

THE MILLENNIUM CHALLENGE ACCOUNT: SPUR TO DEMOCRACY?

THE MCA OPENS THE DOOR TO A DEBATE ON DEMOCRACY AND GOVERNANCE
CONDITIONALITY FOR ASSISTANCE. NGOs IN DEVELOPING COUNTRIES NEED TO
WALK THROUGH THAT DOOR.

BY ELIZABETH SPIRO CLARK

The Millennium Challenge Act of 2003 set up a new entity, the Millennium Challenge Corporation, to implement a major new development assistance program. The Millennium Challenge Account is accurately described as a bold, fresh approach to development assistance, in its method of selecting countries, developing and implementing grant programs and in the significant size of the expected grants, although the president's request for \$3 billion in the 2006 budget is far short of the original \$5 billion pledge.

To date, 17 MCA-eligible countries have been selected. Of these, 15 have presented country proposals or concept papers that are under review by the MCC as the basis for grants. On Feb. 14, the MCC board approved the first country "compact," awarding Madagascar \$110 million over four years for projects focused in the areas of property rights, agricultural business and financial investment.

In addition, 13 countries have been named eligible for the FY 2004 and FY 2005 "Threshold Program," under which countries that do not yet qualify for MCA assistance are assisted by the MCC and USAID to improve their performance on the selection criteria.

To qualify for the MCA in the first place, countries

must have a per capita GDP level of \$1,415 or lower, and must meet standards in three categories: "ruling justly," "encouraging economic freedom" and "investing in people." In all, there are 16 indicators under these three headings against which a country is scored, in competition with other countries. To be eligible for MCA, countries must score above the median in half of the indicators in each category, and must not fall significantly below the median on any single indicator. They must also score above the median on the anti-corruption indicator. Eligibility is not automatic, however. The MCC board can take other factors into account in evaluating the pool of candidates, through, *inter alia*, consulting with experts and drawing on supplemental information from the State Department Human Rights Reports and Transparency International's Corruption Perception Index.

MCA grants will be awarded on a foundation model, as opposed to the "country programming" approach used by USAID. Instead of the U.S. designing projects and programs, recipient governments will have responsibility for developing proposals in line with their own development priorities. Such country "ownership" is justified by the primary purposes of the MCA, to stimulate competition among countries to adopt a "good policy environment" (as measured by the MCA indicators), and to minimize corruption and waste in development assistance. Each government's proposal can be developed and implemented with the participation of nongovernmental organizations and the private sector and, indeed, all proposals must specify a plan for consultation with civil society and the private sector. Once a government has formulated its proposal, it then enters into negotiations with the MCC with the aim of signing a "com-

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fact” that spells out a results structure against which the program’s progress will be evaluated.

Political Conditionality

All of the MCA innovations are designed to answer longstanding criticisms within the development community of assistance effectiveness. Study after study done in the World Bank during the 1990s connected poverty reduction and sustainable development with a “good policy environment” — meaning a well-governed country. One of the most startling conclusions of a 1998 study was that the only robust correlation with successful structural adjustment programs was “democratically elected governments.” Because the World Bank charter prohibits political conditionality this was not a usable correlation, at least not directly. World Bank officials from President James Wolfensohn on down say that the Bank is, in effect, “doing democracy” — without talking about it.

Transparency, accountability and participation are all key to successful programs of sustainable development, but the best mechanism for all is functioning democratic institutions. The question is, does doing democracy while using “governance” circumlocutions undercut the pressure for democracy-building needed to make programs of poverty reduction and sustainable development work?

Given that the MCA was developed in the Treasury Department, it is no surprise that it reflects the World Bank’s reluctance to use the “D” word, even while incorporating indicators that move further into political conditionality for development assistance. Though he didn’t use the “D” word, on May 10, 2004, President Bush told representatives of the first 16 MCA-eligible countries that the intent of the program is to “link new aid to clear standards of economic, political and social reform.” In his May 19, 2004,

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statement to the House International Relations Committee, MCC CEO Paul Applegarth didn’t mention democracy either, but did lay out a goal for MCA countries of “developing capacity to govern wisely.”

The use of political indicators for selection criteria is frequently touted as a major innovation of the MCA. The “Ruling Justly” category has six indicators: Voice and Accountability, Rule of Law, Control of Corruption, Government Effectiveness, Political Rights and Civil Rights. The first four use World Bank assessments. The final two, however, use Freedom House ratings. Freedom House’s scoring for “political rights” includes free and fair elections (the core democratic institution), as well as other fundamental political rights. A country, however, need not score above the median on political rights to be eligible for the MCA. In fact, two MCA-eligible countries — Armenia and Morocco — rank low on the 2004 Freedom House political rights ratings; neither has held elections that meet international standards.

In theory, even if democracy is not an explicit condition, the MCA will contribute to democratization in four ways:

Act as an incentive regime.

Given the significant amounts of assistance, the “Ruling Justly” indicators will act as an incentive for governments to meet international democracy standards to qualify. One element in the evaluation of MCA grant programs will be “progress on meeting MCA indicators.”

