

ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID

PUBLIC MEETING

- MAY 22, 2002 -

SUMMARY REPORT

“THE NEW COMPACT FOR DEVELOPMENT: DESIGNING A BLUEPRINT FOR CHANGE”

William S. Reese, ACVFA Chair, noted that this was ACVFA’s first public meeting since the International Conference on Financing for Development in Monterrey, Mexico in March 2002. The announcement of the Millennium Challenge Account (MCA) by President Bush in March 2002 represents the largest infusion of U.S. public money for development in our working lifetimes—\$5 billion per year by 2006. This meeting provides an opportunity for public input on the criteria, selection issues, and indicators associated with the MCA.

KEYNOTE ADDRESS

**FREDERICK SCHIECK, DEPUTY
ADMINISTRATOR, USAID**

As a follow-up to ACVFA’s February 2002 meeting, Mr. Schieck presented an update on USAID’s work in Afghanistan. USAID assisted the Afghan government in preparing for the opening of schools on March 23 by printing and distributing over five million primary school textbooks and four thousand teacher training kits. USAID also printed five million secondary school textbooks. USAID is providing food supplements to augment the salaries of 30,000 teachers, many of whom are women.

In agriculture, USAID supported the spring planting by purchasing and distributing 7,000 metric tons of seeds and

15,000 metric tons of fertilizer, reaching 140,000 farmers. USAID is working with UNICEF and local non-governmental organizations (NGOs) to address the issue of the drought. USAID is creating income alternatives benefiting approximately 45,000 rural people and is assisting farmers to switch from poppy to cash crops. Food supplements are being provided to more than 200,000 civil servants. The main focus of USAID programs will be community-based actions to improve livelihoods and restore economic opportunities.

A major event since the last public meeting was President Bush’s announcement of the Compact for Development and the Millennium Challenge Account. This initiative will be linked to effective and successful development.

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

Mr. Natsios pointed out the historic nature of the Millennium Challenge Account. Noting that MCA resources would be added on to the existing U.S. foreign aid program, Mr. Natsios emphasized that countries that do not qualify for the MCA will continue to participate in traditional programs. USAID will focus intensively on those areas that will help countries to qualify for the MCA.

Depending on the structure, foreign aid programs can move a country toward reform or undermine reform efforts. In

the early 1990s many Latin American leaders used the U.S. foreign assistance program as a tool to bring about democratic and free market reforms in their countries. The MCA is designed to put tools in the hands of reformers.

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

The success of the MCA will require the cooperation of many groups, including local and international NGOs, universities, and the private sector. Mr. Natsios closed by stating that USAID looks forward to working together on this important effort.

“THE PRESIDENT’S NEW COMPACT FOR DEVELOPMENT”

FREDERICK SCHIECK, DEPUTY ADMINISTRATOR, USAID

Mr. Schieck stated that the main goal of the MCA is to promote economic growth and poverty reduction in developing countries that have made strong commitments to **ruling justly, investing in people and promoting economic freedom**, the categories mentioned by President Bush in his speech announcing the new compact.

There are a number of interagency committees at work defining key components of the MCA. Target completion date of the various components is July to September 2002.

Mr. Schieck highlighted some of the approaches currently under discussion. The MCA will focus on performance and economic growth. Funding will be directed to selected countries that have adopted appropriate policies and reforms necessary to accelerate economic growth, improve governance, and provide a better standard of living for their citizens. A wide range of programs and activities is envisioned.

A task force is developing proposed criteria by which performance can be judged in the three broad categories outlined by the President. When the process of defining indicators is completed, there will be the difficult question of how to weigh performance among the indicators and identify appropriate modalities for funding. Some possible modalities are:

1. Funds will be provided on a grant basis only, although some funds may be channeled through credit institutions for lending to target beneficiaries.
2. MCA will be largely a bilateral program.
3. Provision for data collection and performance review will be built into the program.
4. Investment needs and growth potential of selected countries will be taken into account in determining the allocation of funds.

Possible investment sectors include public management, entrepreneurship, international and regional trade, agriculture, education, health, finance and business. Economic growth and poverty reduction will be central to all interventions. Mr. Schieck remarked on the importance of having flexible tools, including the ability to design programs at

the local level.

The U.S. government expects to have many partners in implementation. The MCA represents an opportunity for the U.S. development community, public and private, to focus on performance as the base for assistance programs.

“MCA countries must have made strong commitments to ruling justly, investing in people, and promoting economic freedom.”

