

Millennium Challenge Corporation

# MCC and the Long Term Goal of Deepening Democracy

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REDUCING POVERTY THROUGH GROWTH

## **Acknowledgements**

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## Executive Summary

The mission of the Millennium Challenge Corporation (MCC), a US foreign assistance program established in 2004, is to reduce poverty through economic growth. Although promoting democracy is not explicitly part of this mission, we recognize the link between democracy and economic growth, and several of MCC's core founding principles implicitly value democratic institutions. These principles echo an evolving set of lessons from the development community, including democracy assistance practitioners, as well as an expanding economic literature on the role of domestic institutions. Based on this, MCC's approach to long-term democratic deepening has two parts.

First, to select its partners, MCC assesses policy performance by applying a transparent set of eligibility criteria. These policy criteria were selected for their relationship to economic growth, and reflect our recognition that strong democratic institutions are some of the very institutions which enable sustainable, locally owned, positive economic outcomes. The eligibility criteria include three publicly available indicators of democratic standing: *Political Rights, Civil Liberties and Voice and Accountability*. These indicators constitute a significant portion of the eligibility criteria and are objective, independent measures of performance from Freedom House and the World Bank Institute.

MCC's selection process incentivizes democratic transition by recognizing and providing resources for poverty reduction and economic growth programs to governments that demonstrate true commitment to democracy. This incentivizing effect is already broadly recognized, and MCC has been applauded for making its concern with democratic commitment transparent and credible. Through the Threshold program, MCC also provides direct assistance for democracy promotion to countries that do not yet meet the selection criteria but have demonstrated a desire to adopt significant reforms in this area.

Second, the processes associated with an MCC Compact (our primary mechanism for delivering assistance) call on pre-existing local institutions to play their democratically prescribed role. We believe that over time this strengthens domestic democratic transitions and deepens democracy by valuing the legitimacy of democratic institutions. From our perspective, this aspect of MCC's approach to democratic institutions is just as meaningful, but is not yet as widely recognized or discussed. Key elements of MCC's approach include the following:

- MCC asks partner governments to maintain a meaningful, public consultative process throughout compact development and implementation. This allows civic, private, and political sector actors to play meaningful roles in setting priorities for the development of the country, and has empowered elected officials to exercise their representative rights and responsibilities. During implementation, civil society representatives participate directly in advisory boards that oversee implementation of the MCC Compact.

- Compact programs must adhere to domestic legal or constitutional requirements, such as compact ratification, notification, or the budget processes; and
- Compact implementation must be transparent, which can strengthen domestic accountability, and in some cases, set precedents for access to information or civic participation in government.

Together, MCC believes that these two elements of our approach—creating incentives for democratic reform and respect for domestic actors and processes—constitute a unique and valuable contribution to the long-term deepening of democratic institutions. It is not an approach that stands alone, but rather represents a long term compliment to the kind of direct democracy assistance work done by other programs funded by the United States through the U.S. Agency for International Development (the U.S.'s primary development agency), the State Department's office for democracy promotion, the National Endowment for Democracy, and others. While there are challenges to pursuing this approach MCC believes it is making a credible contribution to the long term goal of democratic strengthening. We are acting consciously on the belief that democracy and economic development are not competing aims, but rather fully complimentary objectives.

## I. Background

When the Millennium Challenge Corporation (MCC) was established in 2004, it received significant attention for its public commitment to good governance and democracy. Founded on the notion that the US should have an independent foreign assistance mechanism to allocate funds to countries that have demonstrated serious commitment to democracy and sound policies, the MCC uses a transparent selection process that emphasizes good governance and democracy, as well as social investments and economic freedom. Sixteen independent, publicly available, quantitative indicators measure government policies in three categories: *Ruling Justly*, *Investing in People*, and *Economic Freedom*. Countries are measured against peers in a similar income bracket. To be eligible for assistance, a country has to perform above the median on at least half of the indicators in all three categories, and above the median on the Control of Corruption indicator.<sup>1</sup>

This process marks the first time that American aid allocation has depended so explicitly on a country's commitment to democracy. The fact that issues of Political Rights, Civil Liberties, and *Voice and Accountability* form a significant portion of the eligibility criteria draws positive attention from a range of democracy activists, experts, and elected leaders.<sup>2</sup> Democracy is not the sole litmus test, but the selection criteria make it very difficult for a country to qualify for MCC funds without embracing democratic principles and institutions. Observers have pointed out that by identifying and funding countries with a visible commitment to democracy, MCC encourages countries to strengthen their own democratic institutions in an effort to qualify for hundreds of millions of dollars of untied foreign aid: an "MCC Effect" on democracy.<sup>3</sup> The incentive is a strong one: countries that pass the selection criteria are asked to write their own proposal for the use of these funds to support economic growth and poverty reduction. Since 2005, MCC and eligible partner countries have been signing "Compacts," in which MCC pledges full funding for country's own prioritized proposals, and countries pledge not only to implement the compact, but also to "maintain or improve performance" on the selection criteria.<sup>4</sup>

However, if a commitment to democracy is evident in MCC's indicators, it is also plainly evident that there is more to democracy than comparative rankings. Further, MCC's main mission is not democracy promotion, but rather "reducing poverty through economic growth." What then can we contribute to the long term goal of strengthening democratic institutions?

The answer is tied to the fact that democracy runs much deeper than elections. Recognizing that there is more to contribute than a strong incentive, MCC has also attempted to pursue an approach to aid accountability that emphasizes respect for domestic democratic institutions. While the nuts and bolts of accountable check and balance systems are less photogenic than lines of voters on Election Day, they form the basis of sustainable, functional democracy. They are also a sound mechanism for pursuing many of the oversight and accountability issues with which development programs funded by US taxpayer dollars must be concerned.

As a result, MCC is making an effort to respect key lessons from the democracy community—that the business of economic development does not operate in a vacuum and that core democratic institutions can be damaged if large scale international donors circumvent or ignore local democratic processes. This oblique call by the democracy community for donors to “do no harm” to nascent democratic institutions is compelling.

For our part, MCC is attempting to pursue an approach to economic development in which accountability-focused compact processes work with or through countries’ own existing democratic structures, thus deepening them. This involves a mixture of actions we take, and actions that are required of our partner countries. The specifics vary from country to country, but they broadly include:

- Required and ongoing consultation with existing domestic institutions;
- Adherence to democratic processes (such as standard parliamentary functions); and
- Accountability through transparency during implementation.

MCC is by no means the only donor agency pursuing economic growth and poverty reduction programs with a healthy respect for local institutions. As just one example, the Drivers of Change initiative was created by the British Department for International Development (DFID) specifically to use a political economy analysis of countries’ institutional systems as a means to facilitate poverty reduction. In the interest of focus, however, this paper is not attempting to make a comparison across donor practices but, rather to articulate what MCC is trying to contribute to the broader effort to strengthen democracy, and to offer some insight into the factors that influence this approach.

The balance of this paper will lay out the building blocks of MCC’s approach to democratic governance, drawing heavily from work done by the democracy assistance community, as well as recent economic research regarding the role of institutions. It then details the ways in which MCC’s selection process may boost the incentives for democratic reform, and outlines an approach to implementation that respects the need for democratic deepening. Finally, it concludes with a very brief overview of the challenges inherent in any effort to deepen democratic processes in the context of economic development programs.

## **II. The building blocks of MCC’s approach to democracy**

MCC’s approach is best understood in the context of three diverse perspectives: the Corporation’s founding principles, a set of evolving lessons from development and democracy assistance practitioners, and an expanding economic literature on the links between domestic institutions and economic growth. By drawing on the common themes that run through these three separate elements MCC believes it has identified an approach to economic development that may also help to deepen democracy.

