

A Brookings Institution and Center for Global Development Event

GLOBAL POVERTY: HOW WILL AMERICA RESPOND?



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Panel:

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Note: Due to an extended Senate Foreign Relations Committee meeting, Senator Chuck Hagel (R-Neb.), who was scheduled to serve as keynote speaker, was not able to attend.



MS. LAEL BRAINARD: Good morning. The topic for our discussion today is U.S. policy toward global poverty, and in particular the Millennium Challenge Account.

In March of last year President Bush announced in the context of a UN Summit his intention to create a new account that would, over three years, rise to \$5 billion annually. That in itself is a very large and important increase, nearly doubling current U.S. bilateral development assistance.

Subsequent to that, the Administration also announced that they would create a new agency to administer this fund and that the purpose of it would be to underwrite development strategies in countries that are ruling justly, investing in people, and encouraging economic freedom.

Brookings and the Center for Global Development, we recognized this as an important opportunity, the kind of opportunity that comes along perhaps once every one or two decades.

Because of that we assembled a group of scholars who are multidisciplinary to look at these issues. The people that you see before you span the spectrum. We've got experience in programs and in policy. The people on the panel have worked in sub-Saharan Africa, Latin America, Asia, and have worked throughout the U.S. government, in the international financial institutions, in the private sector, and for NGOs. So we bring a lot of different perspectives to this work.

I think what you'll find in the comments this morning that this group is very diverse and in fact brings somewhat different perspectives to this issue. The group doesn't always agree with each other, but when they do it's very powerful.

What we're going to do today is start with the panel offering some observations on their recommendations, their analysis of how the Millennium Challenge Account should move from a proposal to legislation, which is currently underway on Capitol Hill, and from there to actual implementation.

We're very pleased to have Senator Hagel coming to talk about the Millennium Challenge Account from the Capitol Hill perspective. Because of the fluidity of events in Iraq, and because of his position on the Senate Foreign Relations Committee, his schedule is a little bit fluid this morning as well. We're expecting him around 11:30, so we'll start with the panel. Hopefully his schedule will work so that we can then pass it over to him, and then we'll come back for questions and discussions with the group.

I'd also like to let you know that there will be lunch served at the end of this event out in

the hallway, so please do stay around for that.

Let me also start by mentioning a few thank you's. As with so many things in life the people who really deserve the credit for the book, which is going to be released on the Brookings and CGD websites today, and for the project overall are not the ones who are up here on the stage. In particular I want to thank Allison Driscoll who really directed this project and I also want to express gratitude to Shannon Leahy, Maggie Kozak who's standing in the back, Margaret MacLeod, Sabeen Hassanali from across the street and Andrew Eggars.

So let me start by giving you a little bit of the backdrop, and then I'm going to pass over to each of the panelists in turn.

The Millennium Challenge Account is a rare opportunity to create a new blueprint for distributing and delivering aid to the world's poorest. It offers a critical chance --which happens too infrequently-- to shape deliberately the face that the U.S. presents to the developing world.

But exciting as this opportunity is, it's also important to recognize that there are very important risks. Let me go through three of those risks and then start with the panel's recommendations of how to avoid them.

The first risk is that this initiative, like so many others in U.S. foreign assistance, could fall prey to the perpetual tension between foreign policy and development goals. The risks of geostrategic creep are particularly acute because the MCA is being crafted at a time when the new need out there is really for geostrategically oriented assistance, for assistance directed at coalition building, for assistance directed at reconstruction in Iraq and Afghanistan, while the needs on global poverty have been out there for quite some time.

Indeed there was some of this conflation of goals in the opening announcement of the MCA. In the President's speech, he cited terrorism as a central rationale for the creation of the MCA, and yet a core tenet of the MCA is that it will be protected from political interests and will be committed to supporting countries that have good policies as opposed to countries that are important to the U.S. strategically. These may or may not be the same categories, but certainly the intent here is to keep a pot of money separate and allocated for development purposes.

Tensions between the two objectives are already evident. For instance, late last year the Administration announced that the MCA would include countries whose incomes range from \$1435 to \$2975, which are generally not considered the poorest countries in the world but rather lower middle income countries. That was something that took development advocates quite a bit aback. If you look at the category, it includes very important geostrategic countries -- Russia, Jordan, Egypt, Colombia, Peru. Last year those five countries accounted for one-fifth of non-emergency aid.

A second concern is the possibility that this could be, because of the way it's designed, interpreted as another instance of unilateralism. Of course it would be a terrible irony if this very laudable initiative were undercut by perceptions that this is one more instance of the U.S. going it alone.

But the risk of adding to concerns about unilateralism is real, especially against the backdrop of the President's recent Emergency Plan for AIDS Relief, which similarly bypasses international efforts and existing aid agencies in favor of U.S. programs with idiosyncratic eligibility criteria and newly invented institutional arrangements.

The legislative proposal as it stands seems curiously uniformed by efforts to coordinate and cooperate at the international level-- efforts that have been materially advanced in the last few years. Carol Graham will talk in a minute about how to rectify that imbalance and that potential risk.

The final risk is that the MCA, rather than becoming the driver of better U.S. foreign assistance, better U.S. development policy, could instead fall prey to the same lack of coherence, and contribute to the morass of overlapping programs and policies that exist today. That risk is particularly acute with respect to USAID.

The President's decision to establish a new agency was a clear vote of no confidence in the Agency for International Development, but that agency will retain responsibility for providing foreign assistance to most of the world's poorest. It raises all kinds of questions for USAID's future mandate and for the relationship between these two entities. The MCC, which has a pure development mandate, will be established with a board chaired by the Secretary of State who of course is in charge of an agency that has a pure foreign policy mandate. USAID, in turn, will not be on that board and there is no formal institutional tie between them.

At the same time USAID will be asked to provide lots of support to the Millennium Challenge Account. In fact the way the proposal is structured, with a very lean staff, effectively relies on that kind of support in the field and in Washington from USAID. How will those things get reconciled? Gayle Smith will talk about that in greater detail in a minute.

Finally, let me just say a word about the budget. The budget, as everybody knows, is not good and is not going to get better any time soon. There are going to be vast new needs for Iraq, for coalition building, for HIV/AIDS and of course for the MCA. Will the MCA get funded to the level that was originally announced? It doesn't look very much like that right now. The Administration's initial request was actually well below what it had said.

as an economics development scholar. She is extremely well known for her work on happiness which you can ask her about, and is also the Director of the Global Poverty Initiative here at Brookings.

Moreover, there is concern that there will be spillover to other accounts that are less popular, less salient, less well known, and that those at the end of the day the programs that target many of the world's poorest in weaker performing countries could get squeezed.

With that, let me turn over to Carol Graham who is the Vice President and Director of the newly formed Governance Studies program here at Brookings. Carol is internationally renowned as an economics development scholar. She is extremely well known for her work on happiness which you can ask her about, and is also the Director of the Global Poverty Initiative here at Brookings.



MS. CAROL GRAHAM: Thanks, Lael.

Before turning to substance I wanted to say just a couple of brief words wearing my hat as Director of the new Brookings Global Poverty Reduction Initiative. First of all, wanting to express a major, major note of thanks to Richard C. Blum, whose generous grant allowed us to start this initiative. This project on the Millennium Challenge Account and our book is the first major project to come out of the Global Poverty Reduction Initiative. So many thanks to Richard Blum for making it possible.

Secondly, I wanted to thank our colleagues across the street at CGD for their collaboration in this effort. This not only includes Steve but the whole team at CGD that's collaborated with us with many aspects of the project and we look forward to joint efforts going forward.

Finally, Lael underplayed a person who has played a tremendous role in moving this project forward, in fact the role, and that is herself. So I say thanks to Lael from the other authors, the other members of the project for her extensive and intensive efforts to pull this off in a very short time period. We really only started doing this about the first of the year.

In addition to her major intellectual contributions, Lael's patience, persistence and humor in coordinating a cumbersome process with multiple authors, multiple institutions, in a very short timeframe kept us all going throughout. So many thanks to her. And it certainly would not have been possible without her leadership and substantive input.

I wanted to say a couple of things about donor coordination and the whole, what role will the MCA play in this bigger panoply of donors and players in the foreign aid business. I think it's absolutely critical that the architects of the Millennium Challenge Account pay attention to what has been going on in this area in the past few years because there's been a tremendous amount of progress and it would be a real mistake to dismiss it or ignore it.

I think coordination is essential for several reasons. First of all, global poverty is a huge problem. It's not something that any one donor country can solve alone, and the last thing we need is multiplication of efforts in the same arena. There are plenty of problems to be addressed. Let's make sure that we're dividing our efforts.

Secondly and related to this, there's documented evidence that coordinated aid is much more likely to attain success. Not only does uncoordinated aid result in duplication of effort, but another major problem is when you have a lot of donors acting independently of each other it often overwhelms the capacity of poor countries to absorb that aid and in fact can actually be a drain on their human capital resources.

Just to give you one example, there are 1,500 different aid projects in tiny Burkina Faso. That's one example among many. But the point is that when donors act independent of each other they may do as much harm as good in poor countries that just do not have enough personnel to respond to all the needs and reporting requirements and all kinds of other things that donors require.

A third reason for coordination which I just alluded to is that the international community has made extensive progress in recent years in establishing both consensus and the objectives around which to base donor coordination. I would say that this consensus on the objectives has been framed around the millennium development goals. I can't go into detail about what these goals are, but these are the UN goals set out for the reduction of world poverty by the year 2015, reduction of world poverty by half by 2015.

