

**MILLENNIUM CHALLENGE ACCOUNT TELECONFERENCE
TUESDAY, NOVEMBER 9, 2004 AT 2:30PM ET**

ROBERT GREENSTEIN: Thank you; good afternoon, everybody. Today we're talking about a very timely issue, whether Congress when it returns to town next week in its lame duck session to complete action on the fiscal year 2005 Appropriations Bills will significantly reduce the funding that President Bush has requested for the Millennium Challenge Account. In actions so far, both the House and the Senate have significantly reduced the funding the President requested. A related question is whether the President will use some of that political capital he spoke of last week as having earned to get Congress to restore funding to his Millennium Challenge Account proposal.

To discuss these issues we have two leading experts. One is Nancy Birdsall, who is the founding President of the Center for Global Development here in Washington. Prior to launching the center, Nancy served for three years as Senior Associate and Director of the Economic Reform Project at the Carnegie Endowment for International Peace. Her work at Carnegie focused on issues of globalization and inequality, as well as reform of international financial institutions. From 1993 to '98, she was Executive Vice President of the Inter-American Development Bank, the largest of the regional development banks. And before that, she spent 14 years in research, policy, and management positions at The World Bank, most recently as Director of the Policy Research Department. She's the author, co-author, or editor of more than a dozen books and monographs.

Also with us today is David Beckmann. Reverend David Beckmann is the President of Bread for the World, a citizens movement organization with tens of thousands of members across the country. Prior to becoming head of Bread for the World in 1991, David, too, was at The World Bank. He spent 15 years as an economist at The World Bank, where he played a prominent role in the bank's heightened focus on poverty reduction, and fostered greater collaboration between the bank and private voluntary organizations serving poor people.

Before I turn to Nancy and David, I did just want to add a note. As those of you on the call know, the Center on Budget and Policy Priorities works primarily on issues in the United States. But having said that, if we look across the array of issues that face our nation and the world, I think it's fair to say that there is no higher priority than funding — through mechanisms like the Millennium Challenge Account — that will address the severe conditions faced by the more than one billion people across the globe who live on a dollar a day or less, including funding the kinds of investments that can fight AIDS, malaria, tuberculosis, and other global health problems. The investments the U.S. could make here could go a long way. Today, the United States spends only about six-tenths of one percent of the Federal budget on international development and humanitarian assistance, well below its historical average, and a much smaller share than in most other industrialized nations.

And for those of you who are interested in a chapter in a book published this summer that I wrote jointly with Peter Orszag of The Brookings Institution called, "A Broken Federal Fiscal Policy And How To Fix It", we mostly focus on the problems caused by the deficit and ways to reduce it. At the end of the chapter, we discuss a limited number of very high priority needs that

would need more resources, even though the bulk of the resources that would need to be raised would have to go to deal with the deficits we face. Peter and I listed as the single highest priority the need to increase international assistance of the sort that the Millennium Challenge Account represents. So with that, we're particularly pleased to have Nancy Birdsall and David Beckmann with us today. I'm going to turn now to Nancy Birdsall. When she's finished, you'll hear from David Beckmann. And then we'll go right to your questions.

NANCY BIRDSALL: Okay; thank you very much, Bob, particularly for that last comment, since that's what the Center for Global Development, as you suggested, is concerned about. My task is to give all of you a little bit of background about the Millennium Challenge Account. David will then be saying a little bit more about the current question of financing. So in doing that, I wanted to make the following simple point: this account is a great innovation for the way the U.S. should use its aid budget. So it's really good in principle. But there are lots of concerns about the execution, of which funding in the short run is certainly one, but not the only one.

And I want to mention for the press on the line that just today 16 countries were announced as eligible for next year's funding under the Millennium Challenge Account. Further, an additional six countries were added to the seven were already there for what's called Threshold Financing, which we can explain later. So there are now as many as 30 countries on the list of those possibly receiving resources from this account.

Now, let me say why the Millennium Challenge Account is good in principle. I have four points. One, as I said, is that it's a great innovation, in the sense that it reflects a certain discipline in the way U.S. aid money would be used. It would be used in a selected number of countries with low incomes where it's clear that the aid would be very likely to work. And in principle, these countries have been chosen under a mechanism that is not political. But I'll come back to that in a minute.

