

# Strengthen Coordination of U.S. Development Assistance with the Millennium Development Goals

*Jamie Drummond*

## Summary

At a special session in 2000, the United Nations General Assembly unanimously adopted the Millennium Development Goals, a set of targets aimed at reducing poverty in the world's poorest countries. One of the aims of the Millennium Development Goals was to establish a uniform set of benchmarks so development partners could work toward the same ends and donors could streamline and harmonize their programs, improve mechanisms to deliver measurable results, and reduce wasteful duplication.

The Bush administration reaffirmed U.S. support for the Millennium Development Goals in March 2002. The administration has greatly increased United States spending directed at reducing poverty in the poorest countries, and it has established the Millennium Challenge Corporation, a mechanism to administer the distribution of U.S. development assistance to those countries whose governments rule justly, invest in their people, and encourage economic freedom. But there has been insufficient coordination of United States assistance programs aimed at contributing to the achievement of the Millennium Development Goals.

In the next year, President Bush can take steps to focus United States and international efforts upon meeting the Millennium Development Goals, especially in Africa where the challenge of overcoming poverty is most vexing.

## President Bush should:

- ▶ *Pledge at the upcoming G8 Summit and United Nations Millennium Summit that the United States will do its fair share to help achieve the Millennium*

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*Development Goals. Direct the Millennium Challenge Corporation to focus on the Millennium Goals with a greater sense of urgency, and coordinate its assistance around the benchmarks described in the Millennium Goals.*

- ▶ *Finalize an implementation strategy for the proposal by the United States and United Kingdom for 100-percent multilateral debt cancellation, and increase grants to poor, debt-ridden, but otherwise well-governed countries through the International Development Association (IDA), the World Bank's development finance mechanism.*
- ▶ *Commit the United States to policies that harness international trade toward alleviating poverty by working through this year's World Trade Organization negotiations to eliminate rich-country agricultural subsidies and trade policies that undermine efforts in developing countries to achieve the Millennium Development Goals.*
- ▶ *Improve coordination of the various components of United States development policy, and consider creating a cabinet-level position to coordinate development efforts.*

## Background

The Millennium Development Goals are a set of time-bound, quantified targets for improving the state of human development in a country or region. The Millennium Development Goals have specific quantitative targets in eight broad areas: eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria, and other diseases; ensuring environmental sustainability; and developing a global partnership for development.

The United States and 188 other countries have adopted the Millennium Goals, and if they are achieved, 500 million people around the world will be lifted out of extreme poverty, 350 million will have access to safe drinking water, and 30 million children will not die needlessly before their fifth birthday. Developing countries have agreed to work toward reaching these goals by 2015. Wealthier countries have agreed in principle to support these efforts through increased and improved development assistance, debt relief, and trade reform.

Although skeptics contend that the Millennium Development Goals are unachievable, many regions of the world are making good progress toward achieving them. In South and East Asia today, there are 200 million fewer people living in extreme poverty (people living on less than \$1 a day) than there were in 1990. North African countries have substantially reduced poverty. Primary school enrollment is now over 90 percent in Latin America and the Caribbean.

“Five hundred million people lifted out of poverty means 300 million no longer suffering or dying from hunger.”

Some regions, however, are far off track. Sub-Saharan Africa is the area least likely to meet the Millennium Goals: currently, 23 countries there are failing in half or more of the goals, and another 12 do not have enough data to be assessed, leaving only about 10 countries on track to meet half or more of the goals. Achievement of these poverty-reduction goals is possible, but sub-Saharan Africa will need specific, concerted efforts and support to make this possible. In addition, combating HIV/AIDS is a precondition to achieving the Millennium Goals, given the high mortality rate, especially among teachers and nurses, in many parts of the region.

The justification for achieving the Millennium Development Goals is overwhelming in pure humanitarian terms: 500 million people lifted out of poverty means hundreds of millions more women and girls going to school and more than 300 million people no longer suffering or dying from hunger. It is also important to note that poverty reduction and fighting AIDS have been linked to U.S. national security interests, especially since poor, fragile states can become fertile breeding grounds and havens for terrorists. Achieving the Millennium Goals will provide alternatives to the fundamentalist Islamic schools, or madrassas, in South Asia and the Middle East, and will provide opportunities and positive directions for the millions of orphans raising themselves in sub-Saharan Africa.

