



**MILLENNIUM
CHALLENGE
CORPORATION**
REDUCING POVERTY THROUGH GROWTH

Transcript

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Carnegie Endowment for International Peace The Millennium Challenge Corporation and Democracy Promotion

Welcome and Moderator:

Thomas Carothers,
Vice President For Studies,
Carnegie Endowment

Opening Remarks:

Ambassador John J. Danilovich,
Chief Executive Officer, MCC

Presentation:

Alicia Phillips Mandaville,
Senior Policy Associate, MCC

Respondents:

Morton Halperin,
Director Of U.S. Advocacy,
Open Society Institute

Jennifer Windsor,
Executive Director,
Freedom House

Transcript by

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THOMAS CAROTHERS: The Millennium Challenge Corporation is the largest new element of U.S. foreign assistance in many years. Although it was established and designed to focus primarily on economic growth in developing countries, through its methods of country selection as well as its basic methods of operating within and with countries, it seeks to make a contribution to other goals, including democracy.

Yet, how much the MCC serves this goal of support for democracy in the world has not yet been well established. The MCC has been preoccupied, understandably enough in its early years with establishing basic systems of operation, negotiating and signing compacts, and the like. But with substantial progress having been made in getting the MCC underway, I think it's a good time now to take stock of what its contribution to democracy support is and how that contribution can be strengthened in the years ahead.

From an analytic point of view, I would say that the question of how economic assistance can contribute to supporting democracy abroad, both as an incentive and by change in the way such assistance is given out, is the least studied of the various instruments of democracy promotion. Much more attention has been given to direct democracy aid, to diplomatic means, and also to military intervention. More generally, the overall context for such an examination is also fortuitous. As the United States heads into the presidential campaign, it's a natural time for taking a broad look at U.S. foreign policy goals and instruments.

There's a strong sense in many quarters that democracy promotion needs a hard look. The last five years have been marked by intense controversies about U.S. democracy promotion both abroad and here at home: the question of its legitimacy, even the appropriateness of the goal, and of course the question about what methods are effective. So it's my hope that this session today can be a productive contribution to that larger debate.

We're going to start off with some opening remarks and then to a panel. Let me introduce our opening speaker and then, later, I'll introduce the panel. I'm very pleased to welcome to Carnegie Ambassador John Danilovich, who is the chief executive officer of the MCC, a position he has been serving in since 2005. He brought to that position a very distinguished record of service both in the private and the public sectors, including most recently, as U.S. ambassador to Brazil and to Costa Rica and before that, many other significant positions as well. He's thrown himself into the job. The MCC is up and underway and doing some significant things out there in the world. And so, I think we're very pleased to have you here to talk about that and to set the stage for the discussion that we'll have subsequently. So –

AMBASSADOR JOHN DANILOVICH: Thank you very much, Thomas, for that introduction. And thanks all of you for your interest in the Millennium Challenge Corporation and particularly for your interest in the role that we play as a powerful catalyst for deepening democracy in our MCC partner countries around the world. I want to thank you, Thomas, and the Carnegie Endowment for International Peace for partnering with the MCC to make today's event possible. And also, Thomas, your strong words of endorsement and acknowledgment of MCC's model of using aid as a positive policy incentive expressed in your paper, "U.S. Democracy

Promotion During and After Bush,” is much appreciated. I ask you to bear with me. My voice is a bit raspy; I’m getting over the flu. I hope none of you have it or any of your families, but I apologize for my voice.

MCC deepens democracy by creating incentives for policy reforms and by engaging democratic actors and processes already in place in our partner countries worldwide. Through their participation in the MCC program, I see our partner countries work to increase government transparency and accountability, broaden public participation in the political and electoral process, fight corruption, undertake tremendous reforms including granting women a greater role in the political and economic life of their societies.

And I see our partner countries explore the critical link between democracy and economic development. Most vivid, just last month, in Bamako, Mali, where members of the Community of Democracies gathered for their fourth ministerial conference, including many of our MCC partner countries. After Mali, I traveled to Mozambique to the remote city of Nacala up in the north of that country. With the mayor and the governor and other officials of the province, I visited a village that is slated to receive improved water systems as a result of MCC’s compact with Mozambique. We sat there under a tree in the shade from the blistering heat and we just talked, all of us, about 150 people altogether, in three languages: Macua, the local language; Portuguese; and English.

It was quite a site and moving. A woman got up to spoke about how she has to walk hours to her neighboring village to fetch water, villages that sometimes tell her that they don’t have enough water to share with her. This village forum was a great example I felt of government officials and their constituents having a real dialogue about the costs and the benefits and the general impacts of our project in their community. It was democracy and economics in action.

MCC is committed to the principle that democracy provides the foundation for sustained economic growth. We believe that democratic principles are at the core of economic development and that allowing people to have a say in their own political well-being complements allowing people to have a say in their economic well-being. I’m pleased that MCC’s role in deepening democracy is now captured in a remarkable paper entitled “MCC and the Long Term Goal of Deepening Democracy.” We are very proud of it.

I greatly appreciate the terrific work that Alicia Phillips Mandaville, here on the panel today, and Sherri Kraham, in the audience, of the MCC from our development policy team have put into it. I also want to thank the experts from the democracy community who offered valuable input, including the input received on the paper which was circulated at the Community of Democracies’ ministerial in Bamako. You will hear more about the way that the MCC uses our development assistance to deepen democracy when the panel convenes in a few moments.

I want to assure you that the MCC strongly believes that democracy is a powerful tool for promoting peace and stability, for fostering a culture of transparency and good governance, for creating opportunities for private enterprise, for stimulating growth, all building blocks for reducing poverty. This is why the Millennium Challenge Corporation was created in the first place, to reduce poverty through sustained economic growth. And I also

want to assure you that the MCC will always keep the strengthening and deepening of democracy in our partner countries around the world as one of our core initiatives. And so, again, I want to thank you all very much for coming today. Thank you for your interest in the MCC. And I wish you all a very successful meeting. Thank you very much. Thank you, Tom. (Applause.)

MR. CAROTHERS: The ambassador is slipping away gracefully and we're going to turn to our panel now. I'm going to actually sit because our panel is going to sit and sort of continue here. We're going to first hear from Alicia Mandaville Phillips – or Phillips Mandaville. Sorry, Alicia. I never get it right. And Alicia came to me – well, it was three or four months ago and said she was working on this paper and she told me about it. And I said, well, it sounds like not just a paper but an event. So we need to talk about it because I could see that she was engaged in some very serious work on this subject. But I knew that there were a lot of people out there that who would A, benefit by being exposed to the work but would also have thoughts about it. So she has graciously agreed to present the paper.

She is a senior policy associate at the Millennium Challenge Corporation and she brings to that position significant experience in the democracy-promotion field most recently, before the MCC, at the National Democratic Institute, where she worked on governance programs, and before that, as a consultant to UNDP and other endeavors.

So we'll hear first from Alicia and then we're going to turn to two commentators, Morton Halperin, who is a senior fellow at the Center for American Progress as well as director of U.S. Advocacy at the Open Society Institute here in Washington. I think Mort is known to almost everybody in the room and has a distinguished career both within the U.S. government in the NGO community and think-tank community as well.