The second point is that it uses very transparent standards for choosing which countries should be eligible. So transparency is a hallmark, which has not been the case for many decades of foreign aid.

Third, because only some countries are eligible, and they have to meet certain criteria, and because of the transparency, it in effect creates incentive for other poor countries to get in line: to be eliminating corruption, strengthening their programs for health and education, making sure they have a business-friendly environment, doing the kinds of things that would make them eligible. In general these eligibility criteria reflect what the U.S. thinks will work, and also reflects U.S. values, which is important.

The fourth point is that in principle the countries choose their own priorities. The idea is to put the countries in the driver's seat. So whether they want roads, or schools, or to reform their auditing system, or to beef up their banking supervision, they set out their demands. So it's very demand-oriented, not supply-oriented. And this is what we call in the aid business the foundation approach, with the idea being that it starts with a proposal from the country.

Now, let me say a quick word about our concerns, having laid out what's so great in principle. We have three concerns. The first is about the funding, which is way below initial promises. I'm sure David will have more to say about that. But I would like to refer to a document that the two centers, the Center for Global Development and the Center on Budget and Policy Priorities, issued, which lays out the extent to which the amounts so far have fallen far short of the original promises which President Bush made at an international conference in 2002. At that time, it was expected that the 2005 funding level would be about \$3.3 billion. And our current estimates

are that we will be lucky if this corporation spends \$500 million in 2005. So to the extent that it's still not really a program that's off the ground, there has been less of an incentive for potential recipient countries to get their policies into line.

The second issue has to do with the transparency of these standards for eligibility. The standards are very transparent. And that's why here at this center our staff, like Steve Radelet, have been able to write and predict which countries would be eligible. And that makes it possible to hold the government program to account for meeting the rules that it set. But in fact, what we're seeing is that the application of the standards is not so clear. Let me give you a couple of examples. One is that this year Georgia is included even though it clearly does not meet the standards that have been set out. So that is a justifiable perhaps political decision. But it concerns us that politics is leaking back in. As you all know, this is not all of the aid budget. There are the special Economic Support Funds, and there's the budget of USAID. And our view has been that those are the monies — especially the ESF funds — that should be used when there's a geo-strategic rationale. Let me not go to the other example. It'll come up later.

Let me go instead to the third concern we have about execution. One is money, one is the transparency and application of the standards, and the third is rather more nuts and bolts. It has to do with the very slow progress internally in the MCC, the Millennium Challenge Corporation, on clarity for the countries about when they should send in their proposals, as well as guidelines on amounts and for what sorts of things. So in the absence of any clarity, we see that some countries are rushing to get in line quickly, maybe in the absence of clarifying their own priorities. This undermines the most important part of this whole program, which is the innovation in the selection of countries so as to promote a sensible, managed way, to organize their own priorities and their own budget. So all of our concerns go around this execution.

DAVID BECKMANN: I will talk about the funding decision that the President and Congress face right now. But I think it would also be helpful for me to just go back through the broader decision-making process that's brought us to this point. I think it really starts with 9-11. Even before then, public opinion was becoming more favorable to development assistance. But there's been a big positive change in public opinion since 9-11. Just a lot of people have some sort of sense that it's not smart to neglect misery in far off places. And that then has translated into bipartisan political support for increasing development assistance like we haven't seen ever before.

President Bush proposed the Millennium Challenge Account in June 2002, you'll remember, at the U.N. conference in Monterey. And what he did there was lay out as part of an international agreement a multi-year schedule of funding increases for U.S. development assistance through this new mechanism. At that same conference, the Europeans promised to increase their development assistance by seven billion dollars a year. And in fact, a number of European countries are increasing their assistance. Then the developing countries, as a group, agreed to focus more on reducing poverty, hunger, and disease, the Millennium Goals, and also to improve governance. So the MCA was part of an international decision, an international compact. That fall, the Bush Administration made development one of the planks of their National Security Policy, and specifically, the MCA.

