the bad problems that other organizations have. I think that's a cop-out.

I think if our existing aid organizations are not working, we should fix them, rather than create yet another one that's going to make everybody's job harder and more confusing. So, again, you can see now why I'm not an elected official and why I don't work here. But this is a really important opportunity we have. We can make a real big difference here.

So, let's get it right. Let's not do kind of things that seem like they would be the easy solution but they're not going to be the real solution. I think USTR ought to be integrally interconnected into this program, that part of what you get if you win the lottery and get to be one of these countries is you have a special relationship with USTR and a dialogue that works toward the trade and investment agenda with the U.S.

And I think that would be an enormously beneficial thing for the countries involved. I'm not saying we ought to have a free trade agreement with every country that gets to be one of our chosen countries. But we ought to give them massive incentives to get their kind of trade and investment policies right. And we ought to provide rewards for that.

I would suggest that for each country that gets selected, we create an advisory committee which consists of leaders of U.S. companies that operate there, U.S. residents that are part of the diasporas, and perhaps other individuals, so that part of the way the corporation would organize itself would be a series of advisory committees around each of the chosen countries. And those advisory committees would have quite a bit of influence in selecting things and providing counsel and guidance as they're implemented. I think we could create a task force of experts from U.S. agencies to assist selected countries in policy reforms, and we ought to do that.

I think we could also think about how the program could include facilitation of relationships with key institutions in the U.S. that would be relevant to that country. So the way I see this program as having the biggest impact is not to see it as a stand-alone corporation that simply gets project proposals and doles out money.

What I've been struggling with here is how could we create a relationship with a country that would be more than just the money that we give to these particular projects that would leverage a lot of strengths that the U.S. could bring to bear?

This may be hopelessly ambitious and impractical, but I actually don't think so. I'm convinced that if the new head of this corporation called ten U.S. multinationals from a country that we're thinking about selecting and asked them to be part of the steering committee, they would all say yes, with enthusiasm, because they want to help.

And I would guess that we'd have the same enthusiasm in other institutions in other parts of our American society to make this work. I think this is something that could mobilize a lot of energy in the U.S., not just be seen as a narrow government program.

Well, those are my prepared comments. And if we have a little time, I'd be happy to answer any questions. Thank you.

(Applause.)

MR. CRONIN: Thank you very much. Those were wonderful remarks, absolutely exactly what members of the interagency need to hear about as we're trying to figure out how we're going to structure, organize, and administer this Millennium Challenge Corporation. You've given us great food for thought. Now, I hope there's going to be some robust discussion here that follows.

I can't help but be struck by the parallel with the latest issue of the Harvard Business Review, which says the secret for great corporate success is clearly a focus strategy. And what you were saying was very much in consonance with that, we need a focus strategy for the Millennium Challenge Corporation. As somebody who's worked two years in the U.S. Agency for International Development, I know exactly how important that is and how that's akin to the Holy Grail out there. But it is very important to have a focus strategy.

When you focus on competitiveness, though, when we organize around this theme, how are we going to be able to go back to Congress -- how will the CEO and the Secretary of State and the board members go back to Congress, go to the American people, go to other donors and institutions providing assistance and demonstrate on a regular basis that we are making progress?

What precisely can we do to better build a sustainable Millennium Challenge Corporation, if you will?

PROFESSOR PORTER: Well, I would say that if we do choose to focus on this agenda, I think that the most powerful way of selling that is to say that, ultimately, no country will succeed, will help the lives of its citizens unless it can have a successful economy.

And I think that that very deep truth is well understood in America, and it's something that I think will have a certain resonance. If we combine that basic truth, with the observation that there are already a lot of other agencies providing assistance, that are very competent, that provide lots of money, that work on many, many other agendas, but this is an area where we think we can do something distinctive by mobilizing our assets, I think that message should have resonance as well.

Now you've asked the harder question, though, which is the question of how we measure whether what we do support ultimately makes a difference. Having struggled with this issue, myself, I think that when you think about measurement of success, you need to think about it in terms of multiple tiers.