DISCUSSION

Issues discussed include the following:

What are the plans for participation by developing countries, particularly women and rural people, in this process? There are small interagency groups working on these concerns. It is important that the identification and design of projects is not a “top down” process.

The NGO community believes it is important for the MCA to keep a focus on the Millennium Development Goals

(MDGs). This principle is emphasized in InterAction’s policy paper on the MCA that addresses many of the issues that concern policymakers and NGOs.

There is a need to have objective criteria, but there is also a need for flexibility and judgment. If the bar is set too high, there will not be enough countries that qualify for the program. The MCA should be targeted to the poorest countries.

What is the management structure for this new initiative and what role do other federal agencies have? The participants on the committees at this time represent the Department of State, USAID, Department of the Treasury, and the National Security Council (NSC). Other U.S. agencies will participate at some point. An interagency process will have program oversight.

Will the MCA target a large or small number of countries? Preliminary thought is that assisting fewer countries with larger resources would more likely lead to success, but the issue has not been decided.

How will the bilateral framework mesh with programs requiring regional strategies? The interagency groups are open to the idea of working jointly with international organizations.

Will funds be provided through program, sector, or project assistance, and will any new modalities be considered? There should be a wide range of modalities and tools to address problems.

“THE MILLENNIUM CHALLENGE ACCOUNT: DEVELOPING EFFECTIVE PARTNERSHIPS, CRITERIA, AND MEASUREMENTS”

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

Mr. Larson remarked that this new presidential initiative is an attempt to take an approach to development policy that reflects U.S. goals and interests. It recognizes the importance of good governance and mobilizing all available resources. Good development requires well-targeted assistance to help

countries attract and use effectively other financial resources that are far larger than Official Development Assistance.

The MCA is aimed at getting concrete results by working with committed partners. There are enormously larger returns on development investment when assistance is given to countries that have a strong policy framework. President Bush outlined three broad criteria: ruling justly, investing in people, and an economic environment that rewards enterprise and entrepreneurship.

The United States will continue to be the world’s largest provider of humanitarian support given on the basis of human need rather than internal policies. Countries that don’t meet the high standards of the MCA will continue to receive assistance under traditional programs. The MCA will be a spur for countries to make policy reforms to meet the standards. The MCA can also have a strong positive impact on the development programs of other major donors.

Mr. Larson invited meeting participants to provide input on the criteria. Outreach to developing countries, NGOs, and the business community is a serious part of the MCA strategy.

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

Mr. Schuerch remarked that teamwork is a hallmark of the current MCA interagency process among the Department of State, the Department of the Treasury, the National Security Council, and USAID.

There has been a clear demonstration of failure of past foreign assistance programs. There have been successes on a project-by-project basis, but overall, too little has been accomplished relative to resources. The MCA represents an opportunity to create a new paradigm for foreign aid with a focus on economic growth and poverty reduction.

There are many issues, including how to measure progress toward the program goals and how to allocate resources effectively. There is a strong recognition that public support

“Countries that don’t meet the high standards of the MCA will continue to receive traditional development assistance.”

is dependent upon on demonstrating progress and achievement in development assistance efforts. The MCA will emphasize accountability and transparency. Other issues relate to data that is missing or of poor quality; frequency and timing of data collection; how to aggregate the data; how selective the process should be and how to incorporate flexibility and judgment; absorptive capacity of recipient countries; and what modalities should be used. There is also a concern that countries will learn to “work the system” over time.

The interagency groups are looking at existing criteria and measurement systems that can be applied or adapted to the three areas of concentration. A pilot component is under consideration.

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

Mr. Cronin made three main points:

1. It is important to preserve the President’s vision of the MCA.

This is a unique opportunity in the history of U.S. foreign policy to reshape foreign assistance. This opportunity should not be corrupted by predetermining how to spend the money or by laying out an easy set of criteria. This process will take a lot of deliberation, especially with people on the ground who must implement the assistance. “Freedom” cuts across the three sectors that the President has articulated — freedom from bad governance, human rights abuses, illiteracy, illness, and poverty.

2. The criteria will be designed to encourage reform.

The Marshall plan encouraged European countries to adopt reforms. Similarly, the MCA is designed to provide support for reformers and provide an incentive to change policies.

3. Partnership and outreach are key components of the MCA.

Partnerships will include NGOs, the private sector, universities, and foundations. Four out of five dollars that flow to the developing world are from private sources. This money should be harnessed for development. USAID’s Global Development Alliance (GDA) provides a new model

for thinking about partnership. It is critical to work in partnership with the people who are on the ground and know what needs to be done, and how to do it smartly.