Then in January of 2003, the President announced the AIDS Initiative in his State of the Union message. And again, he laid out a multi-year scheme of funding increase, and he promised again that this and the MCA would be in addition to ongoing assistance to poor countries. Then that summer, he went to Africa, and he talked repeatedly to Africans about the MCA and AIDS Initiatives, and promised there the increases that he had talked about elsewhere.

In the course of 2003 and early 2004, Congress worked over both these new proposals. They improved them in various respects, and they authorized both of them with very broad bipartisan votes. So there's really not much debate about what we ought to be doing. Also that year, they increased total appropriations for poverty-focused development assistance. Bread for the World focuses on those programs within development assistance that are focused on poverty reduction. We add them up to about \$6 billion for fiscal year 2003. And those programs went up to \$8 billion for 2004, with virtually all that increase for the AIDS Initiative and the MCA. That was less than the President had promised. But still, I think, an impressive increase.

Bread for the World, Nancy's center, and about 30 other NGOs are part of a coalition that's monitoring MCA implementation. We're working with NGOs in the MCA countries to monitor how it's going from their perspective. And although I agree with Nancy's critiques broadly, I think the MCA implementation has gone remarkably well.

Now, in his budget requests for fiscal 2005, President Bush requested another \$2 billion increase in poverty-focused assistance, with all of it — in fact, a little more than all of it — going for the MCA and AIDS. Again, it was short of what he had originally promised. But then the House and the Senate Appropriations Committees both gave substantially less to the Foreign Ops Committees than they would have needed to accommodate all the President's requests. Both of them were short by about \$2 billion. The House passed its Foreign Operations Appropriations Bill in June, the Senate in September. Both of the chambers funded roughly what the President had requested for AIDS. They both protected ongoing development assistance. But neither Appropriations Subcommittee had the kind of money they needed to provide all the President had asked for. And they both cut deeply into his requests for the MCA. President Bush is asking for \$2.5 billion for the MCA in fiscal 2005. The House has approved \$1.25 billion, just half; and the Senate, \$1.12 billion, less than half.

Now, the President and Administration officials are saying that they intend to get the full \$2.5 billion. They argue that we need to rapidly expand the MCA for it to have the policy impact that it's supposed to have. And I had a remarkable opportunity to talk with President Bush himself about this, because I was at the signing ceremony for the Africa Trade Bill in July, and managed to get myself in a position to buttonhole the President. He called over Senator Lugar and Senator Frist and he said, "We're talking about getting full funding for the MCA." So I'm personally convinced that George Bush is serious about getting the \$2.5 billion for the MCA. On the other hand, Congress and the President are going to be making a host of decisions in the next couple weeks. And staff from the Foreign Operations Committees from both parties tell us that their Administration contacts have yet to weigh in with them on this. This is an issue that's really important to our national security, and it's also clearly a moral values or humanitarian question of considerable importance.

Q & A WITH REPORTERS

QUESTION: Just on the last statement about the amounts approved by the House and Senate committees, I'm not sure I wrote down the numbers correctly. If you could just repeat that. And the second thing, is the Millennium Challenge Corporation talks about the ambition of getting funding to \$5 billion in the 2006 year. It's hard to see any reason why that's a relevant thing to talk about, based on experience so far. I just wondered if you agree that it's still worth talking about the possibility of \$5 billion funding, or if the reality is that it's going to come to half of that or a little bit more?

NANCY BIRDSALL: Although the request of the Bush Administration for all of the foreign aid amounts in 2005 is higher in nominal terms than in 2004, it's flat in real terms. So that does not bode well for getting to \$5 billion. And, of course, there's the deep background of the large deficit and the likelihood of needing to spend more in Iraq. The numbers that we have on your first question are \$1.25 billion in the House, and \$1.12 billion in the Senate, right David?

DAVID BECKMANN: That's right; and I'm more hopeful. Of course nobody knows what will happen for sure, but President Bush and Secretary Powell and other people in the Administration have gone out of their way over the last couple months to say that they intend to get \$2.5 billion for the MCA fiscal 2005, and \$5 billion for fiscal 2006.

