

Business Recommendations for Administering the Millennium Challenge Account

The provision of economic assistance under the Millennium Challenge Account (MCA) in a manner which also leverages private sector capital flows is one of the most important steps the United States government can take to create economic growth, employment, and prosperity in the developing world. Economic growth is the only sustainable solution to poverty, and economic growth is fostered best through competition and market forces. International trade and investment combined with market-based economic reforms are necessary to create competitive industries, drive innovation, make possible improved health care and educational opportunities, reduce inflationary pressures, and ensure the greatest level of consumer choice.

Recognizing the important complementary contribution that the private sector can make to the success of development assistance efforts, the **Business Council for International Understanding** (BCIU) and its member companies would like to make several recommendations with respect to the guidelines on policy and coordination, operational principles, administration, and monitoring and evaluation of the Millennium Challenge Account (MCA).

BCIU Recommendations on the Guidelines on Policy and Coordination, Operational Principles, and Monitoring and Evaluation of the MCA:

- The criteria for involvement in the MCA should focus on proven policy and institutional change more than demonstrated need.
- Funded programs should emerge from both country dialogue and analysis, not preconceived perceptions.
- Every program should address the issue of impact on improvement of the economy and standards of living.
- Every program should address the issue of sustainability beyond donor support.
- Technical assistance is an important element to ensure accountability and achievement of measurable results.
- Programs that result in increased growth of private sector jobs are important.
- Policies that foster open, market economies are critical.
- Policy formulation and coordination should be conducted through consultation mechanisms and advisory boards which include the private sector.
- Private sector associations should be included in monitoring and evaluating program policies and implementation.

BCIU Recommendations on the Administration of the MCA:

- 1) The MCA should not create another institution for the delivery of United States economic assistance, but instead a small core office should use the existence of additional funds to define priorities and allocate the identification and implementation of approved projects to other departments with relevant expertise such as the Trade and Development Agency (TDA) and U.S. Agency for International Development (USAID).** In particular, the MCA should not be operated under a whole new set of regulations. The procurement of consulting services could be administered under existing TDA and USAID rules. In order to ensure consistency in the financing of large scale projects, contracts for goods and services should meet the content requirements of U.S. Export-Import Bank rather than the USAID rules which are sometimes inconsistent with U.S. foreign policy objectives.

- 2) Those administering the MCA should set clear, quantifiable program objectives, identify proven routes to achieving those results, monitor progress toward the MCA objectives to ensure that efforts are on track, and record results.** Funded programs should be focused on achieving impact and the MCA should expect results from the entities with which it contracts. One mechanism the Administration should consider is something that the United Kingdom's Department for International Development is doing called "Challenge Funds" in which the private sector is asked to suggest investment projects that have development impact and are a sound business. (Note: Through a competition the best ones are funded up to 100% for projects under \$825,000, or through a cost share for projects above that level in which 50% of the cost is covered on a grant basis.)

- 3) The MCA should include mechanisms to directly engage the private sector and business non-profits in economic assistance programs and to obtain leverage for additional development funds from this linkage.** This could mean becoming involved with local or international trade or industry associations to fund partially initiatives that have the correct impact. Such an approach will not only leverage additional funds for development, it will ensure that a higher percentage of the projects funded are commercially viable and have a better chance of being sustainable. TDA manages successfully to leverage a small budget with great effect by providing incentives through the markets it targets, thus attracting private sector investment that significantly supplements the original TDA funding.

- 4) While grants are an effective means of providing support to projects that meet MCA goals, it may be wise to consider offering a wider suite of financial aid products that would allow for the varying ways of project development**

which the private sector can support. **The MCA should be flexible and allow for consideration of co-financing, technical training assistance, and payment guarantees for projects, including for projects where Ex-Im Bank and the Overseas Private Investment Corporation are not open or in situations where country debt rating, project size, and other considerations typically mean their services are not available.**

- 5) **As an essential foundation, the MCA should require recipient countries to maintain transparent and accountable governmental systems, including in areas of regulatory development and implementation and government procurement.** Only those countries that observe stability in their legal and regulatory frameworks, including the practice of consulting affected investors in the evolution of a regulatory regime should be eligible for disbursement of funds. Technical assistance to put in place and enforce laws and regulations important to the efficient conduct of business should be a priority under the MCA.
- 6) Basic infrastructure – transportation, communications, electricity, health, and sanitary water supplies – is critical to generating economic growth. Yet a \$5 billion budget will accomplish little if spent directly for infrastructure projects. **The MCA should focus on creating an enabling environment to harvest private sector investment in infrastructure. It is critical that it address the issues that prevent private sector (or host government) funding of core infrastructure projects.** Points to be addressed by the MCA could include new forms of project insurance, buy-downs of project capital costs or interest rates, repayment guarantees, and making possible transition to market prices for products such as electricity.
- 7) Full integration with the global economy will encourage economic growth. The experiences of Korea and Mexico provide the best examples of this principle. **The MCA should, therefore, encourage participant countries to pursue steady liberalization of their economies, including through the World Trade Organization (WTO), regional trade agreements, and bilateral trade commitments.**
- 8) In order to enhance recipient government economic development capacities a portion of MCA funds should be set aside for technical assistance. In particular, **the MCA should provide resources to help recipient governments utilize alternative delivery and operational mechanisms such as public-private-partnerships and full or partial privatization options for the provision of services, regulatory and oversight actions, and procurement.**