## A. A firm foundation in MCC's core principles

Although democracy promotion is not an explicit goal of the MCC, we were founded on a set of core principles that encourage a specific approach to domestic institutions. The foundational emphasis on policy performance, country ownership, accountability, and economic growth requires heightened awareness of democratic process.<sup>5</sup>

- **Policies matter:** Experience and research suggest that aid is most effective in countries with a sound, predictable policy environment, including a commitment to accountable and democratic governance.<sup>6</sup> Therefore, our selection process was designed to identify lower income countries that are the most committed to these policies. The constant evaluation of countries' policies during the selection process reinforces MCC's cognizance of shifts in democratic reform or retreat.
- **Country Ownership:** MCC works in partnership with eligible countries, which are themselves responsible for identifying the greatest barriers to their own development; for assembling their own compact proposal with input from the public, as well as civic, political, and private sector actors; and for implementing Compact programs once they have been approved. Participation in the MCA program requires high-level engagement from the host government, as well as civil society and other domestic stakeholders.<sup>7</sup>
- **Accountability:** From required public consultations during Compact development, to detailed monitoring and evaluation plans, to publicly posted results reporting, we ask partner countries to demonstrate substantial domestic accountability. This is motivated in part by recognition of the fact that accountable aid is often spent more efficiently, and in part by MCC's own need to be accountable for the use of US taxpayer dollars. However, the level of domestic transparency also bolsters government accountability to citizens and citizen groups.
- **Focus on Economic Results:** Our mission statement is clear and concise "Reducing poverty through economic growth." To that end, the selection process is designed to capture policies that are positively associated with economic growth, while Compacts and all their implementation measures are designed to promote the kind of sustainable economic growth that reduces poverty. From this perspective, MCC must pursue the implementation of Compacts without undermining the democratic policies or processes that have been heavily associated with economic performance.

When these founding principles are outlined, it is often asserted that they were "built on the lessons of the past." In fact, when it comes to MCC's engagement with domestic democratic institutions in our partner countries, putting these principles into practice required us to look more deeply at the work of the democracy community and at the growing economic literature on the role of institutions.

## B. Building on and with the democracy community

MCC has had the luxury of drawing directly on the lessons learned and the work done by donors, NGOs, and other actors engaged in direct democracy assistance for the past few decades. MCC's approach to democracy is very different from the direct technical assistance for democratic institutions or other more traditional Democracy support programs effectively pursued by USAID, the NED, and their implementing partners. Those programs focus on increasing the skill sets and the technical ability of various institutions or actors to play their democratically prescribed role, be they elected officials, civic or private sector actors, trade unions, or political parties. In conjunction with the difficult reforms undertaken by local democratic actors and leaders, these programs have deepened or sped the process of democratic transition in a number of countries.<sup>8</sup>

MCC cannot—and does not strive to—play the same role. Instead, we ask our partner countries to be sure that those same institutions and actors are playing their democratically prescribed role vis-à-vis the Compact. In some cases it provides an opportunity for certain actors to step into the very role that democracy assistance programs are designed to support. For example, during Compact development in Mali, MCC did not provide technical assistance or funding to NGOs representing the rural poor, but CNSC (Conseil National de la Société Civile du Mali) had an opportunity to advise the Government of Mali on Compact Development through public debates, seminars, and constructive working sessions. Through their involvement, the voices of a wide variety of civil society organizations were heard in central government decision making circles.

MCC's approach could not work in isolation. Its ability to ask domestic institutions to play their part with regard to development policy decision making relies in no small part on the decades of work that has been done (and is still being done) by democratic activists and leaders themselves, and on the support that has been directly provided to them through traditional “democratic assistance” programs.<sup>9</sup> In addition to relying on the good work of the democracy community, however, we have also learned a tremendous amount from the work they do. The specifics are many, but they can be grouped into two main points.

### *Lesson one: There's more to democracy than elections*

While international attention often focuses on election day itself, the day to day business of domestic accountability is what makes or breaks democratic institutions in the long term. Legislative oversight can be demanding, soliciting civic input may be time consuming, political actors can be self-interested, and citizens may make unrealistic demands of their government -- but democracy is strong only when each of these processes is able to play out in a reliable and consistent manner. For MCC, this implies that sound Compact development and implementation requires a realistic level of engagement with the domestic democratic structures or practices that traditionally govern each of these processes.

*Lesson two: One-size does not fit all*

This is old news. Scholars and practitioners have said for some time that no single model of democracy is right for all countries.<sup>10</sup> Permutations of the presidential, parliamentary, mixed model, two party, multi-party, federal, and decentralized systems around the world mean that no two countries' democratic systems are destined to function in quite the same way.

Perhaps even more relevant for MCC, democracy practitioners have consistently argued that it is not possible to postpone domestic demand for democratic reform while a country puts its economic house in order. For MCC, once a country has become eligible, we work with the institutions as they currently function. We believe that responsible pursuit of the poverty reduction and economic growth mission requires us to work with each partner country in a way that does not negatively distort ongoing democratic processes or transitions.

At a practical level, the implication of this stance is a proliferation of slightly different, tailored practices. The core elements of ensuring that domestic institutions of representation and oversight are appropriately involved in an MCA Compact will be discussed in greater detail below, but it is worth highlighting that this approach is necessarily different from country to country, in terms of both actions and outcomes. The outcomes in countries with highly organized civil society or deeply rooted political parties will look very different than those in countries with more nascent democratic institutions.

### **C. An Approach Buttressed by the Economic role of institutions**

The final major factor contributing to MCC's approach is a rapidly growing understanding of the links between domestic institutions and economic growth, including work by economists and political scientists. This paper is not a reprise of the justifications for linking democracy and economic growth, an attempt to explain the findings, or an effort to promote a specific causal direction. There is already a substantial literature on each of these topics, and reasonable people can—and do—disagree on the linkage.<sup>11</sup> However, as MCC's mission is to reduce poverty through economic growth, the agency must take seriously the assertion that democratic institutions are related to positive economic outcomes.

The direction of causality is still hotly debated, but data shows that in the long run, democracies experience more predictable long run growth rates, greater short term economic stability, broader distribution of economic gains, and are better able to tolerate negative economic shocks.<sup>12</sup> In one authors' words, "Economic life is less of a crapshoot under democracy."<sup>13</sup> It was with this type of correlation between democratic institutions and growth producing, poverty reducing outcomes in mind that MCC originally included Political Rights, Civil Liberties, and Voice and Accountability in the eligibility criteria.

*Dilemma one: Institutions matter, but they vary*

The links between institutions and economic growth are probably most closely associated with Douglass North, who won the 1993 Nobel Prize for his work on the subject.<sup>14</sup> As the role of institutions in economic transactions became more deeply established across all sectors of society (and in markets with varying levels of formal organization) the associated literature on institutions expanded to explicitly recognize the need for country specific-institutions.<sup>15</sup> While basic economic and democratic fundamentals are widely applicable, “there is growing evidence that [the specifics of] desirable institutional arrangements have a large element of context specificity arising from differences in historical trajectories, geography, political economy, and other initial conditions.”<sup>16</sup>

For international donors and agencies like MCC, this has a significant set of implications. We will continue to work within the assertion that ruling justly, investing in people, and economic freedom are universally desirable as factors which support economic growth. However, the specific institutional arrangements that different countries may use to pursue those ends are likely to vary. Center for Global Development President, Nancy Bird-sall notes that, “outsiders are unlikely to help if they try to push institutional forms and norms that have worked for them, in one place and time, as the solution for others at another place and time.”<sup>17</sup> Practically then, the accountability practices that are built into Compacts can not be identical across countries if MCC wants them to resonate within the county in a way that is sustainable.

*Dilemma two: The “aid-institutions paradox”*

In addition to recognizing the need for institutional diversity, more recent research has spotlighted a variety of channels through which aid can actually undermine institutions.<sup>18</sup> While this aid-institutions paradox applied to a full range of economic, social, and governing institutions, we will focus here on those channels that adversely affect the function of democratic institutions by distorting incentives or practices.<sup>19</sup> These tend to fall into two categories: displaced accountability and departicipation.