In addition to establishing these goals on which there's a very wide degree of international consensus, there is also now a process in place for coordinating towards meeting these goals. It's a process that coordinates the actions of donors, of recipient governments, and also of non-government actors in the aid process. It's called the Poverty Reduction Strategy Papers Process. It's housed in the World Bank and the IMF and is sort of the framework for their lending to poor countries, but it's also intended as a broader framework for donor coordination.

So this is tremendous progress in the past five years I would say where we've really established a mechanism by which donors can coordinate.

However to date while the Millennium Challenge Account has recognized the need to take recipient country priorities into account, something that there's also international consensus on, the whole discussion or issue of donor coordination has been notably absent from discussions about the MCA, at least discussions among the architects of the MCA. Certainly outside people have noticed, but nothing in the way the Millennium Challenge Account has been set up really recognizes the need to coordinate with other donors.

This is in so many arenas, as Lael alluded to, the U.S. risks being perceived as unilateralist. Yet in this instance where the Millennium Challenge Account really is the decided new kid on the block in terms of aid actors, ignoring the lessons learned and the substantial international progress made on the donor coordination front I think here the risks of being unilateralist could really backfire in a very large way.

So obviously a big pitch for the Millennium Challenge Account architects, paying more attention to what's going on in the rest of the donor community and coordinating their actions.

Third, basically I'll just summarize some of the main recommendations in the chapter on donor coordination. The first of these is to make sure that the Millennium Challenge Account projects fit in the broad framework of the Millennium Development objectives and that as countries make proposals, I think it would be important that they spell out how their proposals could contribute to one or more of the Millennium Development goals.

Secondly and related to this, I think the PRSP process is a good starting point for Millennium Challenge Account discussions with governments. I think the MCA could really build on the PRSP process. The Poverty Reduction Strategy Papers are certainly sufficiently vague to give the Millennium Challenge Account lots of flexibility in determining its own priorities and its own programs, but I think it's an important process that should not be bypassed. Not only is it an important process for coordination, but I think it's a process that is providing us with valuable lessons about the institutional capacity and the political processes that are fundamental to aid outcomes in the recipient countries. I think the architects of the Millennium Challenge Account would make a big mistake if they ignored these valuable lessons.

Finally, another recommendation in the chapter is that the Millennium Challenge Account should build from the lessons learned in donor coordination from a number of modalities in recent years. Two of these in particular are highlighted. One is the Global Fund to Fight AIDS, and the second is the HIPCI, the Highly Indebted Poor Country Initiative. Both of these efforts include modalities for allowing a range of actors to submit proposals and also for building in flexibility to adjust eligibility criteria as the process goes forward, so it's a bit of a call for flexibility, although the criteria are very important to be established up front, the experiences of these two initiatives has shown that at times the criteria need to be adjusted to reflect experience.

The last more general point is beyond the very clear need for donor coordination it's also important that the Millennium Challenge Account operations coordinate their efforts, operations, so that they complement our policies in critical areas such as trade and investment, and there are all too many stories where aid objectives and donor policies don't run in the same direction and it's just a fundamental basic starting point that we hope the Millennium Challenge Account architects will pay attention to.

I'll stop there.

MS. BRAINARD: I'm going to pass this over next to Steve Radelet to talk about the design of the Millennium Challenge Account and in particular country coverage and how the MCA should select grant proposals.

Before doing that let me just say that Steve Radelet has been one of the people most associated with analysis of the Millennium Challenge Account since the very beginning, first inside the Administration as the Deputy Assistant Secretary in Treasury, and subsequently as part of the Center for Global Development. I think his analysis on the eligibility methodology proposed by the Administration is widely known and has shaped the way people look at that.

Prior to that he was at Harvard for many years and served as an advisor to the Indonesian government in the early '90s. He also worked in, The Gambia which is notable to all of us because he managed to slip The Gambia in under the eligibility criteria in the first analysis.
[Laughter]

Steve has been kind to work with us on this. He's also scrambling to get out his own book, and I will let him tell you the name of it, on the Millennium Challenge Account, so we very much appreciate the collaboration with him.

MR. STEVEN RADELET: Thanks. It's a pleasure to be here this morning.



As Lael mentioned, there are actually two books coming out on the Millennium Challenge Account. My book actually finished a couple of weeks ago, should be published in the first week of May. There's a policy brief which I hope most of you picked up, it's outside if you didn't get it. The brief is called "The Millennium Challenge Account -- Soft Power or Collateral Damage?" That's not the name of the book. There's a summary here of the book. The book will be called "Challenging Foreign Aid - A Policymaker's Guide to the Millennium Challenge Account" and that should be published in the first week of May.

The joint book that we're working on today that's released on the web today will then be published hopefully in about mid May, so you'll have plenty to read on the Millennium Challenge Account.

Three points that I wanted to make that actually show up in both books. First is on the selectivity process. In going through, the basic idea of the Millennium Challenge Account is that

aid can be most effective in countries where government are committed to sound development policy. This is consistent with what is an emerging consensus among development practitioners. Not that aid is totally unsuccessful in other circumstances, but that it works best when you have governments that are committed to sound investments in education and health and good infrastructure and decent policies.

The question then becomes how do you select those countries? How is it that we identify the countries where we think that aid can be most effective? The Administration has proposed a fairly bold approach to do that.

It's not a bad approach. It's a pretty good approach in many ways, and I think it goes much further and much better than any other attempt that's been made in this direction. It's not perfect, however, and I think it can be improved as we go forward on this thing.

Using their process I've identified about 12 or 13 countries that should be eligible for the program in the first year. The list of those countries has been up on our web site for awhile and it will, in Chapter 3 of this book it will go up on both of our web sites today. That list is preliminary and because the data that are used to choose the list, to make the list will be updated within the next few weeks. So the list is a bit fluid and we will update it. We will actually have a more updated list when the final book is published.

Again, this is my estimate of the countries that are eligible, not the Administration's. But about a dozen countries should be eligible in the first year and up to 18, possibly 20 by the third year of the program. So this is a very selective group.

The idea again is that these are countries that have shown a strong commitment to development and where we think that foreign aid can be most effective.

There are lots of issues raised as to how the Administration has chosen these countries and the selection process itself, and as I say, it's far from perfect. There are lots of ways that it can be improved. I think the major challenge will be the extent to which the Administration announces their procedure this year and then that's it. Then it doesn't change.

For a first year procedure it's okay but there really needs to be mechanism for this thing to change over time, to evolve as new data come forward, as we look at new kinds of issues that are raised.

Most of the countries that qualify are sensible. Some of the ones that qualify are pretty questionable. Plus the method that they use is actually self-limiting in the sense that even if countries around the world all improve their policies the way the Administration has designed this, the size of the program is not going to increase. They use median scores as cutoffs for

countries to qualify in a range of indicators. If every country in the world improves their score, improves their policy framework, then the medians are going to rise and some of the earlier qualifiers are going to get kicked out. So it's actually self limiting and it's counter to the idea that over time more countries would aspire to join this thing and actually we could expand the MCA. It can't happen mathematically the way they've designed the program. It's okay for the first year, but it's just one example of how things need to be changed going forward.

They also rely heavily on the accuracy of the data. One indicator in particular, the corruption indicator. You're either in or out. You're either above the median or you're not. And if you're not above the median on a corruption score you're out so it actually eliminates half the countries in one fell swoop. And the data just aren't accurate enough on that indicator to eliminate half the countries that could be eligible just like that.

So there are several issues that need to be raised and reformed going forward. That's one main point.

A second main point is once the countries are selected how the aid will be delivered. And I think this is one of the more exciting parts of this new program because it provides the opportunity to really change the way in which the United States delivers foreign aid. Instead of USAID designing projects and really setting priorities and us within the United States really having a strong say in what aid money goes for, the Millennium Challenge Account provides the opportunity for the countries themselves, the recipients themselves to design projects, set priorities, say what they want the money to be used for, design it themselves, and have the responsibility to follow through with implementing the project. I think that's where the responsibility should be and I think that's a great opportunity in this program. The Administration seems to be moving in that direction.

A key point on this to keep in mind is that the country selectivity and the new approach to delivering aid go absolutely hand in hand, because we're only going to be in a position to give recipient countries a lot of flexibility with how they use the money if it's a fairly select group where we think the countries have actually shown a strong commitment to development policy. We're not going to be able to show that kind of flexibility in how the funds are delivered to other kinds of developing countries, so these things go hand in hand.

Exactly how this new delivery mechanism will work hasn't been spelled out in very great detail with the Administration. They've been a little slow I think on many of the details over the last couple of months and this is one that needs a lot more attention to make sure they get it right the first time through. I think it's really important to make sure that not just governments and the recipient countries, but non-governmental organizations, subnational governments, municipal governments, TVOs and even the private sector to some extent have a strong say and are able to actually ask for some of the funding, write proposals for some of the funding for this program.

But if the delivery mechanisms change, make no mistake it would be a radical change in how the United States delivers foreign aid by giving the recipients a stronger say in how aid is used.

The third point I want to make actually flows from the first two. If this is really selective and we're changing the delivery mechanisms for a few countries, what about everybody else? Because most developing countries won't qualify for this. I actually think that's okay, because as I said, to change the way we deliberate we need to be fairly selective about who we choose to provide it to but I think it begs a lot of questions about how we deliver aid to the countries that don't qualify for the Millennium Challenge Account. Here the Administration has been essentially silent.