To fulfill its commitments to help poor countries reach these goals, the United States should provide greater development assistance, support 100 percent debt cancellation, and implement trade policies that enhance opportunities for developing countries to earn their own resources. While progress has been made in providing bilateral debt relief for the poorest countries, burdensome multilateral debts remain. Trade policies have been tweaked to provide limited opportunities for countries in Africa and other regions, but large subsidies continue to cause these countries to be inundated with low-priced agricultural imports. Such imports limit the ability of poor countries to profit from trade and undermine the impact of increases in development assistance dollars.

Developmental assistance, debt cancellation, and trade policies must be components of a coordinated policy framework focused on achieving the Millennium Development Goals. Currently, different agencies of the United States government manage these efforts because there is no single, cabinet-level position dedicated to ensuring development policy and objectives. Creation of such a position would facilitate the coordination of efforts toward achieving the Millennium Goals and help orient them around a common strategic framework.

## The Bush Administration's First Term

In the past four years, the Bush administration launched several initiatives that have provided an excellent foundation for achieving the Millennium Development Goals. These programs—the Millennium Challenge Corporation, the Emergency Plan for AIDS Relief, the proposal for up to 100 percent debt relief for the poorest nations, the African Growth and Opportunity Act, and support for increased grants from the international financial institutions—are an excellent set of proposals to reinvigorate development practice and policy.

The Millennium Challenge Corporation, for example, channels additional resources to those countries that have already proven they have the ability to direct resources to their people efficiently and effectively. Such a mechanism can propel qualified countries toward achievement of the Millennium Development Goals, and their progress would be an incentive for other countries to take steps to qualify for the Millennium Challenge Corporation's grants. Lack of coordination, however, makes these initiatives seem piecemeal. And United States agricultural subsidies and other policies threaten to undermine progress toward meeting the Goals by, for example, undermining the economies of West African cotton-producing nations.<sup>1</sup>

## Toward a Better Policy on the Millennium Development Goals

As the Bush administration begins its second term, it has an opportunity to use the Millennium Development Goals to coordinate U.S. programs and initiatives with the programs and initiatives of other nations. The administration endorsed the Millennium Development Goals at the Financing for Development Summit in Monterrey in 2002, and President Bush referred to the Goals in a speech before the Inter-American Development Bank in the same year. Since then, however, the administration has not given the Millennium Development Goals sufficient attention. Current United States policies have still not been coordinated around a strategy for reaching the Goals.

Achieving the Millennium Development Goals will eventually require scaled-up assistance. But in the immediate term, repackaging, refocusing, and fully financing existing programs will lead to progress toward achieving the Goals.

### **President Bush should:**

- ▶ *Pledge at the upcoming G8 Summit and United Nations Millennium Summit that the United States will do its fair share to help achieve the Millennium Development Goals. Direct the Millennium Challenge Corporation to focus on*

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*the Millennium Goals with a greater sense of urgency, and coordinate its assistance around the benchmarks described in the Millennium Goals. U.S. bilateral development assistance to the poorest nations must expand considerably beyond current levels. President Bush’s Millennium Challenge Corporation can spearhead the Millennium Goals’ drive and complement other multilateral initiatives. The Millennium Challenge Corporation, which appropriately reflects the Monterrey summit’s focus on the Millennium Goals, should now be linked more clearly to those goals and should become a premier financing mechanism for qualifying countries’ own efforts to achieve the Millennium Goals. To do this, the Millennium Challenge must also accelerate the rate at which it disburses funds to and signs compacts with partner countries. The administration should scale up the Millennium Challenge to the promised \$5 billion level and beyond, even as it continues and expands existing bilateral and multilateral assistance. Simultaneously, the administration should fund one-third of the total need of the Global Fund to Fight AIDS, TB and Malaria; other donors would be better able to plan their contributions if the administration were to signal this intention before the Global Fund’s next donors conference.*