- **Displaced accountability:** Here the concern is that large flows of international aid may reduce elected officials’ accountability to their own population because “governing elites no longer need to ensure the support of their publics and the assent of their legislatures,” so long as donor liaisons remain supportive of the program in question. This can lead governments to spend less time explaining or defending their policy (or expenditure) decisions to the public, and to shortchange institutions or practices that encourage citizen participation or oversight (such as legislatures, civic fora, or local government spaces).<sup>20</sup> This is not a new phenomenon, but it has recently received more attention, particularly as donors have become more attentive to country ownership, sustainability, and good-governance.
- **Departicipation:** On the flip side of the issue, if citizens believe that their elected officials are more attentive to international donor pressures than to domestic demands, they reduce the pressure they themselves exert.<sup>21</sup> Whether such cynicism is warranted or not, the concern remains that if citizens cease

to make use of accountability or representation mechanisms, it reinforces the displaced accountability described above, as citizens become a less vocal element of the government's decision making incentives.

In some ways, both of these represent the economic codification of what the democracy community informally referred to as the “elephants stepping on mice” problem.<sup>22</sup> Most economic donors work with large multi-million dollar funding baskets. As they (the elephants in financial terms) pour resources into an economy, it can distort a government's incentives for accountability or due process. At the same time, democracy assistance programs (which have comparatively mouse sized budgets) continue to build capacity among democratic actors, but those efforts can be undermined when distorted incentives prevent their partners from exercising their rights or capacities. From these democracy programs' perspective, it is perhaps most frustrating of all when large scale donors with an economic focus ask why their democracy work hasn't been more successful.

From MCC's perspective, our commitment to country ownership also fits logically with the idea that donors with large amounts of investment capital shouldn't ignore the institutions of accountability that are constitutionally or politically enshrined. To this end, elements of MCA Compact development process and elements of Compact implementation avoid undermining domestic institutions that are still trying to establish their authorities or responsibilities in terms of checks and balances and accountable democracy. Rather than providing direct assistance to these institutions, MCC's approach is to anticipate that they will play their democratically determined role, and to interact with these actors in such a way that enables them to do so. Practically, this reinforces the fact that accountability for Compact implementation rests with the domestic government. By leveraging a country's own accountability mechanisms over the life of a Compact, we are acting on the fact that long-term economic and democratic outcomes are deeply intertwined.

### III. Reform and the selection process: “MCC Effect” for democracy?

Many have observed that MCC's selection process draws attention to, rewards, and (therefore) incentivizes democracy. While the decision making calculus involved in democratic reform is certainly complicated, eligibility for MCA funds does serve as an additional tangible incentive. In general, when countries pursue policy or institutional reform in an effort to improve scores on eligibility criteria, this has been considered an “MCC-Effect.”

As background, the “three democracy indicators” in MCC's eligibility criteria capture both institutional and de facto aspects of democracy:

- **Political Rights** (as measured by Freedom House, *Freedom in the World*): This indicator captures a country's performance on the quality of the electoral processes, political pluralism and participation, government function and accountability, transparency, and fair political treatment of ethnic minorities.

- **Civil Liberties** (as measured by Freedom House, *Freedom in the World*): This indicator considers freedom of expression and belief, associational and organizational rights, rule of law, protection of human rights, personal autonomy, individual and economic rights, and the independence of the judiciary.
- **Voice and Accountability** (as measured by the World Bank Institute, *Governance Matters*): This indicator measures the ability of domestic institutions to protect civil liberties, the extent to which citizens are able to participate in the selection of government, and the independence of the media.

The inclusion of democratic characteristics in MCC's selection criteria has opened the door to more detailed conversations about the nature and pace of democratic reform with a variety of countries. It took some time for countries to believe that MCC truly depended on the eligibility criteria to make its funding decisions. As time passed, however, several countries shifted from lobbying for eligibility, to asking what factors were driving their scores.

Because the indicators are all publicly available and have public methodologies, MCC can provide some of this analysis directly. However, countries have also been encouraged to consult directly with the institutions that generate the eligibility criteria—for democracy issues, this meant Freedom House and the World Bank Institute. In fact, Freedom House now reports that they have held discussions with a much wider range of countries since MCC began using their analysis as part of the selection process. Countries which previously dismissed exercises in assessing and ranking democratic performance have now requested meetings to learn more about the methodology and the issues driving their scores. Freedom House's Executive Director, Jennifer Windsor observed, "In recent years, we have seen increased attention to the ratings process for Freedom in the World, particularly as a result of the U.S. government's decision to use the publication's ratings as part of the allocation process for the Millennium Challenge Account."<sup>23</sup>

Perhaps the most obvious group of countries to respond to democracy issues in the eligibility criteria is low and lower-middle income countries that are seeking eligibility. Since MCC's inception, several countries, including El Salvador, Jordan, Kyrgyz Republic, Indonesia, Guatemala, Dominican Republic, Philippines, Moldova, and

### The Democracy Indicators

The three democracy indicators rely on different methodologies to capture complementary aspects of democracy. Freedom House's Political Rights and Civil Liberties are based on expert response to an established set of questions about institutional arrangement and practice. By applying the same questions to every country, Freedom House standardizes their analysis.

Conversely, the World Bank Institute's Voice and Accountability aggregates the result of up to 20 diverse surveys and reports per country to produce a single country score. These surveys capture institutional arrangement, but focus more on domestic and international perception of the way in which democratic practices are applied.

Ukraine have established ministerial commissions or committees to focus or coordinate reform efforts that are related to MCC eligibility.

The effectiveness of reform commissions varies from country to country, but we are seeing substantial results in some places. In Guatemala, the Berger administration has shown a keen interest in becoming MCA-eligible and taken significant steps to improve its performance on the MCA selection criteria. The government has formed a working group to carefully examine all MCC indicators and its technical team consulted with many of the indicator institutions (including Freedom House), and traveled to El Salvador to learn more about what the Salvadoran government did to improve its performance on the MCA eligibility criteria.

Based on this, the Government of Guatemala created a detailed action plan to improve its performance on each and every indicator. They spotlighted the current reforms that they believe are directly related to improved indicator scores: approval of regulations to allow for the review of public and private financing of political organizations, a \$54 million increase in the budget of the Supreme Electoral Tribunal, and a thorough purging and updating of the electoral registry. Then they outlined additional steps to be taken over coming years, including stiffer penalties for those who commit crimes against journalists, plans to reform the electoral law, approval of a consultation law for indigenous people, and implementation of a policy for the protection of human rights defenders. These measures now have strong roots. With presidential elections currently underway, FUNDESA, a Guatemalan civic organization, plans to ask each of the leading candidates to publicly signal whether they are willing to do what is necessary to improve Guatemala's chances of becoming eligible for MCC funds.

### **A. The Threshold Program: Aligning reform with technical support**

Countries that have already been selected for participation in MCC's Threshold program have also relied on the democracy issues highlighted by MCC selection criteria to align democratic reform with the technical support or resources needed to implement that reform. Because threshold programs focus on policy reform, they are a solid way to knit together the incentivizing effect of MCC's indicators, and the benefits of more traditional democracy assistance programs. MCC works closely with USAID on these programs to ensure that MCC's focus on concrete changes in the indicators and USAID's technical knowledge combine to maximize the impact of a threshold program.

In Jordan, for example, the threshold program provided pre-election training and technical assistance for locally elected officials in order to complement Jordan's own proposal to hold local elections in 2007. Similarly, in the Kyrgyz Republic, the government proposed and pursued a series of laws to reform and strengthen the independence of the judiciary. The threshold program there will provide relevant capacity building for the judicial system. In both of these cases, it is the institutional reform proposed by the government in question that will have the most substantial effect on the nature and pace of democratic reform (and on the indicators). The techni-

cal assistance is designed to deepen the impact of that policy decision by speeding implementation or easing the transition.

Because the corruption indicator is a “hard hurdle” for MCA eligibility (.i.e. an indicator that must be passed in order for a country to qualify), several Threshold programs are heavily focused on increasing control of corruption. In some cases these programs include elements that emphasize or strengthen the capacity of domestic accountability mechanisms, such as civic watchdogs, local governments, or national legislatures. Malawi’s, Paraguay’s, and Guyana’s threshold programs include efforts to strengthen the oversight capacity of the legislature, while Moldova’s and Ukraine’s programs include significant civil society and media components.