ROBERT CHASE, ACVFA MEMBER, VICE PRESIDENT, WORLD LEARNING

The MCA will provide a vehicle for a new global consensus around development. Mr. Chase urged the meeting participants to review InterAction’s MCA policy paper. He briefly paraphrased some of its issues:

“It is important for the MCA to keep a focus on the Millennium Development Goals.”

- Focus on the longer-term Millennium Development Goals
- Funds should be in addition to current levels of foreign assistance
- Ensure assistance to countries that don’t qualify for the MCA
- Focus funding on a relatively small number of countries at a significant level to make a difference
- Serve as an incentive for countries to meet the MCA standards
- Disburse aid as grants, not loans
- Do not provide funding exclusively through national governments
- Reflect the abiding humanitarian concerns of the U.S. people
- Promote donor coordination
- Build genuine partnerships and commitments from societies, not just governments
- Be part of a multi-part, coherent development strategy.

Mr. Chase remarked that the Poverty Reduction Strategy Papers (PRSP) required by the World Bank and the International Monetary Fund (IMF) address many of these principles. Mr. Chase urged the architects of the MCA to take a fresh look at the PRSP, to borrow from it, work with it, and learn from it. This is an outstanding opportunity for the United States to exert leadership among donors and leverage their funds and national budgetary resources, which together far exceed our bilateral aid.

A significant reason why U.S. foreign aid has not received better results is that past development assistance allocations were made on the basis of short-term foreign policy considerations, which provided no incentive for governments to reform. The beauty of the MCA is that it is genuinely developmental. As the program unfolds, it will be important to ensure that allocation decisions are as transparent as

possible. If the MCA is saddled with legislative earmarks, it will be rendered ineffective. A challenge has been thrown out to the non-governmental community to make sure that doesn't happen. Securing buy-in from Congress will require bipartisan involvement early in the process.

In closing, Mr. Chase remarked that the MCA also provides a wonderful opportunity to reach out and educate the U.S. public in new ways of thinking and understanding the development process.

DISCUSSION

Issues discussed include the following:

How will gender be considered in the development of the criteria? Gender groups will be included as part of the outreach. Country commitment to gender equality in education, health, agriculture, and ruling justly must be examined.

Have the interagency discussions included how to ensure that education, health, and other sectors remain a key part of this new initiative? A significant amount of resources should go for education and health, but ultimately countries must fund their own health and education systems. Resources must be devoted to achieving economic growth in order to build economies that are capable of supporting these programs. Economic growth is fundamental to poverty alleviation.

How will the MCA orchestrate civil society, government, and private sector goals in achieving the MDGs? One must consider the opportunities, strengths, leaders, and reformers available to move society forward. Needs identification has to be done jointly from the bottom up and the top down. There also needs to be a broad consultation on determining appropriate implementation mechanisms. How countries use their domestic savings is a key issue. In addition, the international framework that supports development, including trade, must be considered.

Many earmarks are the result of constituents across the country influencing their congressional representatives. There would be great benefit in involving people outside of Washington, D.C., in this process as soon as possible.

“Allocation decisions must be as transparent as possible.”

What is the state of current talks between the U.S. government and the International Development Association (IDA)? Most performance issues have been resolved. The World Bank is committed to a broad measurement system in line with UN and MDG goals. With regard to the grants issue, the range of differences has been narrowed significantly, but it is not possible to predict the outcome. A range of 18-21 percent of overall IDA resources is under discussion. There will probably be a fairly flexible system focused on social sector areas. Grants are already part of IDA, but have not yet been used within the bank system to offset prices of commercial services delivered to the poor.

The Center for Global Development (CGD) proposes a two-stage selection process:

- 1. Eligibility based on very clear minimal thresholds*
- 2. Eligible countries compete for MCA funds by proposing particular programs*

The interagency groups have discussed the two-stage approach. Issues of objectivity, transparency, effectiveness, impact, and flexibility are being examined.

Studies have shown that 70 percent of U.S. development assistance stays in this country. How could the MCA ensure that a greater portion of aid reaches the intended beneficiaries? Some aid that remains in the United States does actually directly benefit the recipient country and its people, for example, if the aid money were used for a high-caliber education consultant whose work made a real difference in the education system in the country.

AFTERNOON OPENING REMARKS: WILLIAM S. REESE, ACVFA CHAIRMAN.

Mr. Reese stressed the historic nature of this new presidential initiative. Public opinion surveys have found a great deal of public support for foreign assistance. This new initiative brings significant new funds to assist developing countries, but the work is not done. The non-governmental community must participate in the dialogue and planning to ensure that the MCA is designed well and is approved by Congress.