After that, Jennifer Windsor, who is executive director of Freedom House and a position in which she brought to that position significant experience in democracy promotion through her work at USAID in the 1990s as director of the first democracy center at USAID and other work prior to that as well. So we have two excellent commentators and a very good presentation. We'll start off with Alicia, have our two commentators, and then turn it over to questions and discussions.

ALICIA PHILLIPS MANDAVILLE: Thanks very much, Tom. And I should say not just thanks to Tom for the opportunity to talk to everyone today, but also to folks that provided some comment and some feedback on the paper and some earlier iterations, not just the people on the panel, but also Joel Siegel, who's in the audience. Comments and feedback were really very helpful and hopefully you're happy with the way some of that's reflected today and in the paper.

I just want to say that this presentation and, I think, the paper itself really both begins and ends with a strong recognition of the deep links between economic development and democracy. That's not really new news. That's been talked about for an extended period of time. Perhaps more controversially somewhere in the middle

of the presentation is a conclusion that the pursuit of positive economic outcomes and the pursuit of deeper, stronger democracies are actually complimentary objectives. And they're not only complimentary, but they're also possibly very actionable and so, I wanted to talk a little about that today.

MCC is an economic creature. Our mission statement is poverty reduction through economic growth. And short of drawing a supply-and-demand graph, you probably can't get much more economic in your mission statement. But at the same time, both the democracy community and the economic literature are both telling us that institutions matter. And not just any institutions but the democratic institutions matter and they matter, not just for democracy in and of itself, but that they matter for positive economic outcomes as well.

And so if MCC is an actor that is focused on positive economic outcomes and if we believe that there is a clear and direct – that there is a deep link between democracy and economic growth then, in order for us to both responsibly and effectively pursue our mission of poverty reduction through economic growth, then we need to find a way to act on that belief, to act on the belief that these two things are linked in some deep and inextricable way.

So we think we've found away. I'm happy to hear your opinion about that as well. (Chuckles.) And what I'd like to do is to talk a little bit about that because we think it's a pretty unique contribution to the longer-term goal of deeper democracies and we think that there's two parts to it.

The first is a piece that most people have – if you've read anything about MCC and democracy in the past, you probably come across it, which is the fact that democracy criteria are integrated into MCC's eligibility criteria. So MCC provides an incentive for countries to take democratic reforms in an effort to access financial assistance and economic grant money. But I think a less noted, equally important – in fact, in some ways maybe even more important – piece of this that nobody really talks about, is an approach to working with partner countries in a way that not only works with and through existing democratic institutions, but essentially expects those existing democratic institutions to play the role that they would normally be expected to play in a democracy. That one a little bit more tricky, so I want to go into a little bit more detail on that because I do think it's a piece that's maybe been overlooked kind of to date, in general.

And then I want to just conclude with a recognition of what I think we see as a little bit of convergence between the democracy-practitioner community and the economic literature. And since these two phenomenon are not necessarily known for their deep and unabiding agreement with each other, when they make a point simultaneously, maybe we ought to pay attention to it.

If we layered that work and MCC's approach together, I think we kind of have to conclude that there's maybe not just an opportunity, but an obligation for economic-development actors to work in a way that makes a contribution to this long-term goal of deeper democracies.

So two parts of MCC's approach to acting on this belief that democracy and economic growth are deeply linked – the first one starts with kind of, I guess, the easy ones since there's most information on it. And that is to provide an incentive for democratic reform. For those of you that are less familiar with MCC's eligibility or selection process, we rely on 17 different publicly available data sources to measure countries' performance on 17 different types of policy. And we rate those into three categories.

There's a good governance category; there's a social investment category and an economic policy category. And in the good-governance category, democracy and democracy criteria make up a full half of that criteria, which means that countries which score well or perform better than most of their peers on Freedom House's Freedom in the World survey do well in this category because we include both political rights and civil liberties as two separate things that we count in this category.

Countries that perform reasonably well on the World Bank Institute's voice and accountability indicator, which includes, not just political rights and civil liberties issues, but some of the other institutions of domestic accountability to citizens, to private sector, to NGOs. These countries perform well on the good-governance category, which is a solid part of the eligibility process for accessing MCC funds.

It's worth explaining that access to MCC funds is a bit unique. It's when countries are selected as eligible for MCC funding, they have access to hundreds of millions of dollars of untied grant aid that can be used for economic development projects of their own choosing. So, from a country's perspective, this is really quite desirable aid in that it's – countries get to choose what they'll spend the money on, it's not tied to specific country procurement mechanisms, this time clean procurement mechanisms, but not country specific, and it's using money on projects of their choosing.

So because this is such a kind of desirable aid, we feel like tying this desirable type of aid to a set of criteria that includes a heavy emphasis on democracy is really a good way of acting on the belief that democratic institutions and strong democracies and economic growth are deeply tied together.

It's kind of still early days. MCC's only been around a little while, but we are beginning to see what we feel like gives us some evidence that this actually does provide a bit of an incentive. And I think we see two different things. One is that, in an effort to become eligible, countries not only come to visit us and tell us what it is that they're making reforms on and what are – including democratic issues and democracy issues, but they also stop in and visit Freedom House. I think that we've increased the workload on the staff of Freedom House possibly by a problematic extent based on our earlier conversation in the room.

JENNIFER WINDSOR: No, no. We welcome dialogue. (Chuckles.)

MS. PHILLIPS MANDAVILLE: And well, I'm sure also that there are some strong opinions about how – whether those conversations, when countries come in to talk to Freedom House, whether those conversations are about refuting the scores or whether those conversations are about understanding and analyzing the reason

the scores look the way they do. The fact remains that countries are actually sending someone in to sit down and talk about democracy and the state of democracy in the country. And that's a step that we hadn't seen as much of in the past. And we take that as solid progress that there's more attention, more pressure, and likely more reform in this area.

Secondly, countries are proposing elements of traditional democracy for support programs as part of their threshold programs. So, MCC has two different kinds of programs with countries and the ones everyone knows about are the large scale, large economic-assistance compacts. But for countries that are very close to being eligible, but not quite over the hump, there's a threshold program. And this is smaller amounts of money for very – much more traditional technical-assistance programs that focus on policy issues. And as part of several countries' threshold programs, they have proposed elements of democracy-promotion programs. So, in Malawi and Guyana, we see them asking for assistance for supporting oversight to the – pardon me – deepening the legislature's ability to exercise its oversight function.

They see this as rolled up into combating corruption, but the nuts and bolts of what that program looks like is strengthening the capacity of the legislature. In the Ukraine, we got a request for proposal for additional support for civil society, for advocacy, and public information groups to be able to deepen their work and provide greater information, not just to the public, but to advocate on anticorruption issues more strongly. And again, the nuts and bolts of that look much more like the standard civil society-strengthening program than like what a lot of people associate with MCC.

And finally, even in Jordan, we saw a proposal that included not just a request for local government support, but also a change in the election law that reintroduced municipal elections and introduced for the first time quotas for women's participation in municipal elections. So the kinds of proposals that we see coming in by countries that are close to being eligible for a compact, they're actually looking at these democracy issues and writing into their proposals efforts to address some of these issues in an effort to become eligible.

So, kind of satisfying then, the first step and effort to act on – MCC to act on its belief that democracy and economic growth are deeply linked, I want to take a little time to go into some more detail about what we mean by the second part. What do we mean by working through existing democratic institutions, because I think this is really a critical contribution to creating an opportunity and an environment in which the roots of these democratic institutions can grow deeper and kind of more secure.