- ▶ *Finalize an implementation strategy for the proposal by the United States and United Kingdom for 100-percent multilateral debt cancellation, and increase grants to poor, debt-ridden, but otherwise well-governed countries through IDA, the World Bank’s development finance mechanism. For many countries, the profligacy of generations past, combined with unanticipated leaps in interest rates, consigned today’s leaders to a set of intractable choices. Today, interest on distant loans crowd out the most pressing investments in health and education, drastically impeding progress toward the Millennium Development Goals. By erasing the IMF and World Bank debt of those heavily indebted poor countries that have clear, accountable plans for achieving the Millennium Goals, the international community could relegate vicious cycles of defensive lending to the past, and build the foundation for more sensible grant-based policies in the future. The wisdom of this course is becoming more and more evident, as witnessed by the February 2005 G7 finance ministers’ statement calling for up to 100 percent of multilateral debt relief. A World Bank or IDA debt-reduction and grants program can in part be financed by a robust IDA-14 replenishment, involving substantial increases in IDA resources from its donors, including the United States. IDA debt reduction can also be financed by use of World Bank reserves. The IMF debt reduction program can be financed through managed gold sales so that there is no impact on gold prices.*
- ▶ *Commit the United States to policies that harness international trade toward alleviating poverty by working through this year’s World Trade Organization negotiations to eliminate rich-country agricultural subsidies and trade*

*policies that undermine efforts in developing countries to achieve the Millennium Development Goals.* It is important to revise unfair trade rules so that developing countries have a level playing field in international trade. Developed nations should stop subsidizing the production and exportation of cotton, sugar, and other commodities and thereby allow developing regions to profit from their comparative advantage in the production of these goods. Exports from developing regions should be allowed access to markets in developed countries. The escalating tariff structure on higher value-added products must be removed, as it retards the growth of small industries in developing countries and unnecessarily keeps these countries mired in poverty.

- ▶ *Improve coordination of the various components of United States development policy, and consider creating a cabinet-level position to coordinate development efforts.* The United States Agency for International Development (USAID), the main mechanism of U.S. development assistance, has been overburdened with bureaucracy and conditionality. The Bush administration has also chosen to house new initiatives, such as the Emergency AIDS plan and the Millennium Challenge Corporation, outside USAID due to ambivalence toward the agency. These decisions have served to further fragment United States foreign assistance efforts. Fourteen different government agencies are now responsible for development financing and policy. The United States should see the Millennium Development Goals as an opportunity to bring these different programs under a unified strategy. Of the so-called pillars of national security—defense, diplomacy, and development—only one, development, does not enjoy a seat in President Bush’s cabinet. One way to ensure focused, comprehensive, and effective development policy is to create a cabinet-level post to address these issues.

## Conclusion

The president has rightly said that there are no “second class citizens in the human race.” The spring meetings of the IMF and World Bank, the July G8 “Africa” Summit, the UN Millennium Summit in September, and the WTO Ministerial Conference in December are all key moments in 2005 at which a more focused U.S. strategy can be presented to the public and to global development partners. Now is the time to make the Millennium Development Goals a reality.

1. The U.S. farm bill currently provides subsidies to U.S. farmers that foster overproduction of agricultural products which are then sold in poor country markets at artificially low prices, making it impossible for farmers in these countries to export and sometimes to even compete in their own markets.

# Fulfill the Promise of the Millennium Challenge Corporation

Lael Brainard

## Summary

The achievements of President George W. Bush's first term include, significantly, the creation of the Millennium Challenge Corporation (MCC), a mechanism the United States is developing to administer assistance to those countries in which governments rule justly, invest in their people, and encourage economic freedom. The president promised to commit an additional \$5 billion annually to this bilateral development assistance program, targeting poor countries committed to political and economic reform.

As President Bush enters his second term, he faces the challenge of making sure the MCC fulfills its promise. This will require fully funding and implementing the MCC, and coordinating its activities with other United States government programs as well as other bilateral and multilateral programs. Through the MCC, the administration can play a leading role in helping the world's poor onto a developmental path that will provide sustained growth and democratization.