We have an opportunity here with all of the attention on foreign aid and with the state of the world changing rapidly to rethink more broadly how foreign assistance is delivered in the United States and the Millennium Challenge Account should be one tool but only one tool. The tool that uses the countries, for the countries that have shown the strongest commitment to development, we need to develop sharper tools and change the way that USAID delivers assistance to other countries that haven't quite made the qualification standards, the countries that are far away from qualifying, countries in post-conflict situations, countries that under stress, and a range of other countries that aren't going to qualify for this. We need to deeply rethink the way that USAID delivers aid if we're going to be really serious about making it more effective for a range of developing countries around the world. That's an issue that's discussed in both books and it's one, as I say, where the Administration has been relatively silent so far.

MS. BRAINARD: Next I am going to turn it over to Gayle Smith to talk more about this issue of USAID and the relationship with the Millennium Challenge Account, the issue of policy coherence within the U.S. government more generally, and also the pros and cons of establishing an independent agency.

Before I do that let me just say that Gayle has worked in Africa and on African issues for 25 years. There are few people I know that I would turn to sooner with a question about anything in Africa. She also has a most amazing Rolodex when it comes to African leaders and officials. She currently is a guest scholar here and an independent consultant. Prior to that she worked as President Clinton's senior advisor on Africa. She has also worked with AID and as a journalist and with several NGOs. I said earlier that some of us served together and were on opposite ends of things in previous government posts. As President Clinton was getting ready to go to every meeting with an African head of state Gayle and I would usually try to out-shout each other. I was always the economist that wanted more rigor and more discipline. She generally was on the side of more money. [Laughter]



Over to Gayle.

MS. GAYLE E. SMITH: Ironically, a lot of people that advocated for the creation of the Millennium Challenge Account initially were calling for a pilot initiative and had it been created as a pilot initiative there might not be as many big picture questions as there are today, but in fact they got what they asked for and more. And the fact that the MCA will in fact double bilateral foreign assistance poses very very big questions in terms of whether or not it is a fit institutionally within the U.S. government and how it fits in terms of foreign policy and development policy.

The short answer is that as it is designed now it doesn't quite fit, for a couple of reasons. First on the institutional side.

As Lael said in the beginning, the Administration has proposed to create a new independent agency, the Millennium Challenge Corporation, largely as a vote of no confidence in USAID but also on the grounds that because this is so different it really demands a new agency.

I think most people who know USAID would agree that it is a bureaucracy-bound, slow and frequently very frustrating agency and one can make the argument that for a special unique initiative it makes sense to create a new institution.

On the other hand in terms of real and significant impact as development policy writ large, and also for budgetary reasons, and good sense reasons. I think all of our mothers taught us if something is broken then you fix it.

There's an equally if not more powerful argument to made for the MCA to somehow be affiliated with USAID. I say this in part because if you look at some of the flexibility proposed for the MCA, notwithstanding authority which allows much speedier and smoother operations; no-year funding which means that money does not have to be allocated on the basis of a calendar but instead on the basis of how a program unfolds, given that flexibility AID would be a more effective and flexible agency. As well in terms of consistency and coherence within and among the two programs.

We strongly believe that there's a case to be made for some sort of affiliation. One possible model for this, based on what were called enterprise funds, would be to have the MCA established as a separate bureau within USAID, with its own Deputy Administrator, a separate board allowing for some state oversight, and a separate authorization from Congress.

Another element in terms of the institutional placement of the MCA is the role of the board. The board is presently proposed, it's a very interesting one and one that quite frankly it's a little bit hard to figure out. It's proposed that the board include the Secretary of State who would chair it; the Secretary of the Treasury which I think is quite understandable; and the Director of the Office of Management and Budget.

Frankly, the glaring gap there is that the USAID Administrator is not included. This is very different from, for example, the Overseas Private Investment Corporation which includes the AID Administrator on its board.

As well I think we found it a bit odd that the Director of OMB would be included on the board, at one level because OMB has no specific expertise in development that any of us is aware of, but also for the reason that OMB has the mandate to allocate funds between and among agencies in the U.S. government and for it to be on the board of a specific entity could ultimately prove problematic.

Alternatively, we've proposed that the board might include eight representatives, four drawn from Administration choices and four drawn from the outside, nominated or identified by the ranking and minority members of the House and Senate.

On the internal government side it's our thought that it would definitely make sense to have the Secretaries of State and Treasury as proposed, but to also include the USAID Administrator and in addition, one other Secretary level position from among a range of possibilities. Depending on the programmatic focus of the MCA, one could argue that it could be Agriculture, it could be Commerce, or it could be on a rotating basis.

Our thought is, again, that six year terms would allow the board certain independence from a problem that has inflicted foreign aid up to now, which is that every time there's a new Administration USAID is reorganized, there's a new development strategy, sometimes with or without the old strategies being abandoned, and that this tends to politicize it to some extent. With six-year terms you'd have a board that would carry over.

Third, on the institutional side is professional staff. The notion that the MCC would have a lean staff is commendable but there are a couple of problems that we've identified. One is the notion that staff would be made available from other agencies on a non-reimbursable basis. It's our thought that staff rotations between and among agencies in the U.S. government can be a very good thing, but that it's important that the MCC reflect its own true cost. Rather than agencies not being reimbursed for staff they send to the MCC, the MCC should cover the cost of its own staff.

Similarly the current proposal is that private corporations should be allowed to detail

staff to the MCC on a paid basis. In our view that lays the groundwork for a potential significant conflict of interest if a private sector entity is permitted to provide staff and pays for them. This, could very well involve a company that ultimately could be involved in the MCC with some other project. So while private sector staff may be a good idea, again, we think that the MCC should cover the cost.

The second area to look at briefly is on the policy side, both development policy and foreign policy and how the MCA fits. I think the main concern here is that while it does take us many steps forward in dealing with global poverty and in fact in a very creative and probably constructive way, we still have an enormous gap and will have an enormous gap in terms of our ability to really impact poverty overall. Depending on which countries are determined to qualify, the coverage in Sub-Saharan Africa, for example, could be as low as 13 percent of the total population. This may prove significant for them, but 13 percent is not as far as we need to go.

As well, because it focuses on good performers it doesn't focus on weak states, despite the emphasis given to those in the national security strategy and other foreign policy documents.

We've proposed a couple of things to try to deal with better integrating the MCA into the policy apparatus. One is a clear division between USAID and the MCC. On the one hand we're talking about coordination between the two, but by division we mean a division of labor.

First of all as Lael has alluded to and I think Steve did also, as presently designed, it's implied that USAID would essentially cross-subsidize the MCC. Ironically you'd have a situation there whereby if the MCC performs well with AID staff it would get the credit while AID would continue to be beaten about the head and shoulders for not being effective.

That's probably not very fair, but also, and again, if we're going to be creating new government agencies they need to bear their true cost. As well the MCC needs to have a discreet function.

One question here is what happens if a country currently has a USAID mission and then qualifies for the MCA? At a practical level I think it was our conclusion that we've got to argue that the USAID mission would shut down and that the country would graduate and become an MCA country. Now what that means in terms of countries like Cote d'Ivoire, which would have qualified and then disqualified and then maybe in a year or two requalified, poses some real questions about the utility of having two government agencies that both do development policy one for good countries and one for less good countries.

Another important area is what we describe as the near miss countries—the countries whose progress may be directionally correct but who do not yet meet the criterion established by the MCA. It's our view that it would make a good deal of sense to put aside a little bit of the

MCA total assistance to work with those countries so they can in fact ultimately qualify.

As others have said, one of the things that is implicit in this but has not yet been made explicit is what does the creation of the MCA mean for USAID and its focus? As on every other aspect of the MCA we have a recommendation on that as well. And interestingly, the way our recommendation works out is with a greater focus on kinds of states than on kinds of development activities.

Historically AID has focused on private sector development, on agriculture, on food security, on women in development, on the kinds of elements of development that are considered to be good policy. Instead we would argue that it makes sense to sharpen AID's mission by focusing it on kinds of states in a way that would allow USAID and the MCA to combine to give maximum coverage. Those areas would include humanitarian assistance, obviously, and geopolitically important states. As much as everybody says development aid should be distinct from foreign policy it's not and likely never will be. There will always be cases where it is important to allocate development assistance on the basis of geopolitical importance.

Second on the development side is weak and failing states. I think weak is a better definition than failing because failing causes people to think of Somalia and that's not exactly what we're talking about here. We're talking about states that are weak enough that they potentially pose threats to their own people and their neighbors by further disintegration, and perhaps to the United States, but who also by virtue of their weakness contribute to the overall growth and expansion of global poverty.

Post-conflict states would be another area. Finally, there is a fifth category in areas that because we've got good performing states under the MCA we define as moderate to poorly performing states where it may be possible to select certain sectors such as health or education and develop a national strategy and move forward effectively some significant assistance.

The last element I'd like to make reference to is coordination. It is often the case within the U.S. government that the right hand doesn't know what the left hand is doing and that occasionally one is slapping the other. Part of what we would hope to see with the MCA is that it is coordinated.

We've got a number of initiatives now within the U.S. government aimed at dealing with poverty and aimed at dealing with development. There is the HIPC Initiative, there are trade preferences, there are other kinds of development initiatives that are run out of USAID. The board, as presently configured, or even if our recommendations were followed, is likely to prove insufficient to manage all of that coordination.