There's three tangible examples that I think probably make it easiest for people to understand what we mean when we say working with and through these institutions. And these can be seen in the consultative process, some legislative activity that we've seen in a number of the countries that we're working in with regards to the compact itself, and then transparency during implementation by the country implementation unit. So just kind of move through them one at a time.

The consultative process – as background, when a country is selected as eligible for MCC assistance, they go through a pretty rigorous proposal-writing process and proposal creating process. And when we look at the proposals at MCC, we have, more or less, three core things we're looking at. We need to find out from them, can they prove that it will contribute to poverty reduction through economic growth? And that's the clear, obvious, straightforward one.

We look at questions about whether or not it's violating international standards on the environment or social interventions because clearly, you don't want to do that either. But then we also ask whether or not the proposal has been created using a public consultative process and whether the government has used the input gathered through that consultative process to shape the content of their proposal.

We're clearly not the first donor to have thought perhaps a consultative process is a good idea. We didn't think up the idea. We didn't change the idea. But we do care pretty deeply about it. And so, as part of what we consider our due-diligence phase when we receive a proposal, we ask the country, what mechanisms it has used that – what mechanisms of accountability to the public that elected it has it used to inform the content of that proposal.

And we see a number of different things in different countries that no two countries are going to be the same in terms of the model of democracy they use. No two countries are going to be the same in terms of the way they choose to operate a consultative process in terms of what would work in a country. But just to kind of give you a sense, we see issue NGOs actually being asked to aggregate the interest of their constituents and bring them forward to the government for consideration for use – to be addressed in an economic development project. And we saw that in Mali, we saw it in Nicaragua. We see environmental groups as well as women's organizations talking specifically about the issues that their constituents are concerned about and that information being brought to the table in a way that you would expect civil society to bring issues to the table with the government to discuss.

We see elected officials, actually, being asked to facilitate an exchange of information between the public and the government about how an economic development program will unfold in a particular area, to solicit information from their constituents so that you have mayors in municipalities talking to their publics about what a waterworks system will look like there. And that's exactly what you would expect mayors to do in an area where a new waterworks system is going in.

Other, just to kind of very quickly, we see the media cover in great detail, not just some of the technical debates about what type of materials should be used to lay the road in a certain part of the country, but also the political debates that go along with it. And while that causes all kinds of deep heartburn for those of us on the technical side of the economic development program, that actually really deeply shows how much genuine debate and discussion you're seeing both among the public and among political actors in a country. And we've even seen, in some cases, political-party actors able to communicate through their party channels their support at a local level

for a particular project so that their party headquarters, at the national level, can reflect that in their work in the legislature or their statements in presidential campaigns.

So we can talk about specific details or countries, if you like, later, but to really flag that this consultative process, it's not a set aside thing that we ask countries to do. Please get a bunch of people in a room and have them tell you what they'd like in a compact. It's asking countries to make use of the mechanisms that are already in place, whether they're local development councils or NGOs that are already in existence to address a particular issue and asking them to play the role that they would naturally play.

And we think that this, again, is a really part of acting on the belief that you can't separate out economic growth and the depth of democratic institutions. It's better to think about them as something that needs to be integrated.

The second piece is legislative actions that we've seen take place or legislative processes we see in many of the countries that we're working in. In eight of – I want to say eight of 11 but we've got more compacts than that, so my notes are out of date. So in several of the countries that we're working in, that have already signed compacts, those compacts were also ratified by the legislature. And that means that the compact, as signed by the U.S. government and the government of, let's say for example, Ghana, was subject to the exact same set of debates and kind of poking and prodding in the legislature that you would expect to see any large national agreement subject to.

So, as I said, in Ghana, you saw what you expected to see. Opposition members raised questions about things that they were not happy about. And that's kind of more or less what opposition members do in a legislature when they're debating a large government initiative. And while this, again, caused many fingernails to be chewed to the quick kind of on this side of the ocean, I think that in looking at it kind of, for what it is and in the context that it sits in, it really demonstrates that there has been deep political discussion and deep country-own discussion using the mechanisms and institutions of democracy and accountability in that country to really think and talk about the compact, the content of the compact, and what should be done with it, how those resources should be managed.

And finally, I think the third thing is to talk a little bit about transparency during implementation. And that is, it's worth kind of mentioning that when a country is implementing a compact, the staff that are responsible for implementing that are not MCC staff. It's a country-managed staff run office. In most countries, it sits within the government somewhere. In some countries it's setup as separate foundation. But at the end of the day, regardless of which of these models it is, it's not MCC staff. It is actually country staff that are implementing this.

And we ask them to be as transparent as possible in the process of this. So what does it mean to be as transparent as possible? Well, these entities report on a fairly regular basis to MCC what they're doing with U.S. taxpayer dollars. So we suggest to them, why not post some of these things publicly so that it's not just our domestic

constituency that can find out what's being done with the resources but your domestic constituency can find this out too.

So if you look at any of the websites for these MCA units in these different countries, which are run and managed by them, not run and managed by us, you'll find quarterly reports. You'll find disbursement reports, procurement status of procurement issues, invitations or minutes to – invitations to participate or the minutes from public consultation sessions about the status of a project or the content of a project, contact information for the office, even the minutes of their board meetings. There's a lot of transparency about what is actually being done on a day-to-day – on a month-to-month basis and what is being done with the resources by an MCA unit.

And the access that this provides civic actors and the general public and other different actors within the democratic system to know what the government is doing with the government's resources is, in some cases, really quite unprecedented. In one case, we even have audits posted. We can find audits posted on the website, which is pretty unique for most of the places I think that we're working.

And in some ways, I think this last piece is possibly the easiest way for economic-development actors to act on this belief that you have to link up – that democracy and economic growth are deeply linked. And that is to operate in a way that the information the democratic actors need to watch the process closely is actually accessible and available, so that mechanisms of accountability can actually be used in a domestic context.

That's, in a nutshell, I think generally the approach that we feel that we've taken to trying to act on this belief that democracy and economic growth are deeply linked. I do just want to touch very briefly, in the two or three minutes, on what looks a little bit like convergence between some of the things that the democracy community has been saying for an extended period of time about this link and what is finally turning up – finally – what is turning up in the economic literature in some more detail now than perhaps before.

What I used to hear talked about, when I was at NDI is the elephants-stepping-on-mice problem. Maybe it was only my office that used this expression, but the notion is that you have these large elephant-sized economic development programs that operate in a country. And if they're not careful, they can distort the incentive of the national government to remain accountable to domestic constituents because there are all kinds of reporting requirements and there are all kinds of demands placed on a country government by economic actors in the international system.

And if they're not careful, that can really shift attention away from remaining accountable to domestic constituents. So even if you have civil society actors or other mice in the corner that have smaller budgets and smaller presence maybe, asking for additional accountability and trying to support the institutions of accountability in a country, it causes a great deal of problems, hence the elephants-stepping-on-mice description.

The economic literature now calls this displaced accountability and there are neither elephants nor mice in their assessments of the situation. But there is a recognition that when there's insufficient caution about how

economic-development actors engage with a country, you can have this unintended effect of displacing accountability from the public to the international community.