### President Bush should:

- ▶ Provide critical field support and technical assistance to MCC-eligible countries to kick-start the grant proposal process.
- ▶ Develop a world class monitoring and evaluation system for MCC grants to ensure the accountability that is central to the MCC's success.
- ▶ Implement the MCC's Threshold Program, which supports countries that nearly missed qualifying for MCC funding, and do so in a timely manner in order to spur political change in those countries.

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- ▶ *Fully fund the MCC and make the case for congressional support through faster and stronger implementation.*
- ▶ *Improve coordination of the MCC, at a policy level and in the field, with both multilateral and bilateral donors and with other United States government entities.*

## Background

This should be a moment of extraordinary promise for the world's poor. The resources and knowledge exist to combat deadly disease, sustain economic growth, develop clean energy, and ensure broad access to education, clean water, and basic health. Over the past several decades, some areas of the developing world have witnessed impressive improvements. Today, for example, more people than ever live free of hunger, fear, and want; in the 1990s, China alone lifted 150 million people out of extreme poverty. And yet, tragically, too many countries have seen reversals in key indicators of survival. These reversals reflect the scourge of HIV/AIDS, of civil conflict, and of states that are failing their own people.

The past few years have seen the creation of new U.S. foreign aid programs and an expansion of foreign aid resources unprecedented since the Cold War. Over the last four years, foreign assistance has grown by \$3 billion to \$26.6 billion, an increase of roughly one-eighth. Relative to its income, however, the United States still spends far less on development assistance than any other wealthy nation. At its Cold War peak, United States official development assistance was 0.44 percent of GDP; today, it is a mere 0.15 percent—far below the average of donor nations, which is 0.41 percent of GDP.

Needs are projected to increase sharply in the future. The mid-range of external estimates of the cost of achieving the United Nations Millennium Development Goals, including efforts to combat HIV/AIDS, show the need for an increase of \$65.6 billion in development assistance globally during the next decade. This estimate implies an increase of more than \$20 billion for the United States, if the country assumes a burden in proportion to its share of global income.

In March 2002, President Bush announced his intention to request an additional \$5 billion per year over current assistance levels, which—if fulfilled—would amount to a doubling of United States bilateral development aid, the largest increase in decades. (Bilateral development aid accounts for roughly one-fifth of overall foreign assistance, which also includes multilateral contributions, bilateral security assistance, postconflict assistance, and humanitarian aid). The administration subsequently recommended the creation of an independent agency to

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allocate funding on the basis of four core principles: quantitative eligibility criteria that measure a country’s commitment to “governing justly, investing in people, and encouraging economic freedom,” recipient country design and implementation of development programs, flexible and large-scale grants, and accountability based on performance benchmarks. The MCC was welcomed as a rare opportunity to create a new blueprint for distributing and delivering aid effectively and a critical chance to improve the image the United States presents to people in poor nations around the world. Three years later, it is vital that the United States deliver on this promise.

### The Bush Administration’s First Term

The Bush administration created the MCC from scratch rather than use the existing United States Agency for International Development. The administration did so in order to pioneer an innovative and potentially more effective approach to aid. Because of this ground-up approach, however, the MCC has been slow to get off the ground. Two and a half years after it was first announced, the MCC had yet to announce its first grant, and had hired a staff of only 63 out of 200 planned positions. As a result, funding for the MCC is less than \$2.5 billion in fiscal 2004 and fiscal 2005. This leaves a shortfall of over \$2.5 billion in the first two years. The president’s request for \$3 billion in fiscal 2006—in the unlikely event that it is fully funded by Congress—means an additional shortfall of \$2 billion relative to the original commitment for the third year.

Getting the program up to scale requires accelerating the grant proposal and review process as the pool of eligible countries expands. It requires establishing early success stories. It requires developing strategies to help countries that nearly miss eligibility to address policy deficiencies. And it requires ensuring that funding approaches the levels originally promised. The MCC must start from a strong foundation if it is to improve the effectiveness of development aid.