It's our proposal that in order to give coordination the backing, the high level backing that

it needs, it would make the most sense to authorize the National Economic Council, which in the old days would have been Lael and the National Security Council, which would have been me -- we didn't do it for that reason. [Laughter] But to coordinate it. Because both of them have mandates that cover development, economic policy, poverty reduction. They are both in the Office of the President which gives them the backing that's needed. And neither of them has a budget. So it's hard to get into those battles that might otherwise emerge.

Just as a final note, I would like to say that I did not win every time. There are still some countries for whom I want debt relief. [Laughter]

Thank you.

MS. BRAINARD: Thank you.

Let me turn it over last to Nigel Purvis. Nigel Purvis is a Senior Fellow in all three of the programs here at Brookings. He is an expert on environmental issues and development as well as on international law.

Like Steve he served in both this Administration and the previous Administration. He was a Deputy Assistant Secretary of State in the Bureau of Oceans, Environmental and Scientific Affairs, and also worked before that in the Global Affairs Bureau of the Department of State. And prior to that in a legal office.

Nigel did a lot of the work looking at the relationships with Congress which is of course going to be the critical determinant as to whether or not the Millennium Challenge Account can radically differ from existing aid programs, as well as on the programmatic focus of the Millennium Challenge Account.

Nigel?



MR. NIGEL PURVIS: Thank you, Lael.

For the Millennium Challenge Account to work there's going to need to be a very strong relationship and strong cooperation between the Executive Branch on the one hand and the Congress on the other. Their respective roles in foreign policy and in development policy are undeniable. The President, of course, has the authority to implement our laws and carry forward through diplomacy and programs our foreign programs including our foreign assistance.

The Congress has the sole responsibility for appropriating all federal money and also is

provided under the Constitution a significant role in shaping foreign policy. Both of these actors are indispensable to the success of the MCA and based on their existing relationship in development policy and development programs, there's strong reason to believe that a stronger partnership is needed.

There is a sense in the Congress that existing foreign aid agencies such as AID do not follow the policy wishes of the Congress, do not consult with the Congress sufficiently, and therefore there is a low level of trust. There is concern about efficiency of the programs and waste and concern about whether the true interests of the American people are carried forward by these agencies.

In contrast, in the Executive Branch, particularly in the development agencies themselves, there is a sense that the Congress micromanages foreign aid, that it is very intrusive, that it doesn't provide the operational flexibility needed for coherent programs, for efficient programs. So we begin from a very weak base where there is a great deal of mistrust in both of our political branches.

For the MCA to truly succeed there needs to be a new partnership that is developed and this partnership needs to begin now. That's why one of our strong recommendations is that the President appoint a point person or a personal advisor on the MCA that would be able to speak on his behalf to the Congress and be an active participant with the Congress on how the decisions are made to establish the MCA, be an active participant in helping design and carry forward the legislation. This person could also be the President's eventual nominee to be the head of the MCC if it turns out to be an independent entity, or the Deputy Administrator in AID under our proposal. That's a decision that can be reached later, but having an active Administration person who is a single voice for the Administration would be both helpful for getting the Administration's perspective out there and also would provide a useful input into the congressional legislative process.

But more than that, the actual design of the MCA has to be structured in a manner so that there is strong reason to believe that we will have a solid basis for this new partnership between the Executive Branch and the legislature that's needed. Specifically that means three things.

The design of the MCA needs to be intended to promote accountability, to promote policy deference to the Congress and to the President, and to provide the operational flexibility to the MCA and its implementing agency, to carry forward the program as intended. And let me just mention briefly what we mean by those things.

There are fairly detailed recommendations which you will see on the web site should you look at the report later today, but in general terms to achieve accountability the MCA's going to need a very strong leader. The Administration's proposal provides some concern because it

would be hard for the Congress to know to whom it should look when it's trying to question whether policies are being followed appropriately, whether the laws are being implemented. It would have a CEO but it would also have a board. That board would be chaired by the Secretary of State, a Cabinet agency, but there would be equal Cabinet agency heads also on the board. Ultimately it would appear that the only person in whom the Congress could turn to get a clear and straight answer about why the MCA was operating the way it was would be the President, and given the President's general unavailability to appear before the Congress and other demands on the President's time, we would favor a stronger leader in the, more centralized control of policy in the form of a CEO or the head of the new MCC.

In addition, as Gayle mentioned, we believe that there needs to be a broad and balanced board to provide input from a variety of actors and sources. This, as Gayle mentioned, could include some possibilities for congressional input into board members, and that would give the Congress a greater sense of trust and ownership over the Board's policies.

In addition, decisionmaking in the MCC needs to be transparent and there needs to be opportunity for public participation. The Administration has made some very good proposals here. It intends to post project proposals that are submitted by developing countries on a web site and I think that's a good beginning. It's a very flexible approach that would allow for transparency in the decisionmaking process, but we think that these kinds of steps ought to be incorporated into the actual legislation so that transparency and public participation are fundamental tenets of the MCA rather than just discretionary add-ons that an Administration could pursue or alter as it saw fit.

Finally, there should be regular reporting from the MCA to the Congress. That reporting needs to be non-burdensome, but at the same time it needs to provide sufficient information so that the Congress is an active participant and has all the information it needs to provide policy input into the MCA's development policy.

That's the first issue of accountability.

The second issue is policy deference. Many foreign assistance reform efforts have begun from the proposition that there's too much of a role for Congress and that congressional input ought to actually be decreased. It's not surprising that the Congress has failed to take up the reform banner if that's the message that's come from the development community. I think to have a strong funding base for the MCA, to have a coherent policy, there needs to be more congressional input. That input needs to be structured appropriately and I'll get to that when I speak of operational accountability, but the effort needs to be a true partnership between the Congress and the President where they each have policy inputs.

In order to ensure that the MCA carries forward that joint policy input, it needs to have a

clear and narrow mandate so that when it acts it's clear that it's acting pursuant to clear instructions from the Congress that have been accepted by the President in authorization bills. We believe that that clear and narrow mandate should be the mission of development. That as Lael said, strategic and geopolitical foreign assistance should be provided through other means. That this ought to be a body that focuses on development.

In addition there needs to be uniform and evenly-applied procedures, procedures for determining eligibility, procedures for reviewing grants. The clear and more transparent and more uniform the procedures that are followed, the less opportunity for political influence and for criticism, for departing from a legislatively approved mandate it will be there, and the stronger support the Congress will give this agency.

Thirdly, to promote the policy deference to the Congress the Congress itself needs to be an active participant. Unfortunately in our foreign aid process it's been 15 years or so since the Congress last approved a Foreign Assistance Act authorization bill. The monies that have been appropriate have tended to be appropriated on a yearly basis without an evolving blueprint that reflects the changes that we've experienced in the world. That's a problem because it doesn't create the legislative structure that is in step with today's political realities.

In order for our foreign assistance laws to be up to date and for the program to reflect the latest political thinking and political guidance, the Congress needs to be an active participant in passing term-limited, meaning for a short period of time, authorizations for the MCA.

We have endorsed the idea of a multi-year authorization that would then expire, and require the Congress to again reauthorize the continuation of the program.

The third area that is needed for the MCA to succeed on the basis of this new partnership between the Executive Branch and the Congress is one that really has been highlighted by the Administration and that's the area of operational flexibility. The existing foreign aid programs are in fact hampered because the agencies don't have sufficient flexibility to carry forward the programs efficiently and effectively. The Administration is right in highlighting that the Congress needs to give the Administration more flexibility to carry forward the MCA program than has been the case on existing programs.

The logic of the MCA requires that the MCA is supposed to be a program that allows for competition among eligible developing countries where the very best proposals are chosen. For the Congress to earmark or reserve portions of the appropriations for particular programs, for particular projects would be to pre-judge and undermine this competitive process.

In order for the competition to work, in order for the more foundation style grant-making approach of the MCA to truly be effective, the Congress needs to take a more hands-off

approach in determining how the money is directed, to whom it is directed, and for what specific purposes.

In addition, the Congress should take steps to undermine the perverse incentives that some executive agencies have to spend all their money before the next fiscal year, because at the end of the fiscal year if they don't, that money will be returned to the Treasury and they'll lose control and lose their appropriation and their failure to spend the funds will be held against them in the budget negotiations the following year.

In order to eliminate those reverse incentives the Congress should appropriate what is called no-year money or multi-year money that would allow the MCA to expend funds when in fact it received a meritorious project rather than just because the calendar year or the fiscal year is coming to an end.

We would also recommend additional flexibility in the area of contracting and procurement. As has been mentioned, one of the primary goals here is to increase the capacity of developing countries to manage programs themselves. IF we apply very strict contracting and procurement requirements that force the MCA to spend money through U.S. entities, through U.S. procedures, there will be some undercutting of the efforts to build the indigenous capacity in the developing countries. So giving the MCA greater flexibility and acknowledging that this is ultimately a grant program rather than an aid program, the money should be turned over to the countries for them to spend in a manner that is deemed appropriate.

If we have confidence in them because they've met the eligibility criteria, we should have confidence in them in being able to spend the money wisely.

Finally, the Congress has at times required that development projects be sent up to the Congress in the form of advanced notification, and when this notification has been required, it has given Members of the Congress opportunities to object, either formally or privately, to the Executive Branch, and it has been the practice of the Executive Branch to then honor the holds or objections of the Congress and not proceed with particular projects.