And the fact that both of these communities are pointing at this problem and suggests that it's really time to actually think hard about how to act on believing that this is a problem that ought to be addressed and believing that these two things are deeply linked. MCC is not a traditional development assistance program in any way shape or form. We don't look like what people think of when you about democracy promotion because that's not what in the beginning – that's not what we were set up as. But we rely pretty deeply on the good work of what is already gone before us, actions by democratic activists and actors in each of these countries, as well as all the organizations that support them through technical-assistance programs and capacity-building programs.

When we look to a legislature to debate and ratify a compact, we make an assumption that that legislature is all set to debate and ratify a compact. And that means that we lean heavily on all of the democracy-development work by country itself and by some of its supporters abroad.

At the same time, we do think it's possible for an economic-development actor to act on the belief that democracy and economic growth are deeply intertwined. And we're trying to do that in the two ways that I've mentioned, both by incentivizing, providing an incentive for countries to take additional democratic reforms and an incentive that we think is worth some attention, but also, working with countries in a way that doesn't overlook the critical role that each of these democratic actors play, and one that, not only allows them to play that role, but actually expects them to play it in some cases.

I think this is a pretty unique contribution, actually, and it's not one you hear very many economic-development actors talk about. It's kind of been an under-discussed side of the nexus between the democracy and economic growth. So kind of with that, I will look forward to other people's thoughts and comments.

MR. CAROTHERS: Thank you very much, Alicia. It was an excellent presentation. And we now have equal time, divided into two, first Mort and then Jennifer. Mort, go ahead.

MORTON HALPERIN: Thank you. Actually, I think that most economic development programs end up hurting democracy rather than helping it. In the book that Joe Siegel and I have written, we advocate a democracy impact statement for development grants to try to avoid them causing harm. And I think the Millennium Challenge Corporation is one of the few institutions in where one can actually hope that it will help to promote democracy and has, I think, begun to do so in the way that has been describe.

I want to suggest that we should go much further in the same direction. We live in the first era of many poor democracies. Never before have we had many poor democratic countries. Those people almost all chose democracy on their own, not because the United States told them it was a good idea. And I would argue that among the highest priorities of American foreign policy should be to try to help those people who have chosen

the path of democracy to stay on the path of democracy. And that means they need to succeed in doing a number of tasks, including reducing poverty within their own societies.

I also think that the Millennium Challenge Corporation should be transformed into an instrument for the advancement of this objective. And I would argue that that would make sense even if you're only focused on development because I think it is becoming clear that democratic countries actually do better at development than autocratic countries. Certainly they do no worse. And they avoid the drastic ups and downs that we see of famine, of crises, of civil wars much better than non-democratic countries do.

And we have a shortage of resources for development and therefore, I would argue, we should use them in the most effective way. And the most effective way, in my view, is to use them in democratic countries both because you're more likely to get more effective development in that way, but also because it enables us to advance at the same time, an objective which I would argue is as important and in some ways, more important to security of the United States, namely, to encourage countries to get on the path of democracy and when they got on that path, to help them stay on that path of democracy.

Now, I would do this by explicitly changing the mission of the Millennium Challenge Corporation so that it reads as follows – and I will speak slowly so you can all write it down – (laughter) – supporting economic growth in poor democratic countries so as to reduce poverty and strengthen democratic institutions. We have been unwilling, in the whole post-war period since World War II, to link democracy and development. Somehow, for people in the development business, there's something wrong with that and they always like to talk about good governance rather than democracy and to shy away from the notion that should be linked.

So the Millennium Challenge Corporation will tell you they are a development organization. They happen to do things that promote democracy by they do it as a development organization. Well, my view is that the Millennium Challenge Corporation should be seen as a democracy-development organization, not as a traditional development organization and so that we should change the mission explicitly so that they don't have to tiptoe around democracy, and indeed, so that they understand that this is their purpose.

Now, in fact, if you look at the congressional legislation, it talks about promoting democracy as one of the objectives of the Millennium Challenge Corporation. But since it is run by development people, it has chosen to hide democracy under this label of good governance. So, as we heard, three of the six criteria in the good governments' category, relate to democracy. But since you only have to do above the average in three of the six, in fact, you can be eligible for a Millennium-Challenge-Corporation grant while you flunk all three of the democracy criteria.

So the next thing that I would do is to make democracy a so-called hard criteria as corruption is. You can score well in 11 out of the 12 indexes that they have, but if you do badly on corruption, you are not eligible for a grant, which I think is the right thing, but I think we should add to that list a second one of democracy so

that we start talking about the Millennium Challenge Corporation as a program for poor democratic countries. And we insist, I think the three indexes that they use, at least two of them are terrific. And I was on a panel with the producer of the one last week and told him his was terrific, so I think they all are very good and they measure democracy. And we should insist that you have to be a democratic country as measured by those objective criteria if you're going to be eligible for a grant.

The second thing that I would do is to provide second compacts. Under the current rules, you only get one compact in a country and that produces a number of different kinds of distortions. But I think the way to strengthen democracy while permitting multiple compacts is to require further progress on democracy or if a country is exceptionally far ahead, no going backward on democracy, as a criteria for getting a second compact so that the leverage that you have with a country to move in the direction of democracy is not lost once you sign the compact because there's nothing more that can come, that you make very clear that there can be future compacts but only if not only you do well with the compact and deal with the other criteria, but that you're moving forward, making further progress on democracy.

And the third thing that I would do is to improve what is already, in many countries, although not in all, an impressive integration of the private sector and the NGO community and to the process. And I would do that by requiring the MCA to give a grant to an NGO in a country as soon as that country came up on its screen, either as a threshold country or as a compact-eligible country.

And the function of that NGO would be educate all aspects of civil society about the Millennium Challenge Corporation, about the criteria, including the democracy criteria, so that there becomes a more robust debate within a country as to why it's not eligible for a grant, what it has to do to become eligible for a grant, and in particular, what progress it needs to make on democracy in order to meet that threshold, so that you create incentives for countries to move towards democracy because there is an important economic payoff for it in the same way that the possibility of EU membership has played an important role in the debate in countries in Central Europe and to give them an added incentive to move towards democracy.

I think if we make those three changes, there are actually very minor changes in the way the corporation already operates. But I think they would make explicit what this goal is. I think they would add support to the program because see, now, people say, why do we have the Millennium Challenge Corporation and USAID? What is the difference between the two? My answer is, the Millennium Challenge Corporation is for democratic countries and AID is for aid that we give for various reasons to non-democratic countries. (Laughter.) And that is, I think, a more effective way to explain what the difference is and it's a more effective way to describe why this program should be continued.

And let me just end by saying I think there's a real question about the future of the Millennium Challenge Corporation. There used to be a view that the current administration's policy was "anything but Clinton" and that if anything started in the Clinton administration, it would not be continued. I fear that the next administra-

tion may have the view “anything but Bush” and that this program, having been seen as a major priority of the current president, will not get the support that it needs unless we restructure it so that it gets the support of a broader community of people.

MR. CAROTHERS: Thank you. I think that’s called diplomacy by panel, Mort. (Laughter.) But I appreciate your remarks and you’ve presented a, not so much a critique as an enhancement in your view. So Jennifer, would you like to add to that?