## B. Desire to Retain Eligibility

Under MCC’s Policy on *Suspension and Termination of Assistance and/or Eligibility for Assistance*, MCC may suspend or terminate eligibility for assistance if the MCC Board of Directors makes a determination that a country has engaged in a pattern of actions inconsistent with MCC selection criteria. This policy has been invoked twice,<sup>24</sup> and reveals that we are serious about asking our country partners to maintain performance on the eligibility criteria, including the democracy indicators.

In some cases, MCC has made public its support for specific democratic processes. In 2006, MCC was preparing to sign a \$307 million Compact with Benin. Throughout preparations, and at the signing ceremony itself, emphasized the value we placed on Benin’s adherence to constitutional term limits and international norms regarding the conduct of the March 2006 Presidential elections. In public statements, MCC remained focused on the importance of a peaceful and electorally-driven transfer of power. Following those March elections, we were also delighted to join the rest of the international community in congratulating the Beninois on its fair and open presidential election.

Yemen offers another kind of example. In late 2005, the MCC board revoked Yemen’s Threshold eligibility after the country fell below the median on 14 of the then 16 eligibility criteria, including democracy measures.<sup>25</sup> Over the following year and a half, the government of Yemen enhanced judicial independence, held competitive elections, pledged to join the Extractive Industries Transparency Initiative, and proposed a series of constitutional

### The MCC Threshold Program

Threshold countries do not meet the criteria for Compact eligibility but are close and have demonstrated a commitment to improving policy performance. The purpose of a two to three year Threshold program is to address the policy indicators that are currently precluding compact eligibility. For example, a country that fails the Control of Corruption Indicator would focus its Threshold Program on combating corruption. MCC works closely with USAID missions in country on these Threshold programs, with USAID directly managing the implementation process. MCC funds support traditional democracy assistance programs in those instances where a threshold program is focused on improving a country’s performance on one or more of the democracy indicators.

amendments that would reduce the length of the presidential term to five years and allow for the direct election of several district and municipal positions. While these reforms mark only the beginning of a long-term process, the suspension and re-instatement process appears to have encouraged a more rapid time line for Yemen's own reform agenda than may have otherwise been possible.

#### **IV. Democracy and Accountability in MCC Compact Implementation**

One rarely noted impact of including democracy indicators in the selection process, is that during compact development and implementation, MCC must take national institutions at face value. While we rely on the annual selection process to review overall country commitment to democratic principles and practices, MCC cannot and does not assess how well the legislature or the press is doing its particular job on a day to day basis. Rather, MCC can only ask its partner country governments to engage those institutions in Compact development and implementation in keeping with their democratically assigned role.

This reality, in conjunction with MCC's founding principles and the lessons outlined above, pushes MCC toward an approach to economic development that does not explicitly set out to build up the capacity of democratic actors, but that may meaningfully deepen democratic practice in the long run. This approach is most visible when examining the required consultative process, the compact's reconciliation with national legal proceedings, and the level of domestic accountability that MCA-country offices promote by implementing with transparency.

##### **A. MCA Compact Development Includes a Consultative Process**

MCC asks eligible countries to consult broadly with its citizens throughout the development, implementation, and evaluation of a Compact. Compacts typically take into account pre-existing national development strategies (e.g.: Poverty Reduction Strategy Papers, or PRSPs) but an effective consultative process is critical because it enables civic groups, elected officials and ordinary people to ask questions, offer suggestions and provide feedback on these economic development programs. We also recognize that a solid consultative process can set or reinforce precedents for public participation in governance during Compact implementation. Consequently, as part of its own due-diligence procedures, MCC examines the extent to which a country has conducted a consultative process that reflects real effort to incorporate domestic civic, private-sector, and political institutions.

Because consultative processes remain each Country's responsibility, however, they vary substantially. MCC has encouraged countries to make use of pre-existing democratic institutions that allow for citizen participation and consultation with all sectors of society. In some cases consultations flowed logically from previous national dialogues or debates, and worked through local institutions with which domestic actors were already familiar. This is ideal as it strengthens transparency and accountability within each country, and provides opportunities for domestic discussion of how best to achieve national priorities of economic growth and poverty reduction.

In other cases, however, public consultations were initiated from scratch, and occasionally left domestic democratic actors and institutions frustrated and unsure about how to participate. At times this was because there were few precedents for institutionalized consultation. This situation was exacerbated in MCC's earliest years as we attempted to publicly define our own expectations regarding the "required consultative process," without being so proscriptive that we subverted existing democratic practices or mechanisms. In many of these cases, demands from civil society led the country government in question to deepen its public consultation and to seek greater participation from civic and private sector actors.<sup>26</sup>

In general, partner countries' Consultative processes have enabled a number of domestic actors to involve themselves in Compact development and implementation in keeping with the mandate of their institution. This includes both elected officials and civic actors, as described below.

#### *Elected officials: playing their part*

While civil society is often considered first, MCC believes that a strong consultative process also enables elected officials to play their roles in keeping with constitutional responsibilities and democratic norms. In addition to the executive branch, local governments, political parties, and national legislatures also have rights and responsibilities regarding national development strategies or programs.

Some of the most successful consultative processes have taken advantage of existing local government structures to ensure that information can flow easily between intended beneficiaries, the MCA-team, and the local officials that are responsible for municipal administration. For example, during Compact development, MCA-Nicaragua built on the traditional role of department-level Local Development Councils (LDCs) to discuss the overarching impediments to growth in Nicaragua, and ultimately to coordinate the consultative process. Departmental LDCs—whose members are drawn from civil society, NGOs, private sector and other local organizations—are

### **Consultations Continue into Compact Implementation**

While a great deal of emphasis has been placed on the public consultations that are part of Compact development, there is an equally critical role for the consultative process during implementation. In this phase, there are three core elements.

1. **Public Education/Information Sharing** includes making sure beneficiaries have the information they need to participate in or benefit from the Compact; hosting or co-hosting public information sessions; as well as media or other public outreach
2. **Accountability/Transparency** responsibilities mean that each MCA unit maintains an informative web-site; has integrated civic actors into the governance structure, responds to civic monitoring; and adheres to domestic transparency requirements (including local and legislative bodies).
3. **Information Gathering** continues, with consultations contributing to final project design, qualitative Monitoring and Evaluation, as well as impact assessment and amelioration.

chaired by the mayor of that department's largest city and serve as a representative body with a formal deliberative role in departmental governance. This process marked the first time in Nicaraguan history that the central government fully empowered the development councils to develop the components of a major development program.

After Compact signing, the inclusion of LDCs in Nicaragua's Compact process helped the MCA-Nicaragua navigate the post-election transition to a new administration. Support and participation by political and civic actors at the departmental level helped ensure continuity for Compact implementation by communicating their support to national representatives, and ultimately, the new government. This suggests that domestic institutions and actors were fully involved in the Compact process, in a manner that was consistent with their democratic responsibilities.

Other MCA-Country offices have incorporated both formal and informal roles for elected officials outside of the executive branch. MCA-Ghana has built a role for regional assembly members in the advisory committee, while MCA-Armenia regularly reaches out to the mayors of regions in which it is working. In both cases, the MCA office relies on these actors to represent the needs of their constituencies, and to transmit information to them about the MCA's activities.

*Civil society: aggregating public opinion and shaping government decisions*

When observers discuss a consultative process, the first questions usually revolve around civil society participation— including NGOs, private sector actors, trade associations, and organized citizen groups. MCC is no different and as described below, in many cases, the net result is that country partners have gone to great lengths to involve civic actors through logical domestic mechanisms. In each of these instances, the way in which the group was included was directly in keeping with the group's democratic mandate.

- **Umbrella NGOs:** One of the most challenging aspects of participation faced by umbrella NGOs in any country is the need to solicit feedback from grassroots members, and aggregate it at a national level.