And there are good reasons why it may not happen. On the other hand, I think there's also a campaign of growing strength, including help from Bono over here. So I don't rule out getting to \$5 billion in 2006 at all.

NANCY BIRDSALL: One thing that does bode well for more resources is we have done an analysis of the last 30 years, which suggests that the best combination for increasing the foreign aid budget of the U.S. is to have a Republican in the White House and Republicans controlling both houses. That's because if the Executive Branch wants to get the money, they are in a position to pull out sufficient stops with what is historically a somewhat reluctant Congress in order to get foreign aid appropriated.

DAVID BECKMANN: Also, I think it's worth noting it depends somewhat on Tony Blair. We understand he's going to push hard through a series of meetings, notably the G7, to get the industrialized countries to follow up on more serious support for achieving the Millennium Development Goals. President Bush, obviously, owes a lot to Tony Blair. So I think that international dynamic will also tend to pull us toward a higher number. But it remains to be seen. There are also lots of reasons for pessimism.

QUESTION: And, Nancy, just on your example on real versus nominal, that's the whole of the aid budget?

NANCY BIRDSALL: That's the whole of the aid budget.

QUESTION: Two questions. First is when you say that staff in both committees have said the Administration officials have yet to weigh in on this, would that be up until the election? I'm just wondering if you could put it into context how recent these contacts at the Hill have been. And then the other question is on Georgia. Are they really completely off what they should have been under the indicators, as far as their eligibility? Was the MCC's conclusion totally political?

DAVID BECKMANN: On the first question, I'm referring to conversations over the last two weeks, so some right before, and some right after the elections. Now, it could be that the Administration is not planning to weigh in at the level of the Foreign Ops Committee, that where they're really going to weigh in is with the Leadership, like they did last year. After all is said and done, they could just add in the funding that they want for the MCA, in addition to what the Foreign Ops Committee's supporting. But it is a little ominous that the Foreign Ops Committee staff don't have a sense that President Bush's minions are pushing hard.

NANCY BIRDSALL: On the Georgia question, Georgia actually does not meet the standard on the following four indicators. There are altogether 16, but the four where it doesn't meet the standard are kind of interesting. One is control of corruption. Second is rule of law. Third is the

proportion of its budget spent on public health. And the last is the proportion of its budget spent on education. And they are, on all these, substantially below the median. It's not as though they're close. There are some countries that actually meet all of the criteria this year, which have not been put on the list. And so that's the other interesting thing. These include Burkina Faso and Guyana, which is a small country in Latin America with a lot of debt and that's in the famous Debt Relief Program of The World Bank and the IMF, and the Philippines. So, you see, there is type one and type two errors. There are some other countries, too, Nepal, Swaziland, that in principle appear to be eligible, but, in fact, are not on the list of 16. Georgia's in, and some countries that do much better on the standards are not in.

QUESTION: Aren't Burkina Faso and Guyana Threshold countries?

NANCY BIRDSALL: Yes.

QUESTION: So in theory why are they in the Threshold versus the list of 16?

NANCY BIRDSALL: Right, who knows why? And that's what we mean when we say there's not a lot of clarity in application of these rules. Because surely these countries will be knocking on the door and saying, "Why not?" And, of course, it sends a funny signal to the other countries that are behind them in line, and, "Why is Georgia in, and Burkina Faso isn't?" It may undermine what is so great about the concept itself.

QUESTION: Just following up on what Nancy was saying then. In your initial presentation, you said that you'd come back to it with another example. Have you now given us all the examples you have?

NANCY BIRDSALL: Well, there's a couple of others that I could mention. China, Egypt, and a number of other countries have technically cleared the hurdle, but are not in the program.

And Vietnam. So, you know, some of the big ones that are not democracies. And, of course, Egypt is exceptional because it already gets so much aid under the Economic Support program. So it's kind of a mixed bag. That's the bottom line.

QUESTION: I think you said that expected disbursement for the MCA this year is \$500 million; is that right?