JENNIFER WINDSOR: Great. Well, the problem with going last is that Mort steals all you good points. (Laughter.) So let me try to be a little bit more ad hoc and talk about a couple of things. One is, I have to object on the record to Mort’s characterization of what AID’s role is. I think, actually, his former agency, the State Department, is responsible for assistance given for other reasons along with DOD.

AID is about actually encouraging development to those countries that have not yet met the standards, including promoting democracy and governance assistance and that the MCA will fail if AID does not do their role, especially in helping countries not only meet the criteria, but also maintain their performance while they have compacts, which I think is one of the issues that the MCA cannot handle as of late.

So, you know, I’m just going to reiterate, Freedom House absolutely believes that the MCA is a critical tool for democracy promotion. We can discuss – I don’t think it actually could have passed or gotten the support that it has to date if it was just about democracy promotion. But I’m all for Mort’s idea and in fact, I think this interface between knowing that democracy is good for development and development is good for democracy has to go both ways. And so, I actually like the dual objective, you know, the sort of concept of it as reinforcing that.

You know, but why is it important for democracy promotion? Well, if you think about what democracy promotion is – and we can have a whole debate about what it is, it isn’t – you’re really trying to, in some senses when you’re from the outside, you’re trying to change the calculus of those within a society that are trying to block democratic advances, that it’s not in their interest to do so. And you’re trying to empower those that are trying to deepen democratic reforms or push for democratic reforms to help them along.

And the MCA and the possibility of getting assistance through the MCA can affect that calculus, particularly government officials that are stuck or somehow think, you know, why should they move towards democracy at all? They might lose power. And so, in this case, they can think about, well, maybe we can move to democracy and you can get a lot more assistance and you know. So it’s a calculus.

Well, in order for that calculus to work, a couple of things have to be in place. One is that the incentive has to be sizeable enough. And I do think in addition to sort of the whole future of the MCA, it’s the issue of the funding levels of the MCA in particular. And it’s continued effectiveness is going to depend completely on what

Congress does in allocating enough money so that actually future compacts can be given or compacts can be realized.

Now, I know there were a lot of issues about sort of slow startup, et cetera. But in order for this mechanism to succeed, if we end up giving, you know, \$10 million or \$50 million when the Chinese government is willing to give \$300 million with no strings attached, it's not going to be a very effective mechanism and we could lose the opportunities for incentive.

So, the other is to be very, very clear about exactly what is needed to pass on a democratic criteria. And I just endorse what Mort says in terms of – yes, it is three indicators but if you look at the other three indicators at the World Bank that are included, including the rule-of-law indicator, it actually has not correspondence with any rule-of-law indicators and analysis that relate to due process and human-rights protections. I mean, they say it themselves. It's really a commercial kind of rule-of-law definition of predictability, which is really, really critical. But, you know, basically, even that criteria, which you think might correspond to democratic governance, doesn't and so therefore, certain countries qualify.

Now, the MCC has not chosen a number of countries that have qualified on the criteria like Vietnam. So they should be – even though they've technically qualified, they haven't, they haven't done it. So they should be applauded. I do think there's three country choices that have been made for compacts that certainly send unclear messages. Even if they've technically qualified it or not, Morocco, Armenia, and Jordan are three countries that Freedom House has objected to the awarding of compact status.

And it's not to say that, especially in the case of Morocco and Jordan, that they're making some important progress in certain areas. Armenia, I'm not yet convinced that they're making any important progress; I think they're backsliding. But, you know, what's interesting is that they qualify because it's a sliding scale, also, as to what passing is. And so, right now, all three of those countries pass even though they have a Freedom-House score of five for political rights and four for civil liberties. Seven is the worse. One is the best. We can get into all of this, but five is not considered to be – a country that has a five is not considered to be a democracy in any way, shape, or form by Freedom House.

It could be a country that's better than a seven or a six. And so, you know, one thing we've urged the MCC to do is to actually do a minimum threshold, so not just a hurdle, but a minimum threshold that really would be more of an incentive because it undermines the incentive for others. If you think you can just get to a five and you can still pass, then it just won't make it.

The other issue that I wanted to raise, there was concern from the democracy-promotion community that, okay, well this is going to be good; it's an incentive, but it's not giving any money for democracy promotion – and that's how sectors think. We always think like, this is good for democracy promotion, but is there money on the table for it – and of course, there's even these democratically inclined countries don't usually choose their compacts

to strengthen further the accountability mechanisms towards themselves. It's just kind of, you know, a matter of common sense.

So the threshold program was welcomed, I think, in a way of putting a lot more resources on the table for this. I have to say, I'm entirely confused though, about the eligibility of which countries are chosen for the threshold country. It makes – some make absolutely no sense to me and this stated commitment that the government is somehow committed to making changes and it's just been a question of more money as to why Paraguay has not become more democratic or less corrupt, you know, I don't buy. So I think we need to do a lot more hard looks at the threshold-selection process.

And then, for both compact and threshold programs, it's, of course, what happens after the decision is made to award it. And I think we need to get much beyond the indicators that are used for selection into more detailed indicators about evaluating whether governments are making enough progress, exactly or backsliding like – what is the MCC doing now in Georgia?

This is a country that actually did not pass the criteria the first time and was decided that it was so forward-leaning and that we thought this new government was so pro-democratic that we were going to invest in him and we knew he was going to bring the country towards a democratic future.

There are some signs that that's not the case. And if you talk to Georgian civil society and opposition, they're not feeling a full commitment to democracy. So what's the U.S. government reaction? What's the MCC's role? What's the State Department's role? What's AID role? Are they telling Georgians that they could lose this compact? Is it been suspended? That's going to be very important, I think, for sending a signal to countries not to backslide, that there will be real consequences.

Then the last thing I want to say is, there were concerns when the MCA was established that this would mean a diversion of resources from other aspects of development assistance and compete against it. And there were some indications, I have to say, fueled by OMB, who kept, I think, OMB didn't actually read what the president said about the MCA in the sense that the MCA was not to displace AID assistance and other assistance.

And so, early on, there was this idea that, if you got an MCA grant compact, AID would simply drop out of the country; there'd be no other assistance. And we expressed a lot of concerns that would be a problem particularly because it would almost guaranteed backsliding, I think, on democracy in governments in a lot of these places.

I have to congratulate the administration to the 2008 request. Looked to me like they made a concerted effort to make sure that democracy and government assistance remained high in a number of these compact countries. Now, I have no idea what Congress is going to do and what 2009 will bring. But I think it has to be a continued role in many of these countries for AID doing – continuing to do its work to try to strengthen democracy and governance.

The debate about within the country and the consultations, I was very interested in this and I really was interested in the examples. And I want to see more of them and see how real they are according to what people on the ground think. I would actually say – and this has been one of the most amazing things for Freedom House and we're trying to grapple with it – is not only are we getting governments coming to see us – and yes, they always start by saying you're imposing a Western imperialistic model. And then we say, oh, by the way, our methodology is based on the Universal Declaration of Human Rights. Oh, well now you're not really understanding what's happening in the country. So then we get that. But then, we're gotten some real offers for dialogue and actually, offers by the government to come and dialogue with them and talk to various members of the government. And we've actually agreed to do that on our own funding or if the U.S. government helps us to do that in a number of cases.