This practice which has developed has meant that a single member of Congress has the ability to effectively block a presidential or Executive Branch initiative. We feel this approach would not serve the MCA well and that the Congress in crafting the authorizations for the agencies should not require advance notification for routine grant-making decisions.

Lastly, let me just say a brief word about the role of the environment because this is an area where we feel that the Administration may be slightly off track.

The Administration has rightly focused on a number of areas where additional spending

and emphasis is needed, and in fact it has recognized that sound development must be multi-faceted. We need to address health, education, free markets, free trade.

Notably absent from the Administration's list of what the MCA is designed to produce is the environment and the notion of sustainable development. We think that this is an omission that needs to be corrected by the Congress.

The Administration's proposal gives literally no weight to environmental factors. The environment is not an eligibility criteria for the selection of countries, whether they have sound environmental policies is just not considered. The environment is not identified as an area for MCA spending, even though what other countries do to their environment is both important to them in development terms and in effect U.S. citizens as well. And the environmental impact of potential MCA projects is not assess under the Administration's proposed bill.

We think that these are omissions. The environment should be built into the core mission of the MCA. It should be a priority area of grantmaking. And environmental reviews and assessment ought to be a standard part of its procedures.

MS. BRAINARD: All right, we're going to turn to the second part of the program. We just got a note from Senator Hagel's office. They have extended the Senate Foreign Relations Committee meeting and he is waiting to offer an amendment on something, so it's very unlikely that he will be able to show up this morning and I apologize for that.

What I'd like to do now is ask the President of the Center for Global Development, Nancy Birdsall, to come up and give a few remarks, and then we're going to open it up for discussion with the audience because I know you've been waiting a long time for that.

Nancy Birdsall, for those of you who don't know her, is one of the premier authorities on economic development. Her experience has included several years as Director of the Economic Reform Project at the Carnegie Endowment. Prior to that she was Executive Vice President at the Inter-American Development Bank. Prior to that she was Director of Research at the World Bank. And now she has founded the Center for Global Development, which is focused on these issues and was one of the earliest and most deeply involved in discussions over the Millennium Challenge Account.

Nancy, over to you.

MS. NANCY BIRDSALL: Thank you, Lael. We are disappointed that Senator Hagel wasn't able to come. I was in a taxi at about quarter to 10:00 and they were saying on the radio that in Baghdad they're taking down, the people of Iraq are taking down statues of Saddam Hussein. So we're winning the war in Iraq and there's going to be a lot of discussion in the next

few weeks and beyond about winning the peace in Iraq and the Middle East.

I'm really pleased to see the number of people at this watershed moment in those both wars who are here today to hear about and think about the big war, taking the book title, "The Other War", the war on global poverty and the Millennium Challenge Account.

Let me read to you a few things that Senator Hagel has said in the last couple of years. I can't be Senator Hagel but I can at least quote from him.

He said in the Senate Foreign Relations Committee hearings on the Millennium Challenge Account about the MCA, "If nothing else, American security, our role in the world, it's an investment in stability and security and I think we should see it that way. It will be those tools, the humanitarian and the economic and the trade and environmental, law enforcement, intelligence, that I believe coming together in a seamless network of our allies will do as much to secure the security of this country for the future as our military will."

And he said at the launch of the Center for Global Development, and we were lucky and proud to have him at our launch in November 2001, that was two months after September 11th, "If we in fact are to reshape the world and deal with the world as it is, and more importantly how it could be, then we are going to have to get under those root causes and not continue to act like they're not there or we can't do anything about them."

And of course what's exciting about the Millennium Challenge Account is that it is the U.S. government saying we can do something, we can get results.

We are at the Center very proud to be collaborating with the distinguished Brookings Institution and its many distinguished scholars in this web launch, also a very modern thing to do, of that book and at the same time to be making available to you the first whetting your appetite for Steve Radelet's book which, as he said, will be out soon with the Center for Global Development brief that's available outside.

I thought we should go right to questions, but let me lay out my questions, saying in advance that this is a very ambitious agenda that is laid out in this book and in Steve Radelet's book for how the MCA and the MCC ought to come out.

It is about making the business of aid much more businesslike, and we can look, we hope, to the Administration and Congress to do that.

Let me give you a few questions or just throw them out in the interest of being provocative. Maybe the panel members could keep those questions in mind, not answer them directly, then we'll get some other questions from the participants. And let me start by saying that

at least from the point of view of the Center, and I think this is the case at Brookings, not everyone has to agree who's been engaged in this process with every detail and every recommendation in this book. As distinguished, if I can say immodestly, think tanks we leave to our scholars the independence and the freedom to write and say what they want.

So this book and Steve Radelet's book reflects their own views. So that allows me to be provocative and to raise some issues in a way that I hope will at least get us all thinking. So I have three or four.

First, on multilateralism, Carol called for multilateralism. What do we really mean? Our Senior Fellow Bill Easterly wrote an article, "The Cartel of Good Intentions" about the swamp of donor harmonization and coordination. Carol, do you want the MCA to be thrown into that swamp?

Second on governance of the Millennium Challenge Corporation. Are we being ambitious enough? Shouldn't we be saying this MCC must have at least two or three independent board members, at least parity with government representatives on the board?

Three, what about the money? Lael said it's a doubling of foreign aid, bilateral foreign aid. If that's true, great, but is it going to happen in the face of the tax cuts that are planned and the budget deficits that we foresee?

Fourth, what about civil society? We're saying to the Congress please don't earmark. Is this book saying enough to the range of the nine lobbyists inside the Beltway and outside the Beltway? Please don't ask Congress to earmark. Please don't ask Congress, among other things, to say environment is a priority or education is a priority. Won't that undermine the idea that the countries will make their own proposals and own the projects? Do we need a priority area of grant making at all?

With those thoughts on the table, let me ask the audience to venture forth with your questions, your comments, your complaints, and your ideas.

QUESTIONS AND ANSWERS

QUESTION: I'm Colin Bradford. I teach at American University.

First let me congratulate each and every one of you who is involved in this. I read as a reviewer both manuscripts and think that these are really premier works that deserve the attention they're getting from all of you.

I just couldn't help but think as the discussion went forward here that one

recommendation which I would just throw out for everyone to think about is the following. We're at a very unusual moment, I must say, in the history of U.S. foreign assistance. I've had to reflect on the fact that I've now been working in this field for 40 years and this is the first time in 40 years, since John Kennedy, that a President of the United States has proposed a 70 percent increase in foreign assistance, which is what he's done.

MS. BIRDSALL: We want you to --

QUESTION: Okay.

MS. BIRDSALL: Otherwise you'll set the tone.

QUESTION: The point I want to make is related to this, and I'm not trying to make a speech. If this is a watershed moment and if what really needs tending here is the politics of aid which have three dimensions. One is the policy coherence dimension which is how do you relate aid to other things; the second is the donor coordination element which is the external affairs part which I handled while I was at AID for four years, that's the foreign policy, foreign political component; and the third which is emphasized rightly by Nigel is the relationship with Congress. Those are the three elements.

So isn't the logical thing to do to combine those three elements in a Secretary for Development Cooperation? The argument against that is, of course, that we've just created a Cabinet level position.

But isn't in fact the President's gesture on foreign aid to combine the compassionate hand with the iron fist? And why not take advantage of this particular moment to elevate this to the level that the Europeans and the Japanese and the Canadians have, to a secretary-level position.

MS. BIRDSALL: Let's leave that for some of you to think about. I said the book was ambitious in its recommendations. You've raised the standard even higher in terms of what's politically practical and likely in the short run anyway, but let's have a few more so we give the panel a chance to think about who will answer that question and what he or she will say.

QUESTION: I'm Paulo Basicolin from the Heritage Foundation.

One of the great things about the MCA is the bipartisan support that it's receiving from both sides of the spectrum. However I was just wondering in the unlikely event that the MCA does not turn out to be the silver bullet, what is the panel's perception, or how do they think of an idea of a sunset provision in the MCA provision to make sure that if it proves to be not as effective as advertised that the money go back to the USAID?

MS. BIRDSALL: I think now we've got enough on the table for some comments from

the panel.

Lael, do you want to take something and then maybe give Carol multilateral and give Nigel the Secretary of Development Cooperation?

MS. SMITH: I think that's me.

MS. BIRDSALL: Gayle, do you want to take up Secretary of Development Cooperation?

MS. SMITH: Sure.

MS. BIRDSALL: Go ahead.

MS. SMITH: I'm for it.

What we talked about in here was different models and one of the things we raised is the notion of combining the MCA and USAID into one Ministry of Development or Department of Development. I think it makes sense if you look at the prominence of and the importance of development assistance to not only our foreign policy in conventional foreign policy terms, security policy, but also our economic policy, which is increasingly foreign as we seek to expand markets and so on and so forth.

I think there's a strong case to be made for an institution or agency which handles all of our development initiatives and in fact has cabinet-level representation. One of the reasons I say that is I think one of the things that often happens, unlike in the UK where with DIFD, the head of DIFD is a Member of the Cabinet, the AID Administrator is not. The AID Administrator is a political appointee. And what often happens is that a political appointee gets in there to run AID, finds out that it's a really hard agency to run, and that it rarely can do what an Administrator wants it to do. Every new Administrator reorganizes it but fails to understand that underneath that reorganization are 265 chapters of regulations left by previous Administrations and that a tension exists between, the AID Administrator and the rest of the government. The rest of the government is saying we need \$300 million spent in country X, fix it by tomorrow, and you can't do it.