## Compact

### Implementation Structure

Implementation of an MCA Compact is the responsibility of the partner country government. To this end, MCC asks them to establish an implementation body. The head of this body is appointed by the country government (typically through a competitive process), and the staff are hired for their technical expertise (often from private sector or civic backgrounds).

Each of these implementation bodies has:

- a decision making board made up of government officials and non-governmental actors;
- a stakeholders committee(s), which often include(s) additional civic and private sector stakeholders as well as local government officials; and
- independent fiscal and procurement agents, either private sector or separate government bodies.

For umbrella groups representing the poor, this is made more difficult by a constituency that may be geographically dispersed and difficult to reach. Despite these challenges, working through these groups to solicit input is often the most practical and most sustainable civil society mechanism available.

In Mali, for example, civil society representing all aspects of Malian society is organized in a loose system of regional collectives and federations. These, in turn, are represented in a national organization, the Conseil National de la Société Civile (“CNSC”). During compact development, the government of Mali’s staff tasked with Compact development worked closely with representatives of CNSC on proposal development. An observation mission by Bread for the World over the summer of 2005 found that civic leaders in Bamako felt that they had been included in a way that was previously unprecedented, observing that because of its network, CNSC had a seat at the decision making table.<sup>27</sup> This also put them in a position to be able to communicate information and updates about Compact implementation directly to their membership organizations, and to other relevant civic leaders. CNSC’s presence on MCA-Mali’s Board today means that they can continue to play this role within the larger NGO community.

- **Women’s interest groups:** When soliciting public input about national development programs, MCC asks its partner countries to be sure that they have consulted with the public in such a way that gender concerns or divisions do not prevent women from participating or benefiting from potential programs.<sup>28</sup> In most cases this has prompted the country’s MCA coordinators to work directly with domestic women’s NGOs.

In Benin, for example, a broad NGO congress elected two women civic leaders to act as full members of the government’s compact development team, including the head of an NGO promoting women’s rights and the president of a commercial association representing women in cities and rural areas.<sup>29</sup> As public

### Evolution of the Consultative Process

MCC’s requirement that countries conduct a consultative process was built on the World Bank’s introduction of public consultations as a requirement for the Poverty Reduction Strategy Papers in the late 1990’s. Consultation has evolved at both the World Bank and the MCC.

In early 2007, MCC updated its country guidance regarding the Consultative Process, and conducted internal training for both MCA Country partners, as well as for MCC staff. The newer document clarified MCC’s expectations and attempted to offer more information in terms of strategies and tactics, without crossing the line into forcing all countries into follow a scripted path. This guidance then served as a base for introductory training for partner countries’ own staff, supplemental training for country staff with environmental and social responsibilities, and in-house training for MCC staff working with these country partners.

consultations unfolded, conversations with women’s groups in rural areas led the Compact development team to incorporate access to land and access to justice components into the proposal. Prior to these conversations, the degree to which convoluted land-ownership issues constrained rural agricultural production had not come to light. Through MCA-Benin’s inclusion of a formal NGO devoted to women’s rights—and the subsequent outreach to that NGO’s constituency—rural women’s views were effectively aggregated. Ultimately, they heavily informed the nature of the Compact in Benin.

- **The private sector:** Because Compacts are designed to spur poverty reduction through economic growth, the consultative process also includes dialogue with the domestic private sector. In most cases, this has been organized through the local chamber of commerce or other business association. As with umbrella NGO’s, national chambers of commerce are—in most cases—the most practical and sustainable way to solicit input from the business community. By working through these associations that are designed to aggregate general business interests, the MCA-country team can gather information about the business environment that reflects common experience, rather than the needs of a single business or entrepreneur.

In several countries—from Georgia to Ghana—representatives of these private sector associations or chambers of commerce have a voting seat on the country’s MCA board. Expanding further on Ghana, the MIDA (Millennium Development Authority) Board consists of two voting members from the private sector. The two members, Augustine Adonogo and Nana Owusu-Afari, represent the Private Enterprise Foundation (PEF); a non-profit making, non-political, autonomous institution founded in 1994. Its mission is to “service the development needs of the private sector by influencing government policies and regulation in order to create an enabling environment for a private sector-led economic growth strategy and national development.” PEF represents a wide variety of private sector interests such as: the Association of Ghana Industries, Ghana National Chamber of Commerce and Industry and the Federation of Association of Ghanaian Exporters. It also has working relationships with many other trade and business associations including: the Ghana Institute of Engineers, Ghana Institute of Freight Forwarders and the Ghana Association of Women Entrepreneurs.

- **Issue-oriented civic groups:** As MCA countries shape the technical content of their proposals, it makes sense for them to consult directly with NGOs that have issue expertise or have historically advocated on behalf of specific groups. This is in keeping with the basic democratic practice of soliciting civic expertise to inform or deepen government development initiatives. To this end, MCA-Lesotho followed a logical progression from broad public PRSP and Vision 2020 consultations to more specific consultations to design a sound MCA Health Proposal.<sup>30</sup> The later stages of these consultations focused on gathering input and information through focus group discussions and key informant interviews with HIV/AIDS support groups, people living with HIV/AIDS, and representatives of NGOs that provide health services.

## MCA Compacts pass through domestic legal structures and processes

The consultative process is not the only part of Compact development and implementation that deepens respect for domestic democratic processes. MCA Compacts are also typically subject to local legal processes and procedures. The specific elements of this domestic subjectivity vary from country to country and range from alignment with domestic environmental regulations to compact ratification. The most obvious domestic legal channel through which MCA Compacts regularly pass, however, is the national legislature.

There are multiple channels through which the actions of a domestic legislature naturally intersect with the process of Compact development and implementation. While stakeholder workshops or town hall meetings can be one-off events, the legislature and its committees are a permanent location for the discussion of national economic development efforts. Further, because a full range of political parties are usually represented in the legislature, legislative debate and other formal proceedings regarding MCA can also strengthen or broaden political commitment to achieving Compact objectives. This approach is in keeping with the fact that the role of national legislatures has received more attention from the international donor community over the past five years.<sup>31</sup>

National legislatures have three constitutional responsibilities, each of which intersect in some way with the process of Compact development and implementation.

- **Legislation:** introduction, debate, review, passage and/ or amendment of legislation; and review and passage of the national budget.
- **Representation:** ensuring that the concerns of a specific portion of the population are included in the policy making process. This ranges from direct communication with citizens to incorporating local issues into policy debates or legislation.
- **Oversight:** monitor and evaluate executive implementation of national policy and budget. To do this, legislatures rely on such mechanisms as committee investigations, requests for regular briefings or testimony from ministerial representatives, and public hearings to gather information from non-government sources on a specific issue.<sup>32</sup>

To date, MCC has primarily focused on the legislative, budgetary and representative roles of legislatures with respect to compact processes, although it has not excluded oversight capacities. The main mechanisms through which a legislature interacts with the MCA or the activities within an MCA Compact are as follows:

### *Compact Ratification by the Legislature*

When legislatures ratify a Compact, the Compact takes on the force of law in the country in question by reconciling specific Compact provisions with domestic law or precedent. Passing the Compact through pre-existing domestic mechanisms that enable elected representatives to be briefed, review, or debate its contents also rein-

forces political ownership across multiple political parties. From MCC's perspective, if the legislature and media have been a party to the process of making a Compact formal, the political commitment needed to see the compact through to completion is more likely to remain in place over the full five-year period. However, the approach also recognizes the legislature as a democratic space in which political debates are held and decisions taken.