We will not accept government's funding to come to the country because then it looks like they're buying our buy-in, but I think the process is extremely important and I couldn't endorse more, is my final comment. Mort's suggestion – I think that the whole process could be strengthened. And something perhaps AID should really look at doing is actually investing in countries that are the think tanks like mini Freedom Houses or the capacity within the NGO community to do their own rankings and having a dialogue in the country.

And this, to us, as Freedom House, is one of the most important things, not only for making good decisions on the MCA, but frankly, in this era where everybody is debating democracy and freedom and Putin and others are kind of debating whether it's appropriate, really empowering them through dialoguing on what freedom is in evaluating themselves where we need to go. So I think this is a real possibility for it and I thank Alicia for this great paper. And it's a sign to me that the MCC is really taking this seriously in pondering where it's going. So I hope that it continues to receive support from Congress and the next administration.

MR. CAROTHERS: Thank you, Jennifer. Alicia, would you like to respond to the particular question about Georgia, because that's just sort of a point of fact that would be interesting if you have an answer to it.

MS. PHILLIPS MANDAVILLE: Yeah, no, our board is meeting on December 12th of this year. And so, we're in the process of preparing a lot of briefing materials for them which includes things exactly like this. So I'm kind of – given that it's not quite the 12th yet, I'm in a little bit of a bind in terms of being able to say what we're doing. At present, what we're doing is briefing the board. So I –

MS. WINDSOR: In the right way, I know. (Laughter.)

MS. PHILLIPS MANDAVILLE: I'm writing the briefing so – (laughter).

MR. CAROTHERS: Alicia, I think you got off pretty easy from our two commentators – (laughter) – and so let me – (laughter) – see if I can remedy that. (Laughter.) Now, let me ask, take the prerogative as the chair to ask two questions. I mean, they were so busy propounding their enhanced MCC that they didn't pause over some of the things that you talked about more critically. (Laughter.)

MS. WINDSOR: Nice slam, Tom.

MR. CAROTHERS: No, it's what I asked them to do, but – (laughter) – let's look at your two basic arguments: the incentive effect and consultative or participatory mechanisms and just say, what's really the hard question with each of those because I like what you said and I like what you've written, but I still have a threshold of doubt in both cases. The first – with respect to incentive effects, I mean, the experience of the last 30 years is fairly clear with respect to negative incentives, i.e. economic sanctions, that power holders, when threatened with economic deprivation, will not give up core elements of their political power for the sake of rendering a better economic life to their citizens or often, even to themselves.

Given that that's the experience, why would positive incentives really be any different in the sense that why would an authoritarian or soft authoritarian power holder give up the hands – the political levers in any significant way for the sake of a few hundred million dollars that are not going to go – because of all of your transparency and everything – into his private coffers or even to his society? So why would positive effects – incentives really be more powerful? Particularly, and it's actually even more complicated or more doubtful than that because the kind of countries that the MCC is reaching are precisely the good performers, which is why you're reaching them, which are generally treated pretty well in the donor world and many of them are not really lacking in overseas development assistance.

When you take the case of say, Mozambique, the positive incentive effects of yet more foreign assistance on a government that's been awash in foreign assistance in the last 10 years and probably will be so for the foreseeable future, precisely because it's a good performer, aren't your incentives effect trying to be applied to those countries on which they will be the weakest? And so, the examples that you give of people visiting Freedom House – well, I'm sure they would like to not just pay for Freedom House's travel to their country, but probably pay Freedom House's entire budget if they would just change those numbers. (Laughter).

MS. WINDSOR: And it's been tempting. (Laughter.)

MR. CAROTHERS: I know, yeah. I'm sure they're willing to come in dialogue with Freedom House, but that's so far from being willing to give up significant political power. Say the government of Jordan – the government of Jordan is going to revise the constitutional system of Jordan for the sake of a few hundred million more dollars of U.S. assistance? Okay, that's my first question.

The second, with respect to participation, my basic question is, how different really is this consultation and participation from the last 10 years in the donor world of, you know, endless participation exercises that have been carried out, not just by the World Bank, but bilateral donors and many, many mechanisms, because what we've seen in those is, they tend to be formalized methods of participation that are, you know, hosted by the government and that are perfectly benign exercises, but precisely because in those countries, those participating or

being consulted don't really have very much power, simply creating formal mechanisms for dialogue don't really change that basic fact.

And so, when you say that, well, you know, this is encouraging debate within the democratic institutions. If you take a case like Jordan, you can certainly debate the compact within the Jordanian parliament. But given that Jordanian democratic institutions have no power, like the Jordanian parliament, or no significant power, of what significance is debating the compact within them?

And so, you can't, simply by saying, we have participation and consultative mechanisms – A, is this really new? And B, how pro-democratic is this in countries in which the very mechanisms and institutions are fairly undemocratic?

MS. PHILLIPS MANDAVILLE: Okay, well, thanks. I was hoping to get a little more beat up – (chuckles) – glad that we've stepped into that. The two big questions; so let me try to address them in order. One, the question about incentives – and to be really frank, does it completely, 100 percent guarantee that people have sufficient incentive to give up the mechanisms of power for access to \$500 million? No, it doesn't completely guarantee that there is a complete change in decision.

It does alter the decisionmaking calculus a little bit. And I want to pick up on what Jennifer was saying, which is that, I don't think the goal is to guarantee that we can control that people will decide they will allow their country to become more democratic. I think we would be crazy if we thought that we could do that. I do think we think that, on the margins, we might be able to sway some people a little more one direction if they were a little on the fence to start with. And I do think that there's value to being willing to take that step because, you know, any good economist will tell you, all the value is in the margins anyway.

So if we can move just a few more decisionmakers tipping that direction, I do think it's worth putting the resources where maybe the incentive effect is weakest because they're already the best performers. But maybe there's still a question about remaining one of the best performers or tipping back the other direction. And it's I think worth the time, energy, and resources to try to keep the decisionmaking calculus, keep the variables weighted in a way where the decision is more likely to come down on the democracy side than the other side. That may not be a very satisfying answer, but I do think that that's probably the most honest answer.

And then, secondly, how different are the consultative process from existing ones? And I did suspect that somebody would ask me this because people ask me this constantly. In writing and I think on paper, I don't think there's a tremendous amount of difference. If you look at what we ask for and you look at what the World Bank PRSP process asks for, you see that there's a request for a consultative process on both sides. We do ask that process to continue throughout compact implementation. And I think – there are two things I think that do bring a little bit – maybe three even – that bring a bit of newness.

One is that we do ask consultations to continue throughout the compact implementation. So it's not just, talk to everyone about things before you get started, but kind of never mind the general public once you begin down this road of economic development programming. But that combined with the fact that we actually – we do really strongly encourage countries to use mechanisms that already exist. So it's not that we want the MCA office to have a conference room where they gather everyone together every three months to talk about the project.

It's more – it's a series of – it's seeing, us seeing the MCA units go to mayor's offices in each of the different districts that they're working in and hold meetings in those mayor's offices to talk about whether the project is meeting the goals that people assumed it had, whether it be just construction is occurring on the timeframe that they thought they were going to occur, at what point will people begin to access the water or being to make use of the road.

Keeping that information in places that people, one, ought to be accustomed to getting that kind of information, and democratically, is exactly where they ought to go to get that information, whether this is what they're normally getting there or not. So, I do think there's a little bit of difference on that, and it sounds kind of small, but the devil is in the details on this kind of work, and I do – it's different in every country. It's not that – and it's a different quality in every country. We can't hold all of the, I think, all of the countries to the exact same standard because they have different experience to date in terms of how consultative they've been with their public.