I think elevating the clout at a political level could make sense. I tend to agree with Nancy's implication that it is probably not feasible in the short term. I do think, and this is a personal statement, that it's something we need to inject into the debate because otherwise development is going to remain, quite frankly, the less important, soft, girl issue. [Laughter] No offense to any of the men here, but—you know what I mean. As opposed to hard-core foreign policy over there. I think we've got to look at it as a part of foreign policy and a fundamental —

element of our economic relations.

MS. BIRDSALL: It would be interesting. We'll go back and we'll make a list of the OECD countries that have Cabinet member Secretaries of Development Cooperation or equivalent.

Steve, why don't you take up the sunset provision issue and how is it related to the delivery mechanism?

MR. RADELET: It's a good question, Paulo, and it's one that your colleagues Brett Schaefer from Heritage has raised as well in testimony up at the Senate. I think it's worthy of consideration.

Although I think the idea is correct. That is we've got to have a mechanism in here to evaluate not only the countries and their progress towards delivering results, but also we have to have a mechanism to evaluate the MCC and the MCA, the corporation and the program itself. I think that's the broadest sense and that I agree with completely.

I think the broad issue here of measuring results and monitoring and evaluation of this program is absolutely fundamental to its working, and it's one again, where the Administration hasn't said a whole lot and I fear it's going to be business as usual on this with a lot of rhetoric about strong results without actually changing the mechanism of how we do that.

So part of this is measuring results in the recipient countries, but part of it is also, as I say, a mechanism to evaluate the MCA as a program and the MCC as a corporation as we go along. So there should be periodic reviews of how the program is doing as a new, innovative, groundbreaking strategy. That should happen probably at some level on an annual basis, and at a broader level every couple of years, a more fundamental kind of review.

I'm not sure we need to go as far as to say an absolute sunset clause period, ten years or whatever it is, because we'd just be making up the number. It would be a bit arbitrary. And as know, development is kind of a long-term business. So I'm not quite sure how to think about what the proper time limit would be the sunset clause, and also why we'd do it for this program but not for others.

So I think a different approach to get at the same idea is just to say let's have a mechanism in here where the GAO and outside folks, some independent review panel takes a look at this thing on a periodic basis to review how this program is doing as a new approach to delivering foreign aid.

MS. BIRDSALL: That is a recommendation in your book, if I understand it.

MR. RADELET: Yes.

MS. BIRDSALL: A fully independent review by a fully independent outside group periodically.

Lael?

MS. BRAINARD: On the sunset provision, I think we had something very similar in mind when we talked, as Nigel did, about a limited term authorization. That's very different than what governs foreign assistance for the most part right now, but it's exactly the same as the way EXIM and OPIC operate. The idea would be that the independent evaluation would be done in the context of the authorization reconsideration at 6-year intervals, which effectively operates like a sunset provision. If the agency is not working the way it's supposed to, it would not be reauthorized. So that is something that we thought was important and would be very different from the way USAID operates.

Two other things on ambition and the board. I think the Administration is not ambitious enough and that's why we are recommending that there be an equal number of outsiders on the board as there are Cabinet Secretaries, and that the swing vote essentially be held by the CEO, who should also be on the board.

On the board as on the reauthorization analysis, we looked at some of the independent agencies that are seen to be working somewhat efficiently and effectively and asking how are they structured. There's a long discussion in the book about a whole variety of models -- OPIC, EXIM, USTDA, the Enterprise Funds, the Global Fund -- and these are some of the lessons that we took from that.

We also thought it would be very useful for Congress to have input into the outside board because by doing that it gives Congress a sense of oversight, so that they don't need to rely on the traditional mechanisms like earmarks and tied to aid, which we know would undercut the operational flexibility.

Finally on this issue of policy I want to just thank Colin Bradford. He did a great job of reviewing our book. One thing he really pushed us to do was to elevate considerations of policy which gets to the issue of programs that Nancy raised.

We think that it does make sense for the Millennium Challenge Account to develop a core competence on a very limited set of sectors. That the proposal should be generated by the recipients, absolutely, but the MCA should only work in certain programmatic areas. If it gets spread too thin, and this relates back a little bit to Gayle's comments about USAID, it will be

ineffective in all areas.

So we set up a set of criteria as to what the MCA should specialize in. Just going through them very briefly, they would be areas where there is substantial research showing they are very closely related to sustainable development, poverty reduction -- partly as defined in the Millennium Development goals-- and also of course to growth. Second, the MCA should focus on areas where the private sector under-provides for reasons that should be fairly obvious and clear-cut. Third, these should also be areas where foreign assistance has a good track record: basic health, primary education, and agricultural development. Those are obvious areas. Policy reform to support the private sector, again obvious. Environment for the reasons that Nigel went through. On governance and democracy, we qualified "let's reserve those for further study recommendation" because they are not as compatible with the way the MCA will be doing business, which is very lean and driven by demand from recipients.

QUESTION: David [inaudible] from Bread for the World.

Bread for the World is running a campaign to get the MCA up and funded and keep it focused on development. So first, if you want to actually help push to make this happen contact Bread for the World. We need some help.

And then my question to the panel maybe especially Nigel, I don't know, is how do you view the politics around the MCA? As you analyze the coalitions that are taking shape, the coalitions that are working on this, how it plays between the Republicans and Democrats in Congress, the awkwardness of the Administration in actually pushing this thing on the Hill. Have you done some thinking about how to strengthen the politics so that this thing actually happens and that there's enough will to pay attention to your recommendations and get the money and also get this thing set up in the best way possible?

MR. PURVIS: That's a very pertinent and difficult question.

My own sense is that it will happen and for largely the following reason. Democrats favor foreign aid and are going to jump at the opportunity to have the United States be more actively engaged in international efforts, particularly poverty reduction. The Republicans are going to want to support the President in a presidential initiative. So I would perceive that there would be bipartisan support for moving this forward.

The problem I think is the tightness of the legislative calendar given the enormous number of other issues that the Congress will need to deal with a poor economy and with a very active and volatile national situation on the security front.

The real issue I think as Lael alluded to in her introduction is what is the funding level going to be and how will the funding be structured and will the Congress take this opportunity to engage with the President form the new partnership that I was trying to sell.

I think the political dynamics are beneficial on one had. The development community is I think joining together fairly admirably, and I think your organization is playing a leadership role in this, in making sure that the priority is on getting the program established rather than funding particular pet projects or pet areas. I think that's very helpful. And my advice for those in the advocacy community is to very much continue that focus. Let's get the program up and running.

The concern I think is, over the long run, that after the program is established there is I think very little reason to believe that the same specific interest groups, whether they're in the development community or otherwise, will continue to have the general vision of having this program be responsive to donor interests rather than pushing individual programs.

So I think the political risk is not so much in year one where I think things are likely to get started, but rather down the road where the political tensions will be to have the appropriations revert back to the kind of traditional style of earmarking and tying of aid. So that's the risk. I think we have an obligation to have continuing discussions within the development community, within the advocacy community about what we can do to limit that structure and limit that potentially damaging pressure.

The fundamental problem, speaking from a legal perspective, is that the Congress cannot bind itself. It cannot enact the legislation which would then tie its hands. There's no law that the Congress can enact but it can't change in the very next piece of legislation. So getting the thing up and running right doesn't really guard it against political pressures and amendments in the future.

MS. BIRDSALL: Like tax reform.

MR. PURVIS: Absolutely. A continuing process always. That's what this will be.

The real risk is on funding and Lael said, and I don't have much to add to that, that I think there is every reason to believe that the funds will not be there in the short term, and that they may not be there in the long run either to reach the levels that the President initially proposed.

MS. BIRDSALL: I don't want you to answer this Nigel, but it's just a crude theory I have. I'm not very good on politics. That the Democrats are nervous about the question of whether the MCA money will be additional to existing programs, and if there is evidence that it's not additional that will raise very difficult issues about how bipartisan the support can really be.

Let me go to two questions in the audience and then I'm going to make sure that we give Carol a chance to address the multilateral swamp issue.

First Carol Lancaster, then the gentleman in the third row.

QUESTION: Thank you. I'm Carol Lancaster from Georgetown University.

I just wanted to compliment everybody on what seems to be an extremely good job. I guess I'm going to go back and spend all night reading this thing. I hope it's not as long as that.

I guess this is really a follow-up to the last question. I may be overly scarred from my experience in being in the politics of aid in this town, but it seems to me that partly from the last question it came out that there's another world of political incentives out there and it's not entirely clear to me that you've completely come to terms with them and maybe you can't. So maybe you just have to let it work itself out. Those incentives involve what the Executive Branch does with foreign aid and what the Congress does.

The President suddenly gets an urgent crisis and he has to have money. The NSC dictates to you how much that money will be, and if you're really unlucky it dictates to you some crazy idea about how to use it -- with all due respect to Gayle and Susan who have never done any of that before, but others have. [Laughter]

That money's going to come from somewhere. So the real question is can you, should you limit in some way the deference, you used the word deference, that this organization would have to the Executive Branch. In a lot of cases that's going to be driven by highly political concerns.

Then there are the incentives in Congress which we've touched on, to earmark. Of course incentives in the NGO community or in all communities outside this, to kind of go after the honey pot, go after the public trough, and I've already heard it and we've mostly already heard it here. That's less often a member problem than a staffer problem. Members are probably not going to be very engaged with this entity once it gets up and going.