On many dimensions of economic development of competitiveness, it takes a decade to show that you've got more corporations, or those corporations have actually added a significant number of new jobs. It takes years for a company to form. It takes years for a company to get itself organized and start to grow, and so forth. And so there's a long process by which the ultimate measure of success, which is wages rising and jobs rising and exports rising, actually manifest themselves.

Now, again, it's pretty easy to measure wages; it's pretty easy to measure jobs; it's pretty easy to measure exports. But those things are slow. Those needles are very slow to move. So what you've got to do is, you've got to think about what are the intermediate indicators that could give us some comfort that we are proceeding in the right direction.

And I think some of those may be hard data. So, for example, if we see, companies meeting quality certification standards, ISO-9000 standards, and we can count the number of companies that meet those standards, that's a pretty good predictor. As more and more companies meet those standards, over time, they're getting more competitive and they'll be able to export.

So that's an example of an intermediate indicator. Just because you meet quality standards doesn't mean you are competitive necessarily. It doesn't make the nation more prosperous per se. But it's a way station.

I'm a great believer also in survey data. I don't know if Jose Maria talked about the Global Competitiveness Report, but, there is a lot of difficultly getting hard data on the many dimensions of how a country is doing.

But, if you ask the business leaders how things are going, they have strong opinions. And that's what we do with the Global Competitiveness Report. I believe this year we surveyed 10,000 business leaders in 103 countries. And we do that year by year. And we ask are things getting better in terms of government bureaucracy? Are things getting better in terms of the efficiency of the road systems? And through surveying, year after year and comparing how business leaders and people in the private sector think things are going, you can get real insight.

So I think a combination of hard data, regular surveying, and patience, frankly, in expecting ultimate jobs to be created and wages to rise is extremely important. If you don't have patience, you tend to do things that sometimes are counterproductive.

You can create a lot of jobs if you subsidize the creation of new companies. But that's not going to ultimately win in the end. You can create a lot of jobs, often artificially. But what you've got to do is throw the focus on those underlying measures.

QUESTION: What role do you see the private enterprise people inside the country playing, because looking at your list there we've got the U.S. coming in? I'm just very conscious of the giving the impression that “Americans have all the answers and we're going to tell you what to do”

PROFESSOR PORTER: Right.

QUESTION: On your task force and on your advisory council--

PROFESSOR PORTER: Well, what we would tend to see in a successful country, where things are going well is there's the actual competitiveness committee, often, or some kind of advisory group, or whatever, in which private-sector leaders are prominent representatives -- and those are mostly dominated by local private-sector leaders.

So, in Nicaragua, on their national competitiveness committee, they would have two or three of the leading business leaders in the country who were part of this group. And they're the ones that are local folks, and they're providing kind of input about, what's broken and what's the biggest constraint. In economic development in particular, is about figuring out what is the most important constraint that's holding you back from moving to the next level.

Let me just detour here for a bit, because it may be helpful. I was recently in Rwanda, and I went to a coffee plantation. And it was a beautiful coffee plantation on a beautiful hill overlooking a lake. The lake part is important. I'll get back to that. And they were doing a great job growing coffee. But then there's the question of what do they do with the coffee once they harvest it? Well, the answer is, it has to be processed.

It turned out that until two years ago, there was no place to process it. So you had to pick the beans, put them in, a truck and ship them, a long, long way to get processed. And by the time you shipped them, you'd destroyed them and degraded them, and the quality had gone down, and the prices you could command were off.

So the obvious first constraint for that coffee plantation was to have a processing facility somewhere in the area? But once you had a processing facility, then you realized the processing facility was not being used two thirds of the year because there was only one crop per year.

But yet, the coffee plantation was in a very temperate climate, and the coffee plantation was sitting next to the giant lake, okay. So what about irrigation? So having two crops a year? That allows the coffee plantation to get more output but also makes the processing facility more efficient.

And then probably when you get that done, then the next challenge is going to be how do you get the stuff to market? Then you get into the transportation system and the logistical system. So essentially, what you're trying to do in building competitiveness is look out over the economy, look at those cross-cutting areas that are holding back all firms, like the road system, and then look cluster by cluster to figure out, okay, in our textile area, you know, what are the constraints; in our agribusiness area, what are the constraints? That's the process.