As several outside observers argued forcefully during Congressional examination of President Bush’s MCC proposal, the MCC could be an important catalyst for political change in those countries that nearly miss eligibility on one or two indicators. Congress put a high priority on this imperative, reserving up to 10 percent of annual MCC funding—or \$100 million in fiscal 2004—for these so-called “threshold” countries. The funding for this Threshold Program was to be administered in partnership with USAID. Unfortunately, the MCC so far has not shown the same level of commitment as Congress to taking on the challenge of transformational development in the threshold countries. It announced the list of threshold countries five months after MCC eligibility had been determined, instead of announcing both simultaneously. The MCC qualified a smaller number of countries (7) than should technically be

eligible under the stated criteria (12) and designated only 40 percent (\$40 million) of the available amount for the Threshold Program—less than \$6 million per country. Moreover, the MCC has provided no clear idea of how the Threshold Program will operate.

The MCC has contributed to duplication and overlap rather than rationalizing the U.S. government's existing structure of delivering developmental aid. The Bush administration inserted the MCC along with other new foreign assistance initiatives into an already confusing maze of United States government entities. Each of these entities has a separate institutional home as well as a distinct internal logic and strategic objectives. The current landscape of overlapping agencies and objectives is at best inefficient and at worst counterproductive, and there is an acute need for an overarching management structure. For instance, the MCC now operates in a number of countries that have ongoing USAID missions with virtually identical strategic objectives.

There is also virtually no coordination between United States development assistance programs and other development instruments such as trade policy, investment policy, and debt relief, which often work at cross purposes to U.S. development assistance and trump it in importance. For instance, it would be natural for Mali to apply to the MCC for infrastructure and research support for its key agricultural export sector, cotton, but this would be pointless so long as United States cotton subsidies continue to depress prices on world markets. Despite this vital link, the head of the MCC is not party to the policy process that governs United States cotton subsidies, where the Department of Agriculture and the Office of the U.S. Trade Representative are key players.

## **Toward Fulfilling the MCC's Promise**

It is critical that the MCC realize its full potential for transforming U.S. development policy and improving the standing of the United States in the international community. Although the international community welcomed President Bush's announcement of the MCC's creation, both multilateral and bilateral donors have subsequently voiced disappointment that the MCC may be yet one more instance of the United States taking a go-it-alone approach.

With like-minded majorities in the Senate and House, President Bush has an opportunity in his second term to transform U.S. development policy and structures. If the administration puts in place the necessary organizational structure, the MCC could become the cutting edge in a broad and sustained transformation. If the administration fails to make such broad changes, however, it risks allowing the MCC to become just another pot of money with its own idiosyncratic objectives and criteria alongside a plethora of existing United States programs.

Both the administration and Congress have devoted enormous attention to the criteria that countries must satisfy in order to be eligible for MCC funding. Less attention has been devoted to the MCC's other critical design elements. As a result, these details are only slowly being worked out, and this has diminished the potential for both fundamental innovation and support for full funding. Several of these design elements deserve special attention.

### **President Bush should:**

- ▶ *Provide critical field support and technical assistance to MCC-eligible countries to kick-start the grant proposal process.* One important problem that needs to be addressed is inadequate technical and field support for countries developing grant proposals. With virtually no MCC field staff, and with USAID field staff barred from providing support, MCC-eligible countries must depend on sporadic visits by Washington-based MCC staff for guidance on a host of critical questions. These include the civil society consultation requirements, the types of investments that might be eligible for MCC support, the technical requirements for grant proposals, and the funding modalities. It is still unclear, for example, how grants might be used for infrastructure financing and investment funds. As a result, the grant proposal process has been slow; as of January 2005, nearly three years after the program was first announced, the MCC had not approved its first grant. This delay in disbursements poses a real danger of substantial cuts to the MCC's funding in fiscal 2005 and lasting erosion in future funding. While the MCC management is right to take whatever time is needed to ensure grants meet high quality standards, the absence of field support and technical assistance for the grant proposal process was a foreseeable obstacle and should be corrected as soon as possible.
- ▶ *Develop a world class monitoring and evaluation system for MCC grants to ensure the accountability that is central to the MCC's success.* Monitoring and evaluation have not received the design attention they deserve. Ultimately, the success of the MCC model hinges on recipient ownership and accountability. The MCC is intended to replace the input- and process-based evaluations traditionally utilized by USAID with performance benchmarks that are "contractually" agreed ex ante. While appealing in principle, making such benchmarks operational is difficult and requires more thorough consideration. For example, the majority of projects are likely to target social, health, and education outcomes affected by multiple factors, and impact cannot be captured through simple financial metrics. There are some innovative approaches for evaluating outcomes, such as randomized trials, which are newly being applied in the field. Unfortunately, it is unlikely that the MCC's small staff of 63 has the depth or capacity to promote real

innovation; and it is likely that the MCC will contract out monitoring and evaluation to the private sector service providers in a business as usual manner. Going forward, it would be well worth putting greater emphasis on innovation in this critical function.