So how in real world terms, in down and dirty political terms, do you deal with this? Do you look for a patron in the Congress? That has often been a strategy of protecting aid programs and other programs from assault. Are there some thoughts on how you deal with that?

I suspect talking to the NGO community and saying please don't advocate earmarks, isn't going to do a whole lot in the long term, just human beings being who they are and what they are.

QUESTION: My name is Jonathan Reineman. I'm a Stanford student interning here at the French Embassy for the spring. I have a question that I think might bring you back to your multilateral swamp there.

I was just curious how the bilateral or unilateral MCA can better address criticisms that are directed towards the multilateral World Bank with similar objectives as the MCA.

MS. BIRDSALL: Carol, do you want to start?

MS. GRAHAM: In terms of the whole message about the importance of coordinating with other donors and playing to some extent a multilateral game, part of that message is about rhetoric and process, and part of it is about actual operations.

Here I think rhetoric and process do matter in that there's been I think a tremendous amount of very positive momentum on at least trying to agree among a whole myriad of donors and donor agencies on, one, on broad objectives to achieve poverty reduction as a Millennium Development goal, but equally important in terms of a process that attempts to engage not just governments but representatives of the non-government community and that really attempts to incorporate countries, policies and programs and priorities from the bottom up. That really is achieved in the way that AID has been done and it addresses a lot of what many of the critics of AID have highlighted as problem which is that often donor objectives are completely out of touch with the reality on the ground.

So given that both the sort of broad and stated consensus through the [NCGs, NGOs] and the process through the PRSPs, I think this is not tying the hands of the MCA. It's saying recognize that there have been these developments, acknowledge them in your own rhetoric as you set up the MCA and learn from the process. Make sure that MCA operations understand what the PRSPs of particular countries are, what the priorities, what other donors are funding. That doesn't mean that the MCA can't have its own way of operating and its own program priority areas. It's not about getting mired down in the swamp.

In terms of its actual operations, I think that means that beyond the rhetoric and the process, that what other donors are doing in other areas in particular countries which should be spelled out in the PRSP should be a criteria.

Related to that and related to the whole issue of multilateral swamps, or the swamp of donor coordination --

MS. BIRDSALL: On which I do not want to be quoted, being a friend of the donor community and -- [Laughter]

MS. GRAHAM: Now it's in the record book. Anyway -- [Laughter]

MS. BIRDSALL: We're all climbing out of the swamp. Will the MCA help?

MS. GRAHAM: Will the bilateral MCA, operating on its own as a bilateral agency get beyond the multilateral swamp? The sort of all the problems with multilateral aid.

As far as I know there are very few bilateral aid programs that are more effective than the Bank and Fund and the Development Bank at achieving their stated objectives. There are a few. I would not put USAID in that category.

So one of the problems is achieving effective aid is a difficult thing to do. Are bilateral donors more or less effective? Well, most of the literature suggests that they tend to be less effective because they tend to be more prone to security objectives, to earmarking by the particular congresses. And these are particularly problems for U.S. foreign assistance versus, to go back to Colin's point, versus the development programs, some of the very good development programs where the aid agencies have more independence, are cabinet level and have a standing on their own.

So I think actually rather than saying can a bilateral MCA avoid all the mistakes of the multilaterals, I think it should learn from their mistakes but it should also learn from the substantial progress and policy learning that's taken place in the last few years.

MS. BIRDSALL: We have a comment on our web site about how the MCA money, by Nick Vanderwall, should just go into a multilateral fund.

Steve, you came from the U.S. Treasury. You understand about the multilaterals. Do you want to say anything about this? Would a sunset provision, an independent evaluation save the MCA from the curse of endless criticism to which the World Bank and the IMF have --

MR. RADELET: No, it won't do that, that's for sure. It will not save it from endless criticism. But I do think this is a huge issue, whether it's through multilateral channels or just more broadly on donor harmonization and coordination which again is one that hasn't been given a lot of thought by the Administration.

I think there are ways to design this program so that it is coordinated with other programs, but I think if they're not careful this could be one more program on top of everything else which could be a mess.

There are lots of reasons why they didn't go multilateral, partly because a main reason for

this program is that it's political in the sense that the United States as a super power wants to project soft power to go hand in hand with its hard military power. That's the political reality. Not just with this program but also with the HIV/AIDS program that was announced in the State of the Union address. It's quite clear in the juxtaposition of the State of the Union address by announcing the HIV/AIDS program first and then talking about the policies towards Iraq that they were trying to balance both a hard and soft power. And I think the MCA is part of that and that's one reason why they wanted to keep this as a unilateral program. There's also great distrust within the U.S. government of multilateral approaches in general, but also of the World Bank and the success or not such great success that they've had. So there are lots of reasons for that.

But in terms of how this can be better harmonized, there's two levels I think to think about this. One is at the level of requirements for reporting -- audits, financial statements, environmental assessments, reporting requirements. This could really be a mess if we in this new program just asked for one more set of requirements for all of this that are separate from USAID's, much less separate from every other donor, so that's one issue that really has to be thought through carefully.

Another level, though, where there's a much greater opportunity for coordination is in this delivery mechanism. If it in fact goes through that countries themselves are writing proposals for broad programmatic areas such as funding for their education programs, for their health programs, that actually provides a terrific opportunity for coordination with other donors because the recipients themselves will have a strategy, hopefully a well thought out strategy, that other donors can buy into and fund that same program that the Millennium Challenge Account is funding. Because the United States is not going to fund 100 percent of a health program or an education program. It will fund a part of that I presume.

So there is through this delivery mechanism an opportunity I think to enhance coordination if they take advantage of it but that remains to be seen.

Let me comment if I can on Carol's question on the issue of how you can sort of ring fence this and kind of protect this a little bit, and how you think about a patron and those kinds of issues. I think there are several things you need to do.

One is to make the case up front and continue to make the case as to why it's important to separate this tool from the political imperatives that will come along of why, to be effective for the objectives that it has, that if you get involved with, begin to provide money to political partners you're not going to achieve the objective here.

To do that you've got to be very clear that we have different objectives and we need different tools. This is a tool for economic development, it is not the tool to support our political and diplomatic partners. That implies we need to further develop those tools to help the front-

line states, to help Iraq and Afghanistan and it's a separate tool.

One of the great problems we've had is we have one tool to solve all these problems and it gets to be a mess. We're now developing one tool. We've got to develop another tool that can achieve those kinds of results.

But then you've got to take that further and the whole results-based management has to be part of this. You need to have a strong results-based approach in order to show that this is being effective in achieving its development purposes I think in order to ward off the attempts to raid it for other kinds of purposes. So the results-based evaluations become key.

Finally I think you're absolutely right, you've got to develop some patrons who understand this because most members never will. There are a couple up on the Hill. Senator Lugar is one, Congressman Colby is another one, who are perfectly situated, one in the Senate, one in the House, to be defenders of this, that have taken the time to understand it. Unfortunately they're quite frustrated because they haven't gotten much information on how this program is going to succeed or operate, but if you're going to have those kind of political patrons the Administration needs to do the work now to not work in isolation of Congress but to work with them as Nigel said, to get this thing done right.

MS. BIRDSALL: Nigel, you want to have Carol's problem solved by an appointment sooner rather than later of a shadow head of the MCC and I know you also wanted to say something else.

I'm wondering if you would venture some names.

MR. PURVIS: No, I'm not in a position to do that. I don't think it will likely solve the problem that Carol identified. I think that would be useful in terms of getting some of these design issues right, but we did try and think a great deal about the two risks that you pose, the risks that pressures in the Executive Branch could undermine the program, and the risk that pressures in the Legislative Branch, political pressures, could undermine the program. I think it's a good news/bad news story.

The good news is that there probably is, and we've tried to highlight, a fair number of things you can do on the executive branch side. Just to pull out a few things that were mentioned, but to show how they --

MS. BIRDSALL: Parity in the board.

MR. PURVIS: Parity on the board. Six year terms so that you're not subject to the will of the President entirely. A very narrow and clear mandate so that if you're focused on

development you're not doing reconstruction in post-conflict situations. It helps to keep the money separate,

Just as an example, EXIM has an actual prohibition against the consideration of political factors. The Secretary of State has to come in and provide that kind of political calculation above and beyond what EXIM does. It's required to look only at commercial considerations. You can imagine that kind of a directive to the MCA board that really focuses it on the mission of development.

Another thing you can do is give it independent agency status which provides some protection for the --

MS. BIRDSALL: That would be the end of the Secretary for Development Cooperation idea. There is a tradeoff here.

MR. PURVIS: One could imagine getting independent agency status without having that level of political support. But the thing that that status does is provide some insulation against staff in the Executive Office of the President who have ethics restrictions on lobbying independent agencies. It was initially passed in the context of the FBI and other agencies that were intended to be separate from the more political branches.

So the good news is on the executive side there are things we can do. The bad news I think is on the legislative side. There's a lot less that can be done. I tried in my answer there, and since time is running short I'll not repeat --

MS. BIRDSALL: That's where we need David Beckman for the next five or ten years. Monitoring and fussing and interaction in other groups.

I know that Gayle wants to say something. What I'd like to suggest because we have to stop after one more round, is that we collect questions, then I'll start with you Gayle --

MS. SMITH: Just on Carol's point.

MS. BIRDSALL: Go ahead.