NANCY BIRDSALL: Right; that's based on estimated outlays by the Congressional Budget Office, which we have determined by looking back over the last 25 or 30 years, is the best single measure of what actually will be spent in these programs. The 2004 CBO outlay estimate was \$50 million. And their 2005 estimate, assuming the President's proposal is passed, is currently \$500 million. So that's a little bit the distinction between the appropriation, or the commitment, and what actually has been spent.

DAVID BECKMANN: I guess what impresses me is that they've moved just about as quickly as the law allows. They had their first Board meeting the day after the law allowed it. They announced the 16 eligible countries for the first year - almost on the first day that the law allowed. They've had to set up a new institution. They've sent their people around the world to visit these countries. I think they've been pretty responsive to criticism. And so I'm impressed by what they have managed to do.

And then what they're doing is making multi-year commitments. So they're very clear they don't want to push money out the door. But once they make multi-year commitments, the amounts

that they commit could be quite substantial.

And then the other argument for maintaining something like the increase that the President talked about is the incentive effect. As Nancy said, there's this queue of countries now lined up that arguably should be getting some of this funding. And if you want to have that policy incentive effect, you have to have money ready to go.

QUESTION: David, you also said that, by your count, the amount of federal money committed to poverty reduction in developing countries went from six to eight billion dollars; is that right? And that was in which year to which year?

DAVID BECKMANN: From fiscal 2003 to fiscal 2004. What we do is look at a shorter list of programs that are focused on poverty. So we don't count all the programs that the U.S. government offers as development assistance and within that, which ones are focused on poverty reduction? Both DATA and Bread for the World have very similar lists and they both come to about \$6 billion for fiscal 2003, and about \$8 billion for fiscal 2004.

QUESTION: And if you made an assumption that the MCA came out at \$1.5 billion this year, where would that leave us?

DAVID BECKMANN: What the House and the Senate have approved will take us up to about \$9 billion. And if the President, say, gets an additional billion dollars for the MCA, which would take it to \$2 billion, then you'd be at \$10 billion for fiscal 2005. If he would get \$2.5 billion, then it would be \$10.5 billion.

NANCY BIRDSALL: The figure that's bandied about or that was announced at Monterey was aid levels of 0.7 percent of GDP. Just to make the comparison, the increase in the aid budget that we were just talking about would imply something like the U.S. going from 0.11 percent to 0.12 percent of GDP — or far below the benchmark. The reason I raise that point is that I think what's important about the MCA is the money, because of the incentive effect, in the short run. But what's even more important over time is that it's an innovation, where the U.S. has taken some leadership in being, as I said, disciplined, and trying to, at least on paper and in principle, put the money where it can work well. So that's the part of this MCA that we think needs to be sort of nurtured, like a precious young thing. And so that's one of the reasons it's so important to get that funding rolling, so that this new idea can be itself tested. It could really transform the way billions more are spent in foreign aid. It's useful to keep in mind that if you go through the soft windows of all the development banks, including The World Bank, they are disbursing almost \$8 billion a year to the poorest countries. So if the MCA, and the U.S. through the MCA can show how to better use \$8 billion, that's as important as having the one or two billion dollars from the U.S. itself.

QUESTION: Can I ask both of you another question? Which is, as I understand it, the MCC would like to be the biggest or the second biggest player in the countries that it gives money to. I'm wondering if you can talk a bit about what that implies for relationships with other donors — does this effectively exclude you from operating in, let's say, a country like Vietnam, which has been left off the list? Because if you did go there, the MCA would not be in the top two.

NANCY BIRDSALL: Let me just say a couple of things. First, I think it's important to try and encourage the Millennium Challenge Corporation to dig in even deeper than it has on being multilateral. Certainly, they've made an effort. They've been in contact with The World Bank and so on. But I think that the problem they face is that the history of the way it was developed, and the way it was announced, and the context in this Administration for foreign policy in