National legislatures have ratified the Compact before its implementation in eight of 11 Compact countries, and were officially notified in two other cases.<sup>33</sup> As expected, this prompted significant amounts of parliamentary debate from Honduras to Ghana to Vanuatu, but also gave MCC a solid track record of respecting domestic political processes. For comparison, World Bank PRSPs have been presented to parliaments approximately one third of the time.<sup>34</sup>

In addition to respecting domestic processes, some US-based NGO stakeholders have said they regard Compact ratification as, "validation of the consultative process with local civil society feeding into the compact and for continuity should there be a change in government during compact implementation".<sup>35</sup>

#### *Information on MCA funds appear in the national budget documents*

As part of the disbursement agreement, MCC requires partner governments to reflect MCA funds within their national budget documents. On an annual basis, the MCA entity is required to provide evidence that the Government has reflected the financial activity of the Program in the budget documents on a multi-year basis.<sup>36</sup>

Adherence to this requirement occurs when Country partner governments submit their next annual budget to the national legislature as part of the regular budget process. Consequently, MCC is continuing to track compliance as new fiscal years begin. MCA entities are following through however, and at the time this document was written, MCA resources had appeared in the budget documents of Armenia, Nicaragua, Madagascar, Georgia, and Vanuatu and were to appear shortly in El Salvador. In Vanuatu, this triggered new debates about funds for road maintenance, and tax procedures.<sup>37</sup> In Georgia, the inclusion of MCA budget data prompted civic actors to examine the MCA budget more closely.<sup>38</sup> While this created some expected civic-state tension, it also highlighted MCA-Georgia's commitment to working through domestic institutions for accountability and transparency.

#### **Compact Ratification Track Record**

As of fall 2007, the national legislatures in the following countries have ratified the MCA Compact:

- Nicaragua
- Armenia
- Georgia
- Ghana
- Honduras
- Vanuatu
- Armenia
- Mali

In keeping with constitutional practice, Parliament was officially notified of the Compact in Cape Verde and Madagascar.

These reoccurring debates are also in keeping with legislators' representative function. As elected representatives that maintain channels of communication with their constituents, legislators are responsible for articulating those constituents' needs. In this capacity, it is particularly appropriate for them to publicly debate or discuss Compact proposals, components, or implementation.

### *Elected representatives speak out*

In addition to formal proceedings, MCC has found that one-off or ad-hoc legislative activities can also deepen both the institutions' authority, as well as broaden support for the Compact. In February 2007, an international exchange program brought a group of Montenegrin parliamentarians to the MCC headquarters office for a briefing on their country's eligibility status. At the time, the country was ineligible for funding, in large part because there was a substantial amount of indicator data missing on the country's scorecard. The following month, one of the opposition parliamentarians took advantage of the parliament's question time to ask his Prime Minister what the government was doing to be sure the next year's MCC score card had all the data necessary for MCC consideration.

Similarly, individual members of a national or regional legislature may be interested in participating in, or speaking at, MCA-led public outreach sessions in their constituencies—particularly if that constituency will be benefiting from the Compact. Members of Parliament in Georgia sit on the Board and the stakeholder committee, and in Ghana, local assembly members are also part of the governance structure. At present, this is not a common mechanism for legislative participation in MCA-country activities, as it does not rely on previously institutionalized mechanisms or processes. However, we believe it can be a supplementary way to support sound legislative leadership on national development issues.<sup>39</sup>

## **Implementation with transparency**

Access to information is a fundamental ingredient for democratic processes. Without it, citizens cannot hold their government accountable, contribute meaningfully to their community, or determine for themselves what is truly in their interests. Consequently, MCC requires countries to implement their compacts with appropriate transparency, and to ensure that those seeking information know where it can be found. This manifests itself in a variety of ways, but a few common aspects are described below.

### *Data transparency*

Every MCA-country implementation unit has its own web-page, with which it maintains a stream of information for public consumption. This ranges from activities updates, to outreach events, to transparent procurements, to periodic reporting. Because countries bear the responsibility for implementing their compact, the priority is to ensure that implementation information is on each country's own MCA page. Different countries have pursued this priority in different ways, with some country partners setting new precedents in terms of government transparency.

For example, MCA-Madagascar's page includes quarterly disbursement reports exactly as they are submitted to the MCC. This helps avoid displaced accountability—by making the reports public, the government of Madagascar remains as accountable to its citizens and civic actors for the use of MCA funds, as it is to the MCC itself. Similarly, MCA-Benin and MCA Vanuatu post periodic activities reports, ensuring that interested domestic actors have access to the information about implementation; MCA-Cape Verde posts result of annual audits; and MCA-Armenia and MCA-Nicaragua post the minutes of their board meetings.<sup>40</sup>

It is worth acknowledging that on-line transparency does not reach the poorest members of the public. However, it does provide a base of information for the civic and political leaders that represent poor constituencies, as well as for the press. While not an exhaustive list, the level of transparency suggested by these examples contributes to an environment in which civic, political, and private sector actors have the information they need to respond to MCA actions in democratically appropriate ways.

#### *Proactive work with the media*

Because the media act as a conduit of information to a variety of domestic actors and institutions, work with journalists is a key part of ensuring MCA activities work within the local democratic system. To this end, a large number of MCA-country offices have dedicated outreach officers who issue regular updates, and respond to requests for additional information. In Georgia, public demand for more information and greater transparency led MCA-Georgia to create dedicated outreach resources, including a basic press kit, regular public meetings and update bulletins, press releases to highlight implementation decisions, and a subscription service for their e-newsletter. In neighboring Armenia, regular television spots cover the activities and progress of MCA funded activities, while outreach in Honduras now includes a daily radio spot.

#### *Ongoing debate contributes to accountability*

One of the strongest counters to de-participation, or the cynical withdrawal of citizens from available mechanisms of accountability, is continued domestic discussion and about the management of foreign assistance funds. While no one inside an MCA entity or the MCC itself particularly enjoys these debates, particularly when they take on political overtones, they are a symptom of a healthy domestic accountability.

In keeping with their different institutional arrangements, the participants and instigators of public discussion of MCA vary from country to country. In Ghana parliamentarians and other elected officials regularly comment in the media on MCA-Ghana's activities.<sup>41</sup> Conversely, civic monitoring efforts in Armenia and Georgia prompted greater discussion and improved transparency. Together with Vanuatu's parliamentary debates about MCA resources in the national budget, and the vocal role played by Nicaragua's Local Development Councils, these examples suggest that by embracing the nuances of each country's own democratic system, MCC's approach may strengthen these institutions ability to consistently fulfill their democratic responsibilities.

## V. The inherent challenges

Any effort to support democratic institutions over time by respecting the specifics of each country's democratic system is challenging. MCC grapples with a variety of issues as we attempt to ensure that our actions (and the actions we ask of our country partners) are in keeping with respect for domestic democratic institutions.

### *Complexity*

In many ways, democracy is chaotic. It involves pressure groups, media, competing politicians, civic actors, bureaucracies, and citizens. People disagree—and have the right to. Institutions that may not be accustomed to filtering or aggregating public input are suddenly asked to do so. In virtually all circumstances, the complexity and dynamism of democracy can make an MCA-unit's work more difficult and time consuming. This becomes a challenge for MCC more broadly, when the need to follow a lengthy democratic process comes up against domestic US demands that our programs move faster.

This juxtaposition highlights MCC's single greatest challenge when it comes to supporting local democratic institutions or actors. Working development programs through democratic process takes time. It can be difficult to navigate a path that integrates both the MCC's ability to remain accountable to its own legislative and civic stakeholders, as well as an MCA-unit's ability to establish a set of constructive, sustainable, and domestically accountable processes.

### *Novelty and our own limits*

As evident in the institutions literature, international donors' efforts to combat the aid-institutions paradox are a relatively recent development. Outside of the direct technical support provided by democracy assistance programs, there are few examples of how donors focused on poverty reduction and economic growth can use their own processes or structures to empower elected officials, civil society, or other actors to exercise their democratically described rights and responsibilities.

### *Institutional experience*

Historically, weaknesses in domestic institutions were one of the main reasons donors avoided working through them.<sup>42</sup> Whether in the civic, state, or private sector, actors and institutions with limited experience fulfilling their democratic roles can add unpredictability and inefficiencies to economic development projects. This not only affects the speed with which issues can be resolved or acted on, but well-intentioned and inexperienced actors can create false expectations or circulate inaccurate information, creating greater difficulty in the long run.