- ▶ *Implement the MCC's Threshold Program, which supports countries that nearly missed qualifying for MCC funding, and do so in a timely manner in order to spur political change in those countries.* Implementation of the Threshold Program has lagged severely, which is inconsistent with the intent of Congress. Well into the second year of the program, it remains unclear whether threshold countries are eligible to apply for grants and in what form, whether MCC or USAID will be the prime grant administering agency, and how the priority policy gaps will be addressed—whether through MCC funding directly or through policy conditionality. These questions need urgent answers.
- ▶ *Fully fund the MCC and make the case for congressional support through faster and stronger implementation.* As noted above, the long delay in funding grants has led to cuts in funding for the MCC relative to what was originally promised. The president's fiscal 2006 budget request is fully \$2 billion short of the original commitment. Following the release of the fiscal 2006 budget, the MCC website recently weakened the president's pledge to increase funding for the MCA to \$5 billion a year from "starting in FY06" to "in the future." It is now quite possible that the MCC will fall short of the \$5 billion target indefinitely. Getting the program up to scale quickly is vital in order to capitalize on the current administration's strong sense of ownership and the broad congressional support the MCC currently enjoys. The MCC must earn full funding by accelerating implementation and demonstrating the effectiveness of the approach it is pioneering.
- ▶ *Improve coordination of the MCC, at a policy level and in the field, with both multilateral and bilateral donors and with other United States government entities.* The promise of the MCC will not be realized fully unless the administration and Congress grapple with the larger development policy environment in which it operates. Already, the administration has squandered some of the international goodwill it generated with its announcement of the MCC by failing to consult with other donors on program design and by developing its own idiosyncratic system of eligibility criteria. Instead of helping to solve the problems of donor coordination that have been highlighted as a critical obstacle to aid effectiveness, the United States is exacerbating them by increasing the complexity of its aid programs and through anemic participation in multilateral coordination efforts, such as the World Bank-led Poverty Reduction Strategy Papers process.

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## Conclusion

The announcement of the MCC was welcomed as a rare opportunity to create a new blueprint for distributing and delivering aid effectively, increase significantly U.S. development assistance flows, and improve the image the United States presents to people in poor nations around the world. Three years later, it is vital to deliver on the MCC's promise by strengthening implementation, coordination, and funding, and by realizing the transformational potential for other U.S. development assistance programs and for threshold countries.

# Promote Broader Budget Transparency Abroad

*Pamela Gomez*

## Summary

Good governance in every country requires budget transparency—a government’s complete disclosure of all relevant fiscal information in a timely and systematic manner. Budget transparency ensures that members of the public can participate in a meaningful way in the processes that set policy and budget priorities. Transparency is essential for ensuring the delivery of quality public services, for decentralizing government, and for promoting community-led development. Transparency is especially critical for countries with economies heavily dependent upon extractive industries like oil, natural gas, and mining.

The Bush administration was not substantially engaged in promoting budget transparency during its first term in office. But the president’s second term presents a critical opportunity for the United States to lead the way. Budget transparency is vital both to the United States’ national interests and to the well-being of hundreds of millions of people around the world.

### **President Bush should:**

- ▶ *Require all United States representatives to the World Bank, the International Monetary Fund (IMF), and other international donor agencies to use their authority to ensure that public access to key budget documents is a component of all country-assistance and poverty-reduction strategies.*
- ▶ *Instruct the Securities and Exchange Commission and other relevant regulatory agencies to impose mandatory disclosure requirements for all payments—including taxes, fees, royalties, and signature bonuses—that oil, natural gas, mining, and other natural-resource extraction companies listed on the exchanges in the United States make to governments and public officials in each country where they operate.*

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“Civil society has drawn attention to the need for further transparency in countries dependent on extractive industry revenues.”