Legitimize democratic reform. The significant size of the MCA grants should legitimize democratic reform by providing concrete benefits to ordinary citizens, especially if democracy is perceived to be an eligibility criterion and the benefits are distributed in wide-impact areas such as agriculture, education and health.

Strengthen transparency and accountability. The MCA process should strengthen transparency and accountability in government institutions through MCA program development consultation and evaluation mechanisms.

Give general and sustained attention to MCA countries. Given the high profile of the MCA, grant-recipient countries will be a focus of U.S. attention. Even without direct American pressure on democracy-building, spotlighting the country in such a broad manner should inhibit anti-democratic developments.

Countries Named, Questions Raised

In May 2004 the MCC board, chaired by the Secretary of State, announced the first group of MCA-eligible countries. The 16 countries are Mongolia, Armenia, Georgia, Honduras, Nicaragua, Sri Lanka, Vanuatu, Ghana, Benin, Senegal, Mozambique, Lesotho, Madagascar, Mali, Bolivia and Cape Verde. Morocco was added in 2005. In six cases the MCC board gave justifications for inclusion of countries that did not meet the eligibility rules, ranging from mitigating circumstances on Lesotho’s falling below the median on the “days to start a business” indicator

to data lags affecting Mozambique's scores on primary education. However, the board did not offer excuses for the poor showing of Armenia and Morocco on the political rights indicator.

Ghana and Mongolia. Democratic activists in MCA countries interviewed for this article were very positive about the concept of an assistance program perceived as rewarding countries for democratic reform. Emmanuel Gyimah-Boadi, director of the Ghana Center for Democracy and Development, welcomed the U.S. "move away from basket cases" and toward recognition of countries that are "doing relatively well." He believes the MCA will be "a real incentive for democratic progress" in Africa.

Enkhtoya Oidov, former member of Mongolia's parliament and a recent fellow at the National Endowment for Democracy, expressed pleasure that

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the MCA would have democratic practices as conditions for eligibility. "Our hope is the U.S.," she says. Only its interest can protect "proper democratic institutions." But so far, Mongolia, she says, has failed to

attract American interest on strategic grounds. She sees a major aid program as a vehicle for that interest. Mongolia needs aid, so "will accept anything the U.S. says," she adds. Conversely, absent American pressure, she believes the consequences for democratization in Mongolia will be dire; she predicts the opposition party will disappear.

Both Gyimah-Boadi and Oidov make clear that how the MCA is implemented will be crucial if it is to have a positive effect on building and consolidating democracy. Gyimah-Boadi expressed some concern for the impact of such significant amounts of aid. "Significant amounts of aid can have the same effect on governments as having natural resources. Governments can get lazy," he says. "Aid could weaken efforts of governments to exercise fiscal discipline, especially in the area of tax policy, where it needs to go after domes-

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tic revenues. Governments don't want to go after the rich." Significant assistance could weaken accountability as governments feel less need to respond to their citizens.

In Oidov's view, the MCA evaluation process would be an important avenue for pressure on governments, in addition to the eligibility criteria. "We must have an avenue of accountability. To date, accountability on projects has been hard to get," she states. Oidov cited a World Bank project where a women's group and other NGOs were frozen out of the consultative process by a government worried they might discover corruption. Civil society groups in Mongolia, she believes, have learned how to work with people. It is important to strengthen this capacity, to build in a channel of influence in the MCA for civil society groups that is real and not just window dressing.

Bolivia. The fact that "country ownership" is built into the MCA process is not only meant to increase the effectiveness of the program but to underscore that this assistance is insulated from U.S. geostrategic considerations, the business of rewarding friends and punishing foes. In the case of Bolivia, an MCA-eligible country, this would represent a welcome change from traditional American assistance policy, in the view of many. Ronald MacLean-Abaroa, a former Bolivian presidential candidate, recently told an audience of development experts that eradicating drugs had been the sole target of U.S. assistance. When Bolivia eradicated drugs, GDP promptly fell 10 percent, and the resulting riots drove the president from office. The net effect was a backslide in democracy and economic growth, as well as the ouster of local U.S. allies. For all these reasons, Bolivia, he says, "should be the perfect MCA country."

Vietnam. Experts had predicted that Vietnam would be in the first

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group of eligible countries based on its scores against the indicators. Vo Van Ai and Penelope Faulkner, president and vice president, respectively, of Que Me (Action for Democracy in Vietnam), were strongly supportive of putting democracy conditions on assistance. They were astonished that Vietnam could be eligible, especially given the MCA's special emphasis on anti-corruption. "People who expose corruption are in jail. Vietnam is a closed society," they say. "A 'cyber-dissident' was sentenced to 13 years for downloading and translating an article on 'what is democracy?' from the U.S. embassy Web site. Even after protests were made, he still got five years."