So maybe, again, this is perhaps not the most satisfying answer, but I do think there's a little bit of a new take on trying to emphasize more using mechanisms that already exist, continuing it through implementation, and recognizing that it's not going to look the same in every country; it's actually going to look pretty significantly different.

MR. CAROTHERS: Good, thank you. We're going to turn to the audience now. You're welcome to address questions not only to Alicia, but also to Mort and Jennifer and question their proposals and ideas just as much. I'm going to start on this side of the room and then move over to that side of the room and then move over to that side of the room. I know we'll have a lot. Yes, sir, right there in the middle? Yeah, right there. And if you could identify yourself please.

Q: Sure, Merrill Smith with the U.S. Committee for Refugees and Immigrants, hi – (chuckles). Yes, I really welcome and share this recognition that governance and economic development issues are interpenetrating and should be treated together. I think it's absolutely valid. By the same token, I think that economic freedom measures, as in the economic freedom metrics of the Millennium Challenge corporation also plays a role in governance and human rights, and in particular of course, I'm mostly concerned about the impact on refugees.

Briefly stated, of the 14 million refugees in the world, some eight million are deprived of the right to work, to practice professions, to own business, to run business-owned property in situations lasting 10 years or more. We call this warehousing. It's obviously a violation of human rights under the '51 convention for refugees, but more

importantly, it's a constraint on economic growth. And that's the argument I would like to see made because I think it may create additional arguments for the repeal of these restrictions on refugees.

Now, I looked at the World Bank Institute that derives your grade for the regulatory quality to see if this was true, if this was possible, if they were measuring these kinds of things. And first I have to say, it's not easy; unlike Freedom House, Freedom House publishes freedom in the world, you can look at every report. You can see exactly how they derive those grades. Maybe you can quibble, but that's just it – you can quibble because they're transparent in how they get their civil liberties score, and we do quibble, but that's an aside.

But with the World Bank Institute, they told me, they use a basket of –

MR. CAROTHERS: Excuse me, if you're aiming for a question, start aiming for it – (chuckles).

Q: Okay – a basket of like 15 reports, of which in Tanzania's case, 11; of the four that were publicly available, none considered refugee rights, even though that's a massive restriction on Tanzania's development and it ought to be considered. My question is, how can we change that, simply? How can we get those, from my perspective, basic human rights concerns that are embedded in economic policies, economic regulations? How can we get MCC to take consideration of that in the regulatory equality indicator?

MR. CAROTHERS: Good, thank you, Alicia?

MS. MANDAVILLE: I think that, two things here. One, I do think actually think that possibly, those other seven reports may have addressed this issue, I can't tell for sure – (chuckles). The – Merrill and I have actually talked about this issue on several occasions; some of you may have present on other conversations about regulatory quality and how the issues are addressed in there as well.

The thing I think I would most want to emphasize is that we look most directly to the governance-related indicators to address these issues and I – and that is because we can most clearly access the information through that mechanism, so we can look at human rights issues, human rights violations, and warehousing issues with regards to refugees through those indicators. I know Freedom House has actually just added a new question to their methodology that addresses refugee rights. And so we actually feel even more strongly that we're able to look at this issue pretty directly through those, so at this point, that's the way we're most addressing it.

MR. CAROTHERS: Okay, we had another question there. Yes, right there?

Q: Thank you, Rob Neuter with the Overseas Cooperative Development Council. When you look at the two steps of the process, the incentives, and the consultative process, I think, in my view, you come up a little bit short in terms of what I hope would be one of the democratic building outcomes of MCC's work, and that's the democratic aspects of some of the economic instruments themselves that lead to the growth, cooperatives being

a very outstanding example of people joining together around an economic purpose with a democratically controlled structure; but there are others: water users associations, credit unions and others.

I think, while most of this is prospective as the compacts are being implemented, I hope that that's looked at and would ask if you would consider looking at those kind of impacts in the future to further tie the democratic aspects of these economic growth activities together?

MS. PHILLIPS MANDAVILLE: Yeah, no – I'm actually, I'm glad you raised this because one thing I didn't touch on is kind of in portions of our compact where there are opportunities for this kind of thing, that is actually part of the compact development process, to look at what are the institutions that make the most sense kind of around this type of project. So, whether you're looking at a water project and water-users associations or, the example that came up again most recently was in Mali, where we're looking, part of the compact is the construction of an industrial platform, or an industrial park platform; I'm not sure about the right phrasing. And part of that development, the development of that project, is to establish a mechanism for the private sector to have more consistent feedback and input in to the management and to some of the issues that relate to that industrial facility.

So, there is as part of individual country's compacts, there is some attention given to this question about what are the institutions that have a democratic flavor to them that logically go alongside this to make it as effective as possible?

MR. CAROTHERS: The woman first, and then the man, yeah.

Q: Hi, Shanti Kalathil – I'm a consultant with a new program at the World Bank that focuses on voice and accountability. I have a question that relates to the voice and accountability side of the compact programs. As Jennifer alluded to already, I think most governments may have less of a problem working with strengthening parliaments and other institutional mechanisms within the state, but they tend to push back when you talk about strengthening independent media, independent civil society, as institutions to ensure accountability.

The way that the compact is set up, it seems as though most of the assistance is funneled through state mechanisms. And I'm just wondering how you can then ensure that money goes to supporting civil society and independent media when it's coming through the state itself?

MS. PHILLIPS MANDAVILLE: Right, I mean, maybe I should clarify, but when a compact is negotiated, the destination for all of the money is agreed upon. So a country will propose that they want to do agricultural extensions in one portion of the country and a major highway that runs through that portion of the country to get better access to market and health clinics alongside it so that the communities investing in agriculture have access to the healthcare that they're looking for. So, say those are the three parts. I'm totally making this up; this is not an existing compact.

Prior to signing the compact, it will be determined exactly how much money would go into each of those investments. And then, an implementation structure is established. So there is this implementation office, which I talked about before, which is the country staff that are managing implementation; there is a fiscal agent that disburses the money; there is a procurement agent that procures the vendors and the contractors that will do the implementation of each of these different pieces.

So at the time we sign a compact, it's kind of been determined the destination for this money. And to date, and I think what was mentioned before, there has not been a lot of proposing of support, democracy-building programs more or less in part because of this requirement that you – there's this whole set of economic kind of checks. We ask a lot of questions about whether what the country is proposing will contribute directly and in a countable way to economic growth over a specific time horizon. And so, at present, most of the compacts have focused on things that show really obvious economic returns in the upfront.

So it's not that we are seeing a situation where money is going to the state system and it's just not getting to civil society or to the media. The way that the programs are structured, the money is intended to be used for investment in economic activities; it's not intended to be passed on then to civil society and the media, which is why I've tried to emphasize that, in the implementation of this work, we do try to give some attention to the role that those actors would naturally play, not necessarily the role that we would fund them to play, because then we're playing both sides of the coin; we're playing the government side as well as the civil-society side and that seems a bit a bad way to go down the road. I'm not sure if this answers your question, but that's kind of some of the background behind it.

MR. CAROTHERS: Mort?