► *Work to make transparency in the extractive industries a precondition for all lending and other assistance by the World Bank, regional development banks, and export-credit agencies.*

## Background

Over the past decade, the global movement toward more democratic and accountable government has led to increased public interest in government budgets. A country’s budget documents should allow the public to evaluate fully a government’s policy intentions, its policy priorities, and their implementation. Budget documents should also show the public their fiscal positions and any risky financial activities. Public access to a comprehensive set of budget documents is essential for ensuring that the government is financially accountable and that civil society can participate fully in debates about policy trade-offs and priorities.

The international financial crises of the late 1990s drew the attention of the international community to the importance of budget transparency. The United States encouraged the IMF to respond by establishing a voluntary program in 1999 to guard against future crises by assessing the adherence of member countries to its Code of Good Practices on Fiscal Transparency. The Organisation for Economic Cooperation and Development (OECD), an intergovernmental forum with 30 members that develops legally binding standards as well as best practice recommendations on important economic and social issues, also issued guidelines spelling out the information that governments should disclose routinely in public budget documents at the national level in the OECD Best Practices for Budget Transparency.

More recently, civil society organizations have drawn attention to the need for further transparency in countries heavily dependent upon revenues produced by extractive industries such as oil, natural gas, and mining. In 2001, civil society groups formed the Publish What You Pay coalition to highlight the importance of revenue and contract transparency to ensure good governance in countries rich in natural resources. The Publish What You Pay coalition advocates that the United States require companies whose securities are traded publicly on United States exchanges to disclose all payments made to governments and government officials in each country where they operate. It also calls for transparency in the extractive industries to be made a condition of all lending, development, and technical assistance programs by the IMF, World Bank, and regional development banks, as well as credits and guarantees provided by export-credit agencies.

In 2002, Prime Minister Tony Blair of the United Kingdom established the Extractive Industries Transparency Initiative (EITI). Led by United

Kingdom's Department for International Development, EITI is a voluntary initiative designed to increase transparency through the use of reporting templates verified by a committee of interested parties. Kyrgyzstan became the first country to release a report under the EITI in October 2004; it provided aggregated revenue figures involving gold-mining projects in the country. Several other countries are in the process of implementing the EITI, including Azerbaijan, the Democratic Republic of Congo, Ghana, and Nigeria. Peru, Sao Tome and Principe, and Trinidad and Tobago are currently involved in negotiations to adopt the initiative.

The World Bank, IMF, and European Bank for Reconstruction and Development have all publicly endorsed the EITI. The World Bank has established a trust fund to help build capacity to implement and monitor revenue transparency. The World Bank is also providing assistance in developing the EITI reporting frameworks and has initiated an independent assessment of its activities in the extractive industries, the Extractive Industries Review. The management response to the review in September 2004 made some commitments to revenue transparency, although lack of clarity regarding the specific nature of these commitments has raised concerns.

The IMF has also taken a voluntary approach to promoting revenue transparency through its voluntary program to assess the practices of member countries for conformity to its Fiscal Transparency Code. In December 2004, the IMF released a *Draft Guide on Resource Revenue Transparency*, which emphasizes that revenue and contract transparency are essential elements necessary to achieve fiscal transparency.

The European Bank for Reconstruction and Development, which provides lending and technical assistance to both governments and companies in extractive and other industries in Europe and Central Asia, has also stated that it will assist in implementing the EITI; but the EBRD does not specifically mandate revenue transparency as a condition for lending.