These challenges are neither new, nor insurmountable, but they do require a willingness to accept that processes and quality will vary from country to country. MCC does believe that we are addressing them head on, and that in partnership with each country, the long-run benefits of acting with and through democratic institutions is worth some short term difficulty.

## VI. Conclusions

MCC is proud to be pursuing the mission of poverty reduction through economic growth in a way that encourages democratic institutions over the long run, despite the challenges that implies. This is not an approach that could replace the direct democracy assistance that remains an important part of the US government's contribution to democratic strengthening. However, we can not ignore that there is a role to be played donor agencies focused on economic growth and poverty reduction.

There has been great talk of the fact that democracy and economic growth can not be separated. In recent years, this fact has been recognized by more and more democracy practitioners, as well as in an expanding literature on the economic role of institutions. MCC's own founding principles press us to not only recognize the links between democracy and positive economic outcomes. By valuing the legitimacy that democratic processes convey, MCC believes we can navigate a course that allows us to pursue economic growth in a way that deepens and reinforces democratic institutions.

We believe that we can prove, in action, that the pursuit of economic growth and support for democratic institutions are complementary objectives.

As a result of our efforts to work with and through existing democratic institutions, we are seeing a wide variety of democratic actors deeply involved in the compact development and implementation process. Elected officials are offering vocal support and criticism when they feel their constituents or political position demands it. Large and small NGOs are contributing to debates about compact content, serving as civic representatives in compact implementation structures, and providing public oversight. Through their elected officials, the media, or civic associations, citizens have access to an often unprecedented level of information about government procurements, disbursements, activities, and intended outcomes. This type of interaction suggests that it is not only possible to directly engage domestic democratic institutions, but that their involvement can contribute heavily to sustainable, accountable economic development.

MCC's efforts look to be a solid, long term compliment to traditional efforts to strengthen democracy. By combining incentive structures that encourage democratic reform, and implementation procedures that support democratic deepening, we believe we are taking a practical, long-term position toward fostering democracy. By working with the existing democratic institutions, MCC demonstrates this belief that each country will find a unique way toward its own democratic future.

**(Endnotes)**

- 1 For a full list of eligibility criteria, please see <http://www.mcc.gov/selection/indicators/index.php>. For a full overview of the MCC Selection Process, please see: Millennium Challenge Corporation. "Guide to the MCC Indicators and Selection Process." 2007. Available at <http://www.mcc.gov/documents/mcc-fyo8-guidetoindicatorsandtheselectionprocess.pdf>.
- 2 Carothers, Tom. "The Democracy Crusade Myth." *The National Interest* 23, ( August 2007):11.
- 3 The MCC Effect has been described elsewhere. See: Johnson, Doug and Tristan Zajonc, "Can Foreign Aid Create an Incentive for Good Governance? Evidence from the Millennium Challenge Corporation." CID Harvard Working Paper. 11April 2006. Available at <http://ssrn.com/abstract=896293>. The Millennium Challenge Corporation. "Building Public Integrity through Positive Incentives: MCC's Role in the Fight against Corruption." Working Paper. April 2007. Available at <http://www.mcc.gov/documents/mcc-workingpaper-corruption.pdf>. The World Bank and the International Finance Corporation. *Doing Business in 2006: Creating Jobs*. Washington DC: The World Bank Group, 2006. Freedom House. "Freedom House Releases Subcategory and Aggregate Scores for Freedom in the World." 28 September 2006. Available at <http://www.freedomhouse.org/template.cfm?page=70 &release=418>.
- 4 At the time of writing, Compact funding ranged from \$65 million (Vanuatu) to \$699 million (Tanzania) over a five year period of time.
- 5 Adams, Starynee, Ross Cohen, Meghann Curtis, Tricia Gonwa, Llsandro Martin, Dean Spears, John Thomas III, and Byron Washington. "Effectiveness Matters: Enhancing Aid Effectiveness in the Face of Administrative Capacity Constraints." Woodrow Wilson School of Public Policy Working Paper. February 2007.
- 6 Alesina, Alberto.and David Dollar. "Who Gives Foreign Aid to Whom and Why?" *Journal of Economic Growth* 5, (March 2000): 33-63. Burnside, Craig, and David Dollar. "Aid, Policies, and Growth." *American Economic Review* 90, (September 2000): 847-868. Collier, Paul and David Dollar. "Aid Allocation and Poverty Reduction." *European Economic Review* 46, (September 2002): 1475-1500. Easterly, William. "Can Foreign Aid Buy Growth?" *Journal of Economic Perspectives* 17, (August 2003): 23-48.
- 7 In this paper, the term "civil society" is used in its original sense, to imply all non-government actors. This range includes the private sector, formal NGOs, religious organizations, trade unions, the media, regional associations, and other less organized citizen groups.
- 8 Finkel, Steven E., Daniel H. Wallace, Anibal Pérez-Liñán, Mitch A. Seligson, and Dinorah Azpuru. "Effects of Foreign Assistance on Democracy Building: Results of a Cross-National Quantitative Study."Final

Report to USAID. 12 January 2006. Available at <[http://www.usaid.gov/our\\_work/democracy\\_and\\_governance/publications/pdfs/impact\\_of\\_democracy\\_assistance.pdf](http://www.usaid.gov/our_work/democracy_and_governance/publications/pdfs/impact_of_democracy_assistance.pdf)>.

9 USAID Definition of Democracy Programs: “Democracy and governance programs are technical assistance and other support to strengthen capacity of reform-minded governments, non-governmental actors, and/or citizens in order to develop and support democratic transitions in countries that are not reform-minded. Democracy programs promote the rule of law and human rights, transparent and fair elections coupled with competitive political process, a free and independent media, stronger civil society and greater citizen participation in government, and governance structures that are efficient, responsive and accountable.” Available at <[http://www.usaid.gov/our\\_work/democracy\\_and\\_governance](http://www.usaid.gov/our_work/democracy_and_governance)>.

10 Held, D. *Models of Democracy*. Polity Press: Cambridge, UK, 1987; Huntington, Samuel. *The Third Wave: Democratization in the late 20th century*. Norman: University of Oklahoma Press, 1991; Lijphart, Arend. *Patterns of Democracy: Government Forms and Performance in Thirty Six Countries*. New Haven: Yale University Press, 1999; The 2002 UN Human Development Report “Deepening Democratic Governance in a Fragmented World.” Available at <http://hdr.undp.org/reports/global/2002/en/>, 51-61. For a reflective take on how the US model is not always the answer, see Chapter 12 in: Carothers, Tom. *Critical Mission: Essays on Democracy*. Washington, DC: Carnegie Endowment for International Peace, 2004, and the 2002 UN Human Development Report “Deepening Democratic Governance in a Fragmented World.” Available at <http://hdr.undp.org/reports/global/2002/en/>, 51-61.

11 Most researchers agree there is a relationship between the democracy and economic development; though the nature, scope and degree are still a matter of debate and are constantly evolving. For example, in 2001 Romain Wacziarg argued the overall effect of democracy on economic growth is moderately negative. (Tavares, Jose and Romain Wacziarg. “How Democracy Affects Growth.” *European Economic Review* 45, (August 2001): 1341-1378.) In 2004, employing a new econometric model and working with a different co-author, his research suggests that democracy has a positive effect on growth on economic growth. (Rodrik, Dani and Romain Wacziarg. “Do Democratic Transitions Produce Bad Economic Outcomes?” *The American Economic Review* 95 (May 2005): 50-55. See also: Robinson, Jim “Economic Development and Democracy” *Annual Reviews—Political Science* 9, (June 2006): 503-527; Haplerin, Morton H., Joseph T. Sieglel, and Michael M. Weinstein. *The Democracy Advantage: How Democracies Promote Prosperity and Peace*. United Kingdom: Routledge, 2004.

12 Rodrik, Dani. “Institutions for High-Quality Growth: What They are and How to Acquire Them.” National Bureau of Economic Research Working Paper. February 2000. Available at <<http://ssrn.com/abstract=215772>>.