According to Van Ai and Faulkner, Vietnam is skilled in attracting international assistance, making human rights gestures only when necessary: "Religious leaders are in jail. Prior to the arrival of a World Bank delegation last November to discuss assistance, one prominent leader was released and met with the World Bank. Immediately after a large loan was agreed on the religious leader was put back in jail. Unfortunately, the international financial community appears to be only interested in stability." Steve Radelet, author of many books and articles on the MCA, observes

that it is interesting that Vietnam, Bhutan and Mauritania were knocked out, even though they qualified on the numbers. It may indicate, according to Radelet, that in practice, the MCC board will use a democracy threshold for eligibility, without being open and transparent about it. However, the inclusion of Armenia and Morocco in the MCA list raises questions about that assumption.

Problems and Recommendations

The MCA has just been launched, but it is a promising new approach to assistance. Whether that promise will be realized will depend in large part on how effective the MCA is in vitalizing democratic processes and engaging publics. Because the MCA has political indicators that include core democratic institutions and because it is such a significant expansion of U.S. assistance, it is fair to ask how it will offer incentives and exert pressure for democratization. The short answer is that it is much too soon to tell. Clearly, the MCA opens the door to a debate on democracy and governance conditionality for aid. Nongovernmental organizations in developing countries need to walk through that door.

At the same time, it is reasonable to predict that given the ambiguities in the eligibility standards, the MCA is likely to fall short of its potential unless the MCC fine-tunes the implementation and adjusts the emphasis. Accepting sustainable development as a top priority means also accepting that the elements of democracy (transparency, accountability, participation and legitimacy and fundamental freedoms) are at the heart of what will make the program work.

Whatever the constraints on other sources of assistance, such as the World Bank, there is no good reason for the United States to be

equivocal about democracy conditionality and support for democratization. Among the ways to tighten up the incentives and pressure for democratic development are the following:

Strengthen “ruling justly” democracy indicators. The fact that in addition to Vietnam, Bhutan and Mauritania, other non-democracies meet the statistical requirements for MCA eligibility should be a signal that democracy conditionality needs to be toughened up, or it might disappear — and with it any MCA claim to be a “new approach.” A coalition of groups from the democracy, human rights and development communities, headed by Freedom House, signed a letter to Pres. Bush in 2002 urging him to include specific human rights and democracy criteria in the “ruling justly” category. (While the administration did not respond to the letter, Freedom House indicators, as noted, are used for two indicators in the “Ruling Justly” category.) The letter stated that when fundamental freedoms such as the freedom of expression and association and the rights to free and fair elections and equal treatment under the law are in place, “adherence to the rule of law and anti-corruption efforts are more likely to follow.” In other words, the coalition urged, put democracy first.

This can be accomplished in several ways. Democratic elections could be made a separate indicator, and eligible countries required to score above the median of competing countries, as is the case with the corruption indicator. Another approach would be to require that eligible countries be rated as “electoral democracies” by Freedom House. “Electoral democracies” have met minimum democracy standards, including on the conduct of elections. Of the 17 current MCA-eligible countries, two, Armenia and

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Morocco, fail to score as electoral democracies. An absolute score on political rights of a “3” or better in Freedom House ratings rather than a median score could be required: a “3” score from Freedom House almost always means elections have met international standards.

At the very least, the MCC board should be required to state the special factors that justified including a country that did not score at or above the median in political rights. Further, the MCC should rename the political category “ruling justly,” using instead the term from the legislation, “just and democratic governance.” With its top-down connotations, the former is ill-suited to suggest democratization criteria.

Emphasize transparency and public participation. The MCA requires countries to describe the consultative processes undertaken with civil society and the private sector in developing development priorities and implementing grants. However, it is not clear the extent to which openness, transparency and public input will be required in the evaluation stage. Ensuring the effective dissemination in MCA countries of information about the project development, implementation and evaluation stages is crucial in legitimizing programs. In the view of Ghana’s Gyimah-Boadi, any

effective process must be as inclusive as possible, bringing in all sectors. Inclusiveness works, even for anti-corruption laws. Governments must reach out and negotiate with the private sector. Negotiation, not top-down “consultation,” is the key to success.

Increase democracy and governance funding in USAID. Democracy and human rights experts are concerned that the MCA is drying up sources of funding for direct democracy programs, without being itself, in either theory or practice, a democracy program. Special funds will be available in high-profile targets — above all, Iraq — to fund political party development and election monitor training, as well as a panoply of other democracy and governance areas. But other countries, at all stages of democratic development, will be left out. Some — El Salvador is often mentioned — need only a limited amount of sustained attention, but need it nevertheless.

Avoid using MCA for other objectives; keep it insulated from special U.S. interests. The MCA program will lose value — and effectiveness — to the extent that publics in recipient countries identify it not with development goals but with U.S. foreign policy. Under the authorizing legislation, an MCA program can be terminated or suspended if “the country or entity is engaged in activities which are contrary to the national security interests of the United States.” It is well to remember the pressure that the U.S. is putting on countries to sign bilateral agreements not to surrender American citizens to the International Criminal Court. If the MCA is used for that type of leveraging, it will not be seen as a new approach to assistance but as a very old one, and likely to suffer from old failures. ■