MR. HALPERIN: Lurking in all of these questions, I think, is the impulse, which is very strong particularly in the appropriations committees on the Hill, but also in other places, to do earmarks or criteria, to say, you know, some portion of the money has to go to civil society or some portion of the money has to go to good governance or something else. And my view is, if you start down that slope, the program is finished. You need to stick to the basic principle that there are objective criteria and you don't fuss with those as to whether a country is eligible, and then, a negotiation of a compact, but with the proposals coming from the government and there's obviously a dialogue. But once we start saying, you know, 20 percent for this, or there has to be so much of this, then I think the whole program will disappear.

MR. CAROTHERS: Thank you, Mort, for that. Jennifer.

MS. WINDSOR: Let me just – I don't disagree. If you look at the threshold programs – and again, I would love to be able to have a conversation with – I actually was quite impressed with at least some of the threshold programs where you're looking not only at strengthening court systems by training judges, but they

actually have integrated I think in most of the threshold programs, a civil-society component on it. So I think, actually, the MCC does do that.

Now, that's not the compact countries. And that really goes to the role of AID's ongoing democracy and governance-assistance programs. And we can't just assume – I mean, maybe it is, maybe under the new process, everything is perfectly coordinated between all of the organizations – (laughter). I'm sure that's the case; I know that Republicans are better organized than Democrats. (Laughter.) But I just – it seems to me that if you want the MCC consultation process to work, AID might consider how do you actually, doing a couple of workshops on the ground with key democratic actors, civil-society actors and media – you can also do it in other areas – to actually prime them on how to cover this process a little bit more and put a little bit more pressure on the government so that the kind of consultation that the MCA is trying to – MCC is trying to encourage actually works.

But if we don't invest in those actors, yes, for those countries where the civil society is completely organized and the media is feisty and ready to do this. But, you know, there's a lot, particularly in the area of media, you're seeing huge clamp-downs in most – in a lot of new democracies on independent media. So it's going to take not only money, but attention because otherwise, people are going to get knocked off if they even raise this. So beyond that, I mean, I think these issues really have to be explored. They have to be explored, I think, with AID and MCA in the room and a deliberate effort by AID in its DG programs and elsewhere to kind of bolster the ability of countries to really debate these MCA compacts.

MR. CAROTHERS: I have one more on this side, in the back there. And then, we'll come to this side. We'll be finishing about 10 minutes to two or thereabouts, so hang in there.

Q: I'm going to try to make this real quick. Thank you so much for an excellent panel and a great job. This is a question to all the panel.

MR. CAROTHERS: Could you identify yourself?

Q: I'm with USAID and I'm surrounded by democracy experts from USAID, so I'm not a democracy expert. We all know that the Millennium Challenge Act had corruption as a hard hurdle. It spelled out specifically that corruption should be considered in awarding compacts. That has a two-edged benefit. One is, of course, that we are less likely to put money down a rat hole and the corruption should be controlled. And the second one is, of course, that this is common wisdom that corruption impedes economic growth and vice versa.

The point about it though, of course, is that passing in corruption doesn't mean necessarily that you control the corruption. I would like to ask the panel, if you made democracy indicators a hard hurdle, how would you do that? Jennifer has already suggested there's problems with them. She suggested – but I'd like to hear from all of the panel, how would you make democracy a hard hurdle?

MR. CAROTHERS: Well, Mort, you were the first one to suggest it?

MR. HALPERIN: Well, it turns out, if you look at the three democracy indexes, they come out essentially in the same place. I think there are very few countries that would qualify on one and not one of the others. So you could pick any one of the three or you could pick an amalgam of the three and say one of two things. One is, you have to be above the median of whatever it is that you having in any one of these to qualify. Or you could do what Jennifer suggested, and which I think is a good idea, to say, you not only have to be above the median, but you have to reach a certain threshold.

So we take a number from one of the three indexes or some index in some amalgam of the three and say, you have to be above that number or you're not a democratic country. And we, you know, the problem with the corruption one is it's actually very loose so it would be hard, I think, to say there that you need an absolute number. But for democracy, you easily could do that and say, we know what a democracy is; it's above –

MS. WINDSOR: It's three.

MR. HALPERIN: It's three. And so, you have to be a three. And then, I would rather give more money to a smaller number of countries that are really democracies and give more money to threshold countries to help them meet the democracy criteria than loosen the standards so that we make eligible for compacts countries which are not really democracies, but we think we need more countries on the list; we need to spend more money or the program is not going to succeed. I think it makes much more sense to put more money and second compacts into real democracies and money into the threshold programs in countries to try to get them to focus on improving in these areas.

MR. CAROTHERS: Let's take a couple of questions over here and we'll finish up. Yes, here. Right behind you. Yes.

Q: Hi, Nadari Lee (ph) – I'm with USAID with the bureau for Latin America and the Caribbean. This is going to be a very parochial comment, but I think all of you have talked about the necessity for the support from the USAID democracy programs for a number of the different initiatives. The last one that you mentioned for having the civil society sort of prepared to engage in the threshold discussions. You really need to, I think, give a lot of support for the folks from MCC need to have a lot of support, I think, out in the community for what's happening with the democracy programs at USAID. A lot of them are being cut; you all know this as well as anybody else. And I think that it's so dependent for the work that you're doing that a lot of the discussion, I think, needs to have a little more rhetoric about the support you're getting from the democracy offices across the board.

MR. CAROTHERS: Okay, thank you, Nadari. Other questions or comments on this side here? Okay, last one, okay.

Q: Robert Krause with the QED Group. Let me throw another wrinkle in here: climate change. Does the Millennium Challenge care about how many greenhouse gases are spewed into the atmosphere in fueling the

economic growth under its compacts? And is this just an economic issue or is it also an issue of democracy in how these countries to decide whether or not they should have renewable fuel standards, renewable energy standards, et cetera?

MS. PHILLIPS MANDAVILLE: Of course we care about it. (Chuckles.) This would be a wrinkle I had not considered, the economic, democracy, and climate-change nexus. Of course, obviously, we do care about it. In fact, actually, this last year, we just introduced two new indicators to our criteria both of which were intended to capture the way countries manage their natural resources, which includes their air-quality resources. That's the wrong phrase, but includes their air quality. And one of them is actually the land index, which shows up in economic freedom, but is there because there's a lot of – research shows a lot of correlation between the way land is regulated and the way land is used, both in terms of water management, land management, and how that land is used in terms of what it contributes to air pollution.

The second one is the natural-resource management index, which measures more directly things like biome protection, water and sanitation, and under-five child mortality as a proxy for a lot of things. But all of this to say that, at this point, those are the kinds of steps that we're trying to take, which is to integrate more carefully into what we're already considering some of these issues in a more deep way. And I think the most clear way to see it right now is probably this year's change to the eligibility criteria which, although is not in the governance category, is actually having some really stunning impact on some of the countries that we're working in.

MR. CAROTHERS: Alicia, I'd like to thank you for a really serious paper and an excellent presentation here. I would join Jennifer and Mort's comment in the sense that, I think we're all – those of us who really care a lot about democracy promotion – are pleased to see how seriously MCC is taking this subject and how much thinking and attention you're giving to it. So we're pleased by that and really appreciate your coming here today and facing a tough audience and some tough commentators.

Mort and Jennifer, I want to thank you, too. Both for your comments and interest, thanks to all of you.
(Applause.)

(END)