general has been rather unilateral, so there's a lot of suspicion in the rest of the development community about the MCA. The point you're making is absolutely right. There's no way in countries like Vietnam that the MCA can be the first or even the second big player. I think that it's going to be difficult once the MCA is active, say, in these 16 countries, plus some of the resources going to the Threshold countries, it's not going to be that straightforward that the MCA will be the major player. So there hasn't really been yet any clarity about that issue. But I think the very fact that it's come up is not a healthy sign. Because it would be better for the U.S. in the way it deals with foreign aid to recognize that this is no longer the Marshall Plan days. That the U.S. used to provide 95 percent of foreign aid in 1950, and it was about 50 percent in 1960. And today, it's maybe 15 percent, \$10 or \$11 billion out of \$60 billion transferred. So its lost its position of leadership, in money terms. And it could acquire still a position of leadership in concept, principles, approaches, along with the World Bank frankly, in the poorest countries. But in order to do that, it has to be very clear that it wants to do that, and not be tagging behind and trying to figure out which countries it can be the biggest player in.

QUESTION: David, have the Europeans delivered on the \$7 billion commitment made in Monterey?

DAVID BECKMANN: The answer is complicated. The numbers have gone up and the commitments for further increases are in process. I'm looking here at a document from the Development Committee at their last meeting. They show that total ODA from 2001 to 2003 went from \$52 billion to \$68 billion. But then they say, "Well, this is partly because of exchange rate changes and other things." But then they also say that five countries have laid down a clear timetable for getting to the 0.7 percent target; those are Belgium, Finland, France, Ireland, UK.

So one reason why getting this number for the MCA this year is important is it does make it at least plausible that Bush will get \$5 billion next year. And it's part of an international deal. So when they go to the G7 meeting, or other meetings over the course of the next year, they can at least plausibly say that they're keeping their part of the bargain, or they're moving on their part of the bargain. And that'll help to move numbers up in other countries.

NANCY BIRDSALL: I think, actually, the Europeans have been more ambitious than that and most of the Nordic countries are already at or above 0.7 percent. But on the other hand, I don't quite agree with David on the context of the U.S. and the international deal. I think the U.S. made it quite clear at Monterey that they have never agreed to any quantified target like 0.7 percent. And this is one of the reasons why there's constant bickering between the Europeans and the U.S., even in the subculture of foreign aid in the developing communities.

DAVID BECKMANN: That's true they have agreed to the goals of reducing poverty, hunger, and disease in half by 2015. They don't agree to all the goals of the MDG's. They haven't agreed to the 0.7 percent. But in this follow-up conference to the financing for the goals, the President of the United States did announce the Millennium Challenge Account, and did say we were going to increase development assistance by \$5 billion by fiscal 2006 through this new account.

NANCY BIRDSALL: Well, it's always refreshing to have different perspectives. I think that President Bush went to Monterey because there was this odd piece of luck that the conference was taking place in Mexico, and President Fox called him before or just after and convinced him that he needed to go. And that created a lot of healthy pressure, et cetera, et cetera. I think that this is kind of a fundamental issue, even in the context of the MCA. Because it goes back

to the question of whether the U.S., through the MCA, will take leadership in the way the whole business of foreign aid operates, or - and in that sense, will buy into the Millennium Development Goals. And those three words have never been, as far as I know, ever stated that way by any member of the Administration, in any international forum. Or whether the U.S. will continue what has been really a rather long history of gradually diminishing contributions to the total foreign aid pot, without changing its strategy in how it works with the other donors.

QUESTION: We were talking about that issue earlier about whether the MCC said it wanted to be the largest provider. I did locate in the budget justification document for FY 2005 what they say is that to be an effective incentive for both eligible and Threshold countries the MCA, quote, "should be among the largest providers of assistance."

Could you refresh our memories as to how the MCA funding decision occurred in FY 2004? I know that there was a last minute thing. The House and Senate were going to cut it much lower, weren't they?

DAVID BECKMANN: Right, Congress had provided half a billion through the regular Foreign Ops process. And then as they put the comprehensive Appropriations Bill together, the President had four or five priorities. One of them was another half billion for the MCA. So the Leadership then trimmed every other item in the whole Appropriation Bill in order to fund the President's priorities. So in that way, he got the extra half billion for the MCA.

NANCY BIRDSALL: The original Administration request was \$1.3 billion. The final appropriation was \$0.99 billion. And the expected spending, as I said earlier, was \$50 million.

HENRY GRIGGS: Any other questions? If not, thank you all very much.