Mr. Reese urged the audience to be as positive and constructive as possible in contributing to the dialogue about

the MCA. This process represents a great opportunity for the NGO community to work together, identify successes, and help shape the MCA into the best possible program.

“CRITERIA AND SELECTION ISSUES: CONSULTATION WITH NGOS”

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

Mr. Cronin urged the audience to participate actively in the breakout sessions. He reminded participants not to lose sight of the President’s vision of the MCA. The vision is a motivation for those involved in the interagency process to use this money very strategically to lift an historic number of people out of poverty through economic growth.

The MCA will be a strong incentive for reform, both for the countries that receive MCA funds and for those that aspire to participate. Mr. Cronin asked the audience to consider ways to measure change and reform.

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

Mr. Cronin invited participants to contribute to the dialogue about the MCA criteria and indicators. He asked the audience to consider indicators that reflect the goals of the program and can be readily ranked by available data, without disadvantaging poorer countries that many not have the data. A basic question to be considered is how many measures should be used overall and in each of the three categories.

REPORTS FROM BREAKOUT GROUPS “CRITERIA, SELECTION ISSUES, AND INDICATORS”

GROUP 1 — GOVERNING JUSTLY

Comments and suggestions about criteria and indicators:

- Consider whether a country is actually ruling justly, not just that it has good governance policies
- Include both civil liberties and political rights - a just system requires both
- Consider the nature of the judiciary and the capacity to ensure that the rule of law is being implemented
- Address transparency, integrity and anti-corruption
- Consider other models of democracy from around the world, not just the United States
- Address the full participation of women
- Examine broad public participation in government
- Identify disqualifying attributes
- Ensure that countries realize how the criteria were chosen and how they can make changes to meet them
 - Have a gradation of criteria, recognizing that it is policy dialogue that brings about change
 - Measure behavior changes over time
 - Include qualitative narrative in the indices from which the criteria are drawn
 - Consider using the PRSP (Poverty Reduction Strategy Paper) process as the basis for criteria

“The MCA will be a strong incentive for reform.”

Other comments:

- There are many sources of data and indices to draw upon in developing criteria, including Freedom House’s *Freedom in the World*, *Nations in Transit*, and the *Judicial Independence Guide*.
- There is concern about when developing countries will have the opportunity to provide input. The July-September 2002 time frame is difficult.

GROUP 2 — INVESTING IN HUMAN CAPITAL

Nancy Birdsall, Center for Global Development, outlined seven principles for structuring the MCA:

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

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

Comments and suggestions:

- Criteria and delivery systems are interactive and influence each other.
- Partner governments deserve a security of financial support if they meet the criteria.
- Pay attention to strengthening public and congressional support for this program.
- Consider whether countries must meet every criteria equally in order to qualify for the MCA.

GROUP 3 — ECONOMIC FREEDOM

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

Comments and suggestions for the criteria and indicators:

1. Focus on the world’s poorest countries and poverty alleviation.
2. Focus on the correlation between economic freedom and the social benefits that accompany it.
3. Measuring growth in small and medium enterprises could be a key indicator.
4. Examine economics at both micro and macro levels.
5. Recognize that criteria for the President’s three categories will overlap.
6. Develop simple, transparent criteria with the participation of local stakeholders.
7. Establish expectations and benchmarks needed to stay in the MCA.

Other comments:

- All economic indices contain built-in biases. However, an objective index based on already available statistical data offers the best basis for making country selections without political bias.

- There should be an eligibility process and a selection process. The selection process should include sector and programmatic considerations. It is of utmost importance to select the “right” countries (from among a group of eligible countries that would include the poorest), so as to demonstrate success.
- Countries should set their own targets for the indicators. Success or progress should be judged against those targets. Funds could increase or decrease depending on performance.
- Impacts from the global economy and world trade must be factored into the process.

This summary of the ACVFA public meeting has been prepared and distributed by the USAID Office of Private and Voluntary Cooperation in the Bureau for Democracy, Conflict, and Humanitarian Assistance. The full report is available from ACVFA Program Assistant, 1331 H Street, N.W., Suite 200, Washington, D.C. 20005-4706 or e-mail: pvcsupport@datexinc.com or online at www.usaid.gov/hum_response/pvc/acvfadir.html.

Mark Your Calendars
Next ACVFA Meeting
October 9, 2002
Washington, DC

**ADVISORY COMMITTEE ON
VOLUNTARY FOREIGN AID (ACVFA)**

May 22, 2002

Meeting Report

For more information, please contact:
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