Now, you can see how important it is to have the private-sector people involved in that process. There's no way your local state governor or your secretary of commerce is going to be able to figure out what the key constraints are to allow businesses to get more productive and more effective.

So you've got to involve those private-sector leaders. Now, I think that at a national level, you can have a national competitiveness committee. I believe that every province should have an economic plan. And the provincial governor, elected or appointed, needs to have that responsibility. And the province can involve provincial or local business leaders in that process. And I believe that every cluster or every sector in the economy can organize itself around trade associations and industry councils to develop a plan. And so I think you can involve private-sector leaders at multiple levels.

Maybe in government, people worry about the ugly American telling them what to do. In the private sector, I will say to you that a Honduran businessman would love nothing more than to sit down with the CEO of a U.S. corporation to talk business. They're not going to see that as us imposing our agenda; they're going to see that as a great opportunity to learn how to make their company more competitive, to build business ties and business relationships.

So we should not think that the U.S. involvement, particularly by U.S. private-sector companies, is going to not be welcomed. It would certainly be welcomed by the local business community. So now, the U.S. as a government coming to, Honduras or Nicaragua or Rwanda and saying, okay, do this, that's going to be resented. But private sector to private sector interaction, I think, is going to be welcomed.

And, again, I think there's a lesson there. I think the more we can get this down to people working on the ground level, trying to figure out what to do to make things better, I think the U.S. help is going to be welcomed. The more we have people from on high, you know, giving instructions and setting priorities, then I think the U.S. involvement is [not] going to be welcome.

So decentralized, multilevel, private-sector engagement, are the key principals that will make this work, in my opinion.

QUESTION: Professor Porter, I'm touching on a little bit of what you just answered. But in one of your slides, you gave a list of, some of the U.S. strengths that the MCA ought to build on, including the Diasporas, U.S. big market for trade and investment, U.S. multinationals in the country. And so that's sort of a vision or a little bit of a focus of what the MCA could do. I was also wondering, building on just your last answer, if regional competitive clusters on, which you've spent a lot of your career working on for economic development, whether actual, selective target clusters make much sense for the MCA to get involved with. Or do you think the MCA should be more sort of a national trade and investment sort of policy committee of national competitiveness or whether they can actually get down to the micro level and effectively open up the idea to collaboration and competing on a regional level?

PROFESSOR PORTER: Okay. Well, first of all, I didn't have the chutzpah to say that this whole program should be structured around clusters--this idea is too associated with my own work. But let me first back up a little bit.

When we think about an economy and what makes it competitive and productive, you can sort things into two broad categories. First, there are one set of things that stimulate economic competitiveness, that are, what you might call cost-cutting areas. Those are policies or institutions or assets that are relevant and important for almost any industry.

So, back to the road system. Having a good road system benefits textile producers, metals producers, agricultural producers. Having, you know, a fair tax system, again, a cross-cutting policy; antitrust policy, also a cross-cutting policy. So there's a whole set of things that are cross-cutting areas and that benefit, companies throughout the economy. There's another set of things that enhance competitiveness that are cluster specific. It depends on what part of the economy you're looking at.

For example, in agriculture, there are certain things that affect competitiveness there, that are specialized to agriculture, like, you know, the supplier base in agriculture, the specific skills in agricultural, engineering or farm management. There's a whole set of things that are specialized to that particular cluster.

Now, the question is, do you work only on the cross-cutting things that really benefit every firm in the economy? The argument for that is that you're kind of neutral and that many of the cross-cutting things are pretty leveraged, in the sense that if you can improve the customs procedures, that helps a lot of people. So that has multiplier effects.

Having said that, I think that the cluster focus is such a powerful way to get the public and private sector working together that I would advocate a mix, that I would -- in fact, I would suggest that the MCA request projects of both types.

We want some cross-cutting projects, and we also want you, the country, to figure out, what are some clusters that you have that you might build on, like agri-business, or textiles. Clusters that you have now or that you want to build to something bigger- even extractive or raw-material-related industries.