Additionally, over the past several years, the International Budget Project (IBP), a nonprofit organization that provides training and support to researchers and civil society organizations around the world that are interested in analyzing public budgets, has worked to contribute to the international debate on transparency by providing an independent, nongovernmental assessment of government practices related to budget transparency. The IBP developed the Open Budget Questionnaire to help civil society organizations evaluate the transparency of their government's budget and advocate for increased public access to budget information.<sup>1</sup> Civil society researchers from 36 developing countries and countries in transition completed the questionnaire during the first half of 2004.<sup>2</sup> They found that in all but one of the countries studied, the governments made their main policy document, the executive's budget proposal, available to the public. The survey also indicated a lack of public access to

“Promoting good governance and combating corruption will help to consolidate the democratic gains of the past two decades.”

other types of essential budget documents as called for under the OECD Best Practices and IMF Fiscal Transparency Code. Nine of the 36 countries did not release routine reports during the year allowing for the monitoring of expenditure, and 12 of the 36 countries did not make audit reports available to the public. The survey indicates that many governments could substantially improve budget transparency in their countries by taking the simple step of releasing to the public documents they are already producing.

### **The Bush Administration’s First Term**

During its first term, the Bush administration did not give substantial support to existing efforts to further budget transparency. For example, the administration did not give substantial support to multilateral initiatives sponsored by the IMF and OECD nor to other initiatives related to revenue and contract transparency, such as the Publish What You Pay campaign.

Instead, the Bush administration has responded to these initiatives by sponsoring a limited, voluntary program under the auspices of the G8. The Department of State established the G8 Compacts to Promote Transparency and Combat Corruption, which were first announced at the Evian summit in 2003 and are intended to promote stronger public financial management and accountability. These compacts include provisions on budget and fiscal transparency and on transparency in procurement and trade agreements. The compacts are limited to Nigeria, Georgia, Nicaragua, and Peru, the four countries that volunteered at the Sea Island summit in June 2004 to pilot the initiative.

In August 2004, the United States Treasury indicated that there should be a presumption that public disclosure of contracts and agreements between governments and extractive companies should take place routinely. This was a welcome development, suggesting that United States policy would reinforce, rather than undercut, those attempting to promote the adoption of international good practices relating to transparency.

### **Toward a Better Policy on Budget Transparency**

President Bush’s second term presents an opportunity for the United States to lead the way in promoting budget transparency. In both bilateral and multilateral meetings, the president will have opportunities to encourage all nations to adopt transparency and accountability measures. The United States can play an important leadership role by adopting the objectives advocated by the Publish What You Pay campaign.

Promoting good governance and combating corruption will help to consolidate the democratic gains of the past two decades. Budget transparency is essential to achieving these aims, and robust United States support for the measures necessary to ensure transparency serves not only the nation's interests, but those of millions of people around the world.

### **President Bush should:**

- ▶ *Require all United States representatives to the World Bank, IMF, and other international donor agencies to use their authority to ensure that public access to key budget documents is a component of all country-assistance strategies and poverty-reduction strategies. Public access to budget documents should conform to the OECD Best Practices for Budget Transparency and IMF Code of Good Practices on Fiscal Transparency. United States representatives to the World Bank, IMF, and other international donor agencies should use their influence to promote reform of public expenditure management systems in developing countries in ways that will produce more transparent, fair, and accountable fiscal management. The United States Congress should condition financial support for these agencies upon their adoption of rules that require countries benefiting from their programs to provide full public access to budget documents and to implement other fiscal transparency requirements. Likewise, bilateral international assistance not associated with humanitarian relief efforts should be conditioned upon meeting concrete improvements in fiscal transparency.*
- ▶ *Instruct the Securities and Exchange Commission and other relevant regulatory agencies to impose mandatory disclosure requirements for all payments—including taxes, fees, royalties, and signature bonuses—that oil, natural gas, mining, and other natural-resource extraction companies listed on the exchanges in the United States make to governments and public officials in each country where they operate. Production-sharing agreements and other contracts vital to the tracking of revenue streams should also be disclosed. At present, companies listed in the exchanges in the United States are not required to provide a country-by-country breakdown of payments they make to foreign governments. The administration should also encourage the European Union to adopt the same requirements, thereby ensuring that the majority of listed international companies are bound by similar rules.*
- ▶ *Work to make transparency in the extractive industries a precondition for all lending and other assistance by the World Bank, regional development banks, and export-credit agencies. Companies that fail to disclose what they earn in revenues from oil, gas, and mining resources should be disqualified from receiving any form of World Bank support, such as funding from the International Finance Corporation (IFC) or*

guarantees from the Multilateral Investment