MS. SMITH: Real quickly, because I think there's one element we're missing and it's something we go into in the book which is ESF, Economic Support Fund. And it's always going to be the case that the vast majority of aid dollars are going to go to political security imperatives, even with the MCA. The numbers are such if you include DA and ESF. And I think one thing that the advocacy community that is focused on poverty reduction, on the least developed countries has not done which it needs to do, is advocate for more ESF. Because what

happens when the ESF budget is divided up is --

MS. BIRDSALL: Less raiding. More ESF would mean less raiding.

MS. SMITH: Yes, more ESF-- allocated to for example Africa would mean less raiding of DA or potential threat to the MCA although I tend to agree that there are enough mechanisms that can be put in place to protect that. It would mean less theft.

I think that because ESF is the most flexible, the most overtly political, and therefore has frequently been the least clean of foreign assistance tools over time, there's a tendency of a lot of people in the development community to keep ESF at arm's length. That's understandable. It can be flexible in pursuit of very effective goals. ESF is the kind of thing you want in the Nigerias of this world, for example. But again, if there were a bigger share for the poor countries of the world, the problem you describe would happen less frequently. In fact the budget for ESF for Africa I think in the '04 request has gone down by as I recall something like 40 percent.

MS. BIRDSALL: So we're going from the grand strategic to the tactical.

Let's collect questions.

QUESTION: Larry Nowels with the Congressional Research Service.

I do have a question but I'd like to make a real quick comment about your last reference, Gayle, to ESF. It's an interesting one but I reflect on what happened to a similar strategy in the early to mid 1980s where the Africa Bureau at USAID did start requesting more ESF resources and planned their programs based on that and succeeded in getting larger amounts of ESF through Congress, through the Executive Branch. But then when it came time to allocate those funds it often was delayed reaching the missions in Africa, it was held back, and much of it wound up in Central America because of other priorities. So there are tradeoff risks even if you pursue a strategy. You just avoid drawing on development assistance and child survival.

My question has to do, Nigel you raised the point about there hasn't been a comprehensive foreign aid authorization bill in now 18 years. And during that time we've had individual issues addressed in authorizations. You had the development fund for Africa, separate legislation for Eastern Europe, the former Soviet Union, HIV/AIDs, malaria and tuberculosis, layer upon layer of narrow issues.

The MCA being discussed legislatively is going to be another add-on to an existing body of legislation that much is mired in Cold War terms.

My question is, and recognizing this would be enormously difficult and possibly unrealistic although I have heard it discussed in certain quarters on the Hill in the last couple of months. That is to what extent would the MCA benefit from an overall review and new legislation comprehensively to establish a blueprint and a framework to which it would fit into, not be on top of, separate from, or are there risks or consequences for that, of it getting mired in the swamp of broad foreign aid legislation? Or is it inconsequential?

MS. BIRDSALL: Subsequent questions need to be shorter, in the interest of keeping you all interested, please. Although it was a good question.

QUESTION: Ken Williams with the New Voices grantmaking program which is a Ford Foundation human rights program.

Your comment suggest maybe another National Research Council study, although I always worry about whether or not Congress actually reads them once they're funded,

My question is in terms of the composition of the board that you've been talking about whether you think there would be any strategic value in terms of tempering criticism to including some representatives of the international community, development experts, leaders, models that work in other countries, that sort of thing. Assuming that the board is not necessarily the selection panel for awarding grants and that members might have to absent when there are conflicts of interest. There might have to be a conflict of interest policy.

MS. BIRDSALL: The Chairman of the Development Committee, for example, that changes.

Other questions? Comments?

QUESTION: Mitch Patterson from Burnett Communications.

Being a former Hill staffer who worked with a member on Appropriations, going back to the issue of gaining funding, sustaining funding, and gaining support on the Hill. It sounds like there's been a lot of thought at the macro level to design and coordination. I'm curious if you see a role at the micro level, at the grassroots lobbying level for the issues of global development, global health, and working with Bread for the World and other groups, what is going on or what you see in the future for possibilities in these areas.

MS. BIRDSALL: We'll give each panel member, if he or she wants, a minute. Maybe we'll end with Lael or would you like to start?

MS. BRAINARD: I just wanted to answer those questions.

MS. BIRDSALL: Why don't you start then?

MS. BRAINARD: First I just wanted to say for those who don't know him, Larry Nowels is the person we all call when there's anything we don't know about foreign aid legislation or the budget, and he's done a terrific piece on the Millennium Challenge Account which we learned a lot from.

There's no question that what is needed is a reauthorization of the Foreign Assistance Act. I think many of us thought in fact that the Millennium Challenge Account would provide the vehicle for doing that, but I think the Administration judged, and correctly in my view, that there's a tradeoff there. If they want to get the Millennium Challenge Account up and started, the tried and true method for doing it, which we saw with SEED, FSA, and a variety of legislation as you said, is to just do a partial authorization. That approach doesn't fix the existing problems. That's the big disappointment. But it does get your new initiative up and running.

It's the same set of tradeoffs that Gayle was talking about in terms of an independent agency. That's probably the best way to make the Millennium Challenge Account succeed on its own. Is it the best way to drive improvements to foreign aid and development more generally? Absolutely not.

On this issue about including representatives of the international community, we looked a lot at the Global Fund for models on the operations as well as the governance structure. The Global Fund has a really nice governance structure, as you know. It includes a representative who is suffering from HIV/AIDS, it includes donors, it includes beneficiaries. Gayle was telling me that we could not include foreigners legally here. I think that's right. The idea of having those four open board seats is that we could essentially have any kind of representatives from NGOs, the private sector, but it sounds like by law they must be American. I think you could also have a foreign advisory board and that would be a very good way of getting at the goal, which is rebalancing this equation.

My only last comment is on grassroots level support. There's been a really good effort that the Aspen Institute has undertaken to get the think tank people and the NGOs, such as David Beckmann and others to work together in support of these grassroots efforts. We've seen a complete watershed in the politics of development-related initiatives in the last few years, starting with debt relief, going on to HIV/AIDS, and now somewhat around the Millennium Development goals, somewhat around some of the trade issues, and it really has made a huge difference. The coalition of the left and the right, of rock stars and the Pope does represent something new and important out there.

MS. BIRDSALL: Thank you, Lael. Good for you, Nigel.

Gayle?

MS. SMITH: Just a very quick point. While I agree with Lael that expediency would dictate that we go ahead and do the MCC separately, don't revamp overall legislation and so on and so forth, my personal concern is there's never going to be a good time to clean up U.S. foreign aid writ large. And as good as the Millennium Challenge Account is I think in terms of approach and certainly in terms of size, it is still evidence of the pattern we've seen over the last 10 to 15 years which is aid isn't working very well, let's do something new, let's do something new, let's do something new, let's do something new.

I think what we end up with as a net result is getting less bang for our buck than we might if we unpacked it. If we said what tools do we have, and cleaned it up.

Again, no Administration's going to likely want to do that because it's going to take a great deal of time, mean battles on the Hill, all kinds of reorganization and staffing questions. But I am not sure that the impact of our foreign aid, if you add all the dollars from all the different pots, it doesn't add up in impact to the total dollars because it's all so convoluted and, as you say, add-on.

MS. BIRDSALL: Steve?

MR. RADELET: Just a comment on Larry's question. In my book I have as a recommendation it's time to rewrite the Foreign Assistance Act, and I think there's a unique political moment where that can be done because of the bipartisan nature of what's going on and because the world has changed in a lot of different ways and there's a lot of interest from people like Lugar and Colby and others that I think the opportunity exists. There are lots of risks in doing it, but I think it's really important.

One of the reasons is that this Administration, there's actually I think a real danger of Balkanization of the foreign aid program. The MCC -- We mentioned earlier, their distrust of multilateral organizations. The question that Jonathan asked. There's also a striking distrust of their own executive branch agencies. As Lael said earlier, this is a vote of no confidence in USAID. It's not just the MCA where they're going to set up a new corporation. With the new HIV/AIDS initiative there's got to be a new State Department coordinator. The new Complex Emergency Fund, there's going to be somebody new for that. The Famine Fund has to have a different kind of mechanism. The Middle East initiative is going to be set up in a new way than other things, not as USAID.

So there's a lot of new initiatives and they're all kind of separate from each other. That's

just going to add to exactly what you're talking about, and it's not a sensible way to go.

So I think with all of this new activity, with this interest, with the bipartisan nature, it really is time to sit down and redo the legislation since it's a left-over from John Kennedy. It was a great piece of legislation in its time, but it was a long time ago.

MS. BIRDSALL: Carol?

MS. GRAHAM: Just very briefly, I just wanted to emphasize or piggyback on Lael's point about there really being something new out there in terms of momentum and bipartisan initiatives and consensus, multilateral efforts through the HIPC, through all kinds of other initiatives.

I think what's been surprising in terms of the MCA is that even though it seems to be a real moment that there might be some reexamination of U.S. foreign assistance, at least to our knowledge and most of the indications are that it has been still very isolated and very separate from all these efforts without a lot of contact with the multilateral institutions and all these other initiatives. And that we're really hoping that as the process becomes concrete and goes forward, that it doesn't operate in a vacuum and not piggyback on all the progress that's been made.

MS. BIRDSALL: Thank you very much, Carol. I think it's a moment in time to reinforce the idea that we can't always go it alone. We can have leadership but it's risky to go it alone.

Let me thank all of you for coming, for being here, for participating with us, and remind you that you're all welcome to have lunch with us out in the hallway.

MS. BIRDSALL: And also www.brookings.edu; www.cgdev.org.

Thank you very much.

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