One of the key principals of competitiveness is you can make any sector or any cluster more productive. And the other -- another key lesson of competitiveness-- is you need to build on your strengths; that is, as a country, you shouldn't try dreaming about getting into aerospace and spend all your effort on that. You should be building off of what you have. So if you have an agricultural economy, don't ignore that; make that more productive. Make that more efficient. Improve its technology. If you build on your strengths, then you can migrate towards more sophisticated industries over time.

So I think all those things suggest that we can have both broad-based and cluster-specific initiatives. We should let the country propose some cluster-related initiatives, and we can give them counsel on how to pick those. I think a combination of both. But I don't think it would be a good idea to drive this too much into the micro-micro. I think that's probably a little risky, given the nature of this particular program.

QUESTION: I'm really excited about the vision and the ambitious nature of where you would go with MCA. I want to go one step more in the ambitious direction of U.S. policy. We hear all the limitations, some of the political considerations that go into the initial selection process. But beyond those initial limitations and maybe some modifications to change that a bit, where should this go in terms of broader, longer-range policy?

My perspective on the question is that I've led a consulting team to create a global strategy for Chevron-Texaco's Community Engagement. The gratifying thing is that many, many legitimate business considerations on the ground are merely coming into their thinking on this. I think there's a great deal of movement on the multinational corporation side, although not a great deal of experience with actual on-the-ground partnerships. And, as you know better than I, it seems that from the corporate side there's a terrific amount of interest and potential and very much unrealized.

And so if we think of MCA in terms of its current limits, certain countries would leave out many industries where they would go. They would go into somewhere where they don't have a definite interest, obviously.

So what is the future going to look like for MCA involvement in your crystal ball?

PROFESSOR PORTER: Great. Well, again, I see part of my role here is to kind of stretch and, you know, dream a little bit. So, again, some of the things I've said are probably impractical. Many things may be impractical. But I think it's important for us to think big, at least for a while, before we get caught up in too many constraints. And so that was very much my intention.

I think you've raised a very important point. It would seem to me that this notion of mobilizing the private sector in an exclusive way is a huge opportunity.

As you probably know, I've written recently on that topic. I've worked with a number of the largest multinationals on their charitable giving. I think they're now starting to understand that their charitable giving can have much more impact if it's focused, if they use their strengths as corporations to try to better the lot of the countries that they're in, rather than just give little checks a bunch of random organizations.

So I think we have a groundswell of interest in the private sector. I think we can tap into that and actually get more resources for this effort. It seems to me that I would see this MCC as sort of a pilot effort that if after two or three years, it seemed to produce traction and progress, should become the US AID strategy. And essentially, we should migrate all of USAID and other aid strategy around this model.

Now, the complexity of that would be that USAID, for example, supports a lot of other agendas besides competitiveness. So there's two ways to address that. One is that we should integrate all the USAID competitiveness work into MCC. The other model is that all the non-competitiveness work the USAID is now doing should be kind of -- essentially, we should take the same amount of money and give it to international aid organizations and let them do it, because that's what they're good at. And so the U.S. would become more specialized in this area.

And I think you could apply the same basic thinking process to virtually every country that we support and the same framework, the same structure. So since that's too radical and since we don't want to blow up everything until we're sure it makes any sense, I would view this as a three to five-year pilot effort that we go in with the assumption that if we get this right, this is what we do as the United States.

This is not an isolated, side effort. This becomes the effort. And I think that, knowing the folks at USAID a little bit, I think that if we can demonstrate that this works and that this is powerful. So I think we're going to have a lot of enthusiasm to restructure the set of agencies around this kind of a concept. So I would see it as potentially being something that we could use much, much more broadly. And I would like that, because one of the things I have on the slide, that I didn't have time to mention, is I think that we can do more good in international development if we work with clumps of countries in a coordinated way.

So, for example, I've been struck with the power of regional initiatives, where you have all the East African countries involved. And so rather than give, you know, Tanzania money for roads and Rwanda money for roads, and Burundi money for roads, let's have a logistical strategy for East Africa and put our money into the road networks that's going to have the greatest impact, because the roads are primarily used for, you know, traveling and train and so forth.