13 Ibid, p 23

14 North, Douglas. “Institutions.” *Journal of Economic Perspectives* 5, (Winter 1991): 97-112.

- 15 Acemoglu, Daron, Simon Johnson, and James A. Robinson. “The Colonial Origins of Comparative Development: An Empirical Investigation.” *American Economic Review* 91, (December 2001): 1369–1401. Easterly, William and Ross Levine. “Tropics, germs, and crops: How endowments influence economic development.” *Journal of Monetary Economics*, 50, (January 2003): 3-39.
- 16 Subramanian, Arvind and Dani Rodrik “The Primacy of Institutions and What that does and does not Mean.” *Finance and Development*. (June 2003): 23.
- 17 Birdsall, Nancy “Do No Harm: Aid, Weak Institutions and the Missing Middle in Africa.” *Development Policy Review* 25, (September 2007): 575–598.
- 18 Rajan, Raghuram G. and Arvind Subramanian. “What Undermines Aid’s Impact on Growth?” National Bureau of Economic Research Working Paper. June 2005, Available at <<http://www.imf.org/external/pubs/ft/wp/2005/wp05126.pdf>>.
- 19 For additional avenues through which economic aid can undermine democratic reform, see Chapter 5 “Making Development Safe for Democracy” in Halperin, Morton H., Joseph Sieglel, and Michael M. Weinstein. *The Democracy Advantage: How Democracies Promote Prosperity and Peace*. United Kingdom: Routledge, 2005.
- 20 Moss, Todd, Gunilla Pettersson, and Nicolas van de Walle. “An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa.” Center for Global Development Working Paper. January 2006. Available at <<http://www.ciaonet.org/wps/cgdo07/cgdo07.pdf>>.
- 21 Moore, Mick. “Death Without Taxes: Democracy, State Capacity, and Aid Dependence in the Fourth World.” In Gordon White and Mark Robinson (Eds.), *Towards a Democratic Developmental State*. Oxford: Oxford University Press, 1998; Moss, Todd, Gunilla Pettersson, and Nicolas van de Walle. “An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa.” Center for Global Development Working Paper. January 2006. Available at <<http://www.ciaonet.org/wps/cgdo07/cgdo07.pdf>>.
- 22 A phrase used by democracy assistance providers working in the NGO community to describe how economic and democratic assistance efforts played out in the early 2000’s.
- 23 Freedom House. “Freedom House Releases Subcategory and Aggregate Scores for Freedom in the World.” 28 September 2006. Available at <<http://www.freedomhouse.org/template.cfm?page=70&release=418>>. Similarly, the World Bank Institute reports that numerous MCC Candidate, Threshold, and Compact Countries have contacted them to learn how they can improve performance on their governance indicators. Over the last year and a half, the World Bank Institute has met with the Dominican Republic, El Salvador, Fiji, Guatemala, Rwanda, Yemen, Ecuador, Honduras, Kyrgyz Republic, Nigeria, Paraguay, Tanzania, Uganda, Cameroon, Malawi, the Philippines, and Indonesia, among others.

- 24 1) Yemen in November 2005, and 2) The Gambia in June 2006
- 25 Letter from Ambassador John J. Danilovich to President Robert Kocharyan, 16 December 2005. Available at <http://www.mcc.gov/countries/armenia/letter-121605-jjdregardingarmenia.pdf>.
- 26 While one would, of course, prefer a more ideal Consultative Process from the beginning, it speaks to the strength of the civic organizations and to the responsiveness of the elected government that consultative strategies were adjusted mid-way in several countries when civic actors complained they had been excluded.
- 27 Meeting notes. 26 March 2006. Representatives from Bread for the World and the Millennium Challenge Corporation.
- 28 Millennium Challenge Corporation. "Gender Policy, Chapter 14" *Guidance for Compact Eligible Countries*. 2007. Available at [http://www.mcc.gov/countrytools/compact/fy07\\_guidance/english/14-genderpolicy.pdf](http://www.mcc.gov/countrytools/compact/fy07_guidance/english/14-genderpolicy.pdf).
- 29 The MCA working group consisted of six government Ministers, three Chamber of Commerce representatives, three civil society representatives (elected), three labor union representatives, two representatives of the Agricultural Chamber (elected), and one representative of the artisan community
- 30 PRSP and Vision 2020 consultations incorporated over 20,000 people including groups of women, men, youth, herdboys, disabled persons, the elderly, widows, orphans, retrenched mineworkers, community-based organizations, NGOs, local authorities and business.
- 31 As PRSPs and other aid mechanisms sought country ownership and greater accountability, national legislatures became a logical focus. Hudson, Alan. "Parliaments and Development." Overseas Development Institute Working Paper. April 2007. Available at [http://www.odi.org.uk/publications/briefing/bp\\_april07\\_parliaments.pdf](http://www.odi.org.uk/publications/briefing/bp_april07_parliaments.pdf).
- 32 Mandaville, Alicia P. "Legislatures in Pursuit of the Millennium Development Goals: A Key Part of National MDG Strategies." *Engaging Parliaments in the Millennium Development Goals: aKey Part of National MDG Strategies*. United Nations Development Program, 2006. Available at [http://www.undp.org/governance/docs/parl\\_pub\\_MDGSEngaging.pdf](http://www.undp.org/governance/docs/parl_pub_MDGSEngaging.pdf).
- 33 When that is constitutionally appropriate. In some cases, it is not within the constitutional authority of the national legislature to ratify a treaty between the national government and an other country.
- 34 *Parliaments and Poverty Reduction Strategies. Background note*. Prepared in February 2007 by Taies Nezam, consultant at the World Bank, under the supervision of Pierre Girardier, World Bank. For a one-day March 15 seminar in Capetown South Africa on *How to strengthen the role of Parliamentarians in the PRSP*

*Process and in Development Programs.* This seminar was supported by the Ministry for Foreign Affairs of Finland.

35 “A Joint MCC-Ghana Sigh of Relief.” The Center for Global Development, 5 February 2007. Available at [http://blogs.cgdev.org/mca-monitor/archives/2007/02/a\\_joint\\_mccghan.php](http://blogs.cgdev.org/mca-monitor/archives/2007/02/a_joint_mccghan.php).

36 See, for example, page four of the Vanuatu Compact, which states: “The Government shall use its best efforts to ensure that all MCC Funding is fully reflected and accounted for in the annual budget of Vanuatu on a multi-year basis.” Available at <http://www.mcc.gov/countries/vanuatu/030206VanuatuCompact.pdf>.

37 As witnessed by MCC staff. Port-Villa, Vanuatu. November-December 2006.

38 Economic Policy Research Center. “Monitoring of Millennium Challenge Program: Stage II report.” September 2007.

39 Sharkey, Katrina, Theodore Dreger, and Sabina Bhatia. “The Role of Legislatures in Poverty Reduction: Experience and Future Direction.” World Bank Institute Working Paper. 2006. Available at [http://siteresources.worldbank.org/WBI/Resources/The\\_Role\\_of\\_Legislatures\\_in\\_Poverty\\_Reduction\\_with\\_cover.pdf](http://siteresources.worldbank.org/WBI/Resources/The_Role_of_Legislatures_in_Poverty_Reduction_with_cover.pdf).

40 See MCA-Country web pages. Armenia at <http://www.mca.am/new/enversion/index.php>, Benin at <http://www.mcabenin.bj/en/visiter.php?rubriquez>, Cape Verde at [http://www.mca.cv/index.php?option=com\\_docman&task=cat\\_view&gid=38&Itemid=86](http://www.mca.cv/index.php?option=com_docman&task=cat_view&gid=38&Itemid=86), Madagascar at [http://www.mcamadagascar.org/view\\_content.php?id=24](http://www.mcamadagascar.org/view_content.php?id=24), Vanuatu at <http://www.governmentofvanuatu.gov.vu/mcavanuatu/SteeringCommittee/tabid/72/Default.aspx>, Nicaragua at <http://www.cuentadelmilenio.org.ni/prensa.html>.

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