So if we think about those strategically across a group of neighboring countries, we can often have much bigger effort. If we get a bunch of countries working together, they will motivate each other to improve.

We have this experience in Costa Rica. This gentleman here literally caused a whole, new generation of economic coordination in Central America when he was the head of state of Costa Rica. And it was fascinating to see the Salvadorans step up their rate of progress, because the Costa Ricans were at the table talking about all the things they were doing.

So I think, you know, I would like to see us organize our aid around groups of neighboring countries, where we can take advantage of synergies and incentives and efficiencies.

And so driving this MCC process beyond just a few countries, that we have to pick one here, one there, and one there, into a more coordinated model, I can get to another level with which we can dream about where this could develop over time.

QUESTION: A couple of questions where I'd like to tap your empirical experience. One, I think you posed a conundrum -- one of your earlier slides differentiated the MCA from business as usual. Yet, at the end, your conclusion is "the entity should be a facilitator of relationships." Now, there's a danger, of course, in doing so that the inmates take control of the asylum, that you end up, you know, making happen what was going to happen anyway, because the stakeholders that you're facilitating are going to do they're doing. So, I'd like to, you know, draw on what you've seen as examples of someone that does facilitate but gets something beyond what the normal delivery is of the players that they're tapping.

Second question: It relates to time flow of funds in your coffee plantation example. If you backed up the dump truck with a large grant at the very beginning of that cluster inquiry, you might have overwhelmed the system rather than, you know, basically parceling out the funds as a function of increasing understanding of the cluster and its requirements. And any thoughts about how to -- how you would handle that, given the Congressional budgeting process?

PROFESSOR PORTER: Yes. Well, I guess there are a lot of questions there. And in terms of the Congressional budgeting process, I think that MCC is going to have to have a pool of capital that it can invest over time if this is going to work.

If it has to figure out at the beginning of the year how much capital it has and then figure out what it's going to do after that, then it's not going to be very effective. It's -- there's going to have to be sort of a default level of capital, and that has to be set for some period of time. And then the strategy then needs to proceed from there.

I think one of the most important lessons I have gleaned from all this stuff that I've done is the need to do things kind of step by step, rather than try to get it all done up front.

How many, you know, developing country leaders have proclaimed, "We're going to provide water to every local citizen?" And all of a sudden, they fail, because they can't, because it's impossible. Rather than say, okay, every year we're going to expand our water system to another 3000 families, and we're going to expand it by expanding it in the ways that are the most efficient. We're going to start by extending it from where it is now to the next level of geography. So step by step, I think, is a key role.

Don't try to build Rome in a day. Let’s make the next step required to make things better. Develop some confidence in the process, and then go from there. So I think that in order to do that, the MCC would have to have a long-term strategy. It would have to be thinking in, three to five-year terms about, what's the sequence of projects over time. And they need to have the implicit commitment that, "Look, if you get this one right in the coffee cluster, then, you come back to us and talk about the next one. And we're going to be biased in your favor."

So I think we need to create a capitalization model that -- I hesitate to say -- is independent of the annual, Congressional appropriations process, because that's probably impossible. But at least they have -- we see it as a capital base that they're investing, rather than annual budgets that they have to figure out how big it's going to be before they can decide what to do, because I don't think that will work.

In terms of facilitating relationships, I think I'm presupposing in that formulation that the MCC would be focused on competitiveness. I think you will find that the key relationships for competitiveness have to do with relationships with the private sector, relationships with universities and business schools and training institutions, industrial organizations and their agenda.

I found that those kinds of institutions tend to -- once they get to know each other and develop confidence in each other, they can work together quite effectively. And what I'm saying is that these relationships don't exist today. And if we did a better job of creating those relationships, that would allow us to enhance competitiveness faster and enhance productivity faster.

For example, if you can get a trade association in a developing country for the textile producers, to define part of their role as improving education for their work force, that's going to have a tremendous impact. That's not the way most trade associations think in developing countries. They think in terms of lobbying with the government to get, trade protection. They don't think in terms of building the collective assets or environment for their cluster.

So if we can get those organizations to think differently, that's going to produce, I think, long-term change. There will not be a lot of complexity. What worries me is, some of the documents that I read about MCA were focused very broadly, and they were talking about having civil society actively involved in deciding everything and NGOs. And all of a sudden, I started getting worried, that if we have every NGO and all the interest groups in the society debating about whether we should put money into health or housing, then we're going to have a hard, hard, hard problem. So once the focus -- the desire that I had any way to focus this agenda was it, in very -- no small part could actually facilitate productive dialogue and productive relationships instead of a massive debate about overall priorities.

COMMENT: -- it effects the population, the competitive stakeholders too -- away from business community --

PROFESSOR PORTER: Right. Now, then, presumably, you're going to have a lot of people in the country who are going to be, concerned about globalization, and concerned about, worker rights. Competitiveness has complex issues and everybody's agreed, that supporting business is a good thing.

So I don't want to minimize that there will be some complexity, even if this is focused heavily on competitiveness. But I think that would be, perhaps, more manageable than if we open the territory to the countries and say just, look, MCC is about anything you want to do. Just come tell us what your priorities are. I think that would create more complexity that would not be productive.

QUESTION: If I could build on your model earlier, I come neither from the supply side nor the demand side. My last number of YEARS have been on the investment side, which hopefully, means you get some of the -- get the money back, hopefully, with some more. Coming out of that discipline is very much a focus on investment and growth, which makes me quite sympathetic to a lot of the ideas that have been advanced this morning.

QUESTION: This question is really more for the panel as a whole. And I look at the MCA, which is intended -- it really is a breakthrough idea in concept. There's a couple of aspects of it that are in the existing legislation, which I think are a lot of good ideas; but I wonder if they get in the way of some of the ideas that you've advocated -- all of you've advocated this morning.

And one is that all of the MCA funds take the form of grants. This, perhaps, retakes the discipline away from investment, perhaps reinforces consumption. Should it not have the ability to take equity? Should it have the ability to somehow provide loans?

I suspect the original thought comes from the concerns about excess indebtedness, but I noted Mr. Klein's comment that that really may not necessarily relate to growth. But setting that aside, it also presupposes that the only recipient of funds are governments. And I'm wondering if that is necessarily the right model.

The basic question is one of, should all the money take the form of grants? The second is a -- there's a fundamental concept underlying MCA of contracts between the United States and individual governments.

And, again, it seems to have very good reasons, in terms of performance standards, etcetera, in terms of where that would come from. But does that, first, reinforce some of the centralized top-down decision making in the recipient countries that all of you, I think, have warned against?

And secondly, does it get in the way of regionalism? So how would you, in the light of those two basic themes make some adjustments or changes in what's currently going forward?

PROFESSOR PORTER: Well, let me be brief because I've had my share of air time here. I guess my intuitive sense was not to raise the grant issue as a particularly, big issue, because, number one, the country's access to normal investment capital is really a sign that they're probably not a good focus for this program.

I mean, if a country can go out and raise capital in the markets or companies can go out and raise capital in the markets, we really shouldn't be thinking whether or not the projects can support, kind of market returns, then that's not really what we're supporting here. And there's a lot of debt already. And so I guess I didn't have any intuitive sense that the focus on grants was going to get us into trouble. So I guess that's just my reaction. I don't have any objection to being a little bit open-minded about whether grants are the only way that we would provide support. But I don't think that doing grants is -- that it's a problem that should stop this from being useful.

On the point of contracts, I think that the notion that you have a formal written agreement about what you're going to do, as sort of who's going to do it and how it's going to be evaluated, I think is a good thing.

I think the question of who the contract should be with is, however, a more complex question. I don't think it necessarily needs to be with the central government. Maybe it's with the National Competitiveness Committee. Maybe it's with the implementing group of whatever project it is that you've selected.

So I think we need to think a little bit about, who the contract should be with or who should be the signatories on it. I think you're but I agree with the spirit of the notion that we should not, make this so centralized with the minister of finance or the central government that we, you know, kind of fall into the problems that that has created.

MR. FIGUERES: On this point, since it was addressed to the panel, I would agree with what Michael has already stated. Then for a couple of minutes on losing comments -- and thank you so much, Michael, for the presentation is “como siempre”, as usual. And thank you, Patrick, for the opportunity.

I started out this morning by saying that I was very interested in this whole process going forward because we needed to reinvent development, reinvent the equation of development. And I then proposed that, perhaps, we consider making competitiveness the core principal around which we organize development. And a lot of Michael's presentation has addressed those two issues in a way of pushing this forward. One -- two additional comments, then, if I may.

The first one is with respect to the medium and long-term reach of where this Millennium Challenge Corporation could go. I would see it not only with a very focused objective in mind, of making competitiveness the organizing principal of development, but I would see further on down the road two value-added opportunities.

The first one is that in so doing, it begins to organize the other AID activities that are being presently undertaken by the U.S. administration. And I think that there is a lot of value from the demand side from the countries of the recipients, in terms of having something that begins to bring the different pieces of the puzzle together in a way which is much more coherent and which at the same time, therefore, addresses the cross-cutting nature of competitiveness that Michael has already spoken about.

The second round of value-added opportunity would be for this, then, competitiveness program to begin to organize what other aid organizations from other parts of the world are doing in these recipient countries.

And there's also a tremendous amount of need to better pull those pieces together around something which, from a developing-nation perspective, I see in political terms, absolutely not only politically neutral but also the way to go forward, which is the whole issue of competitiveness.

So here, I see a competitiveness program beginning to pull together, first all of your other U.S. programs and then many other programs that are out there that are kind of scattered and really not always being so helpful.

Since Michael mentioned coffee in Rwanda, last year I was in Uganda at a competitiveness workshop convened by President Museveni and there were so many different aid organizations there that were very, very proud of the fact that they were financing the plantation of coffee in Uganda. Uganda is a land-locked country. I asked how much a container of coffee is to the East Coast of Africa. Both ways, it's about $5,000, because of the deplorable state of the infrastructure in that part of the world. I know what Vietnam is selling coffee for in the world market and where Vietnam could still continue to sell coffee and be competitive; and I know a little bit about coffee producing because of my background in Costa Rica.

Well, stimulating the planting of coffee in Uganda is nothing more than stimulating poverty. At the price of coffee today and where coffee can be sold and produced competitively by Vietnam, Uganda is already paying 65 percent of the value of a container, just in the transportation to get it to the port. What's left for the producer?

So this talks also to the issue that – which Michael addressed, which I'm very much in favor of, of looking at clusters as well. And that is something which can provide a tremendous amount of benefits.

Finally, with a lot of – bravado is not the word -- but with a lot of something else -- just one thought on how this process is organized within the states, which Michael addressed and which I think is absolutely fundamental and very essential.

As Michael was talking about this, the thought came into my mind of reflecting on GAVI, the Global Alliance for Vaccination and Immunization. And this must be very clear here, because the U.S. is, in fact, a very important strategic supporter of GAVI. GAVI, to my utter amazement, and I hope yours as well, is a secretariat of five people, working already in 54 of the 74 nations that have a per capita income of less than $1 -- of less than $1,000 per capita.

How do they do that? Working in – providing vaccinations now to over 20 million children, of which 15 percent would die had they not received this vaccination program. How do they do it? It’s very simple- they begin by having a supply, but they wait for the countries to be proactive. They expect the country to put together a national vaccination committee, which is very much like a national competitiveness council, which then gives it the broad base of support that the program needs to go forward.

And they leverage the particular competencies of other organizations around the world in supplying the different specific components of a vaccination program. So GAVI, very efficient, very strategic, only five people, are in effect, leveraging thousands of peoples working in tens of institutions with millions of resources, in terms of money, in bringing the different pieces and components of the progra m together in a way that makes sense. And that, possibly, with, of course, all the necessary adjustments may be something that you may want to look at.

DR. KLEIN: All right, I'll try and say a few things here. Aid has been associated with success. Aid has been associated with failure. All aid agencies -- all of them -- are small players in an ever larger market.

There is no miracle idea around; everything we've heard today has not been discussed before. And of all the instruments that have been put forward -- and I would agree -- personal sympathies; I've said so before -- I would agree with a lot of what has been said. But there's nothing new in this.

There is Competitiveness Councils, or whatever we call them, in a ton of countries, etcetera, and etcetera. One can always say it hasn't been done well enough yet, but none of this new. So what is new? Where are the things that might give a chance to the Millennium Challenge Account or similar efforts? I think there are three areas that are worth thinking about.

One is by design, and we'll see -- and as Michael Porter said to us on open question and others noted as well -- we'll see whether the chance here to set a focused agenda that is independent of the traditional foreign policy interests can be grabbed and be made real.

Setting focus, of course, is difficult in and of itself. Competitiveness is one proposal. Competitiveness itself is a rather broad set of questions, and how to make a real focus out of this will remain a challenge. But it may be what is possible.

The second thing that is new in the debate, or recent, shall we say, is the emphasis on grants, which is embodied in the Millennium Challenge Accounts. And here, one of the issues is the discipline question or how will we have discipline in grant-based systems? And I would think there are basically three types of disciplines. And I'm sure we can find other varieties of that, but basically, I would try to distinguish three. And I sort of mentioned them in the -- in my presentation at the end.

One is where you can have contractual arrangements with private sector, using private-sector providers, for example, for the delivery of certain services and pay out the grant when the service is delivered, in effect, subsidizing user fees in that way, rather than putting the subsidies up front into the terms of finance.

I mentioned the Chilean water system, which is one of those that does that, where subsidies are paid out when eligible households actually receive water. We have simpler schemes in a number of countries, for example, in auctioning off rural telephone services in Peru to the bidders of the lowest subsidy, etcetera, and etcetera. They have contractual agreements that provide discipline. And if the performance by the provider is not there, then the grant isn't paid out. And if it is there, then the grant is paid out, and the goals are achieved.

The second type of discipline that can come in or can accompany grants is a variety of forms of evaluation. And here, I would distinguish two major ones.
One is when you cover a whole lot of different people in a program and try and measure whether or not a control group, which we try to control for selection bias as well, has actually performed better or worse in the program.

The most famous in developing countries -- example of such an evaluation is the “Progressa Program” in Mexico, where mothers, basically, and families have been given cash grants if they achieve certain targets on school attendance, etcetera, health care, and so on. And that has been evaluated against counter-factuals and with control groups and been proven successful and has survived administrations which such programs normally have not done in Mexico. So this is one approach.

But when we don't have large groups with control groups and the proper techniques here, then what can we do? The only other thing -- and that goes to policy, for example, as one of those areas. So when we talk about what is the right business environment for private sector, what's an improvement in property rights and contract enforcement and entry -- etcetera, etcetera in -- the level of competition and so on, we need data. And as the only way forward is better data systems, and we've seen some of them alluded to this morning.

And so at the end of the day, the grants -- and this is the -- so we're coming into new things. One is -- number one, the ability to set a focused agenda.

Number two, dealing with grants opens up a lot of scope for introducing certain types of disciplines. But without those, most likely, it will go exactly the wrong way. And that leads into the data issue. Without improving the kind of data that provide good feedback to those providing grounds, this is -- this is going to be problematic. And hence, once again, as I mentioned before, the effort to have a systematic focused efforts on better -- developing better data sources, be it survey data for certain questions to have be surveys. The challenge here is to go to representative survey that are more robust than many of the ones that are done to the moment, as well as other types of measures, such as the one that I briefly mentioned in our doing business project, which capture policy in a way that is not dependent on individual opinion.

MR. CRONIN: Thank you. The final task here for closing is simply to thank the many people who helped organize this today, not least the Chamber of Commerce for providing this wonderful facility, for the U.S. Agency for International Development, Polly Byers and Steve Brent, Lee Howell, Tish Butler, and others that I'm not mentioning, along with the University of Maryland IRIS collaborators, who are going to help produce a timely report of this proceeding.

And we will all look forward to reading that, because there's been such a rich menu here today of ideas. I want to thank all the participants for coming and staying with us this morning, for your patience, and for the few questions we were able to entertain.

And finally, just please join me in thanking the speakers, Michael Klein, Jose Maria Figueres, and Professor Michael Porter for their words of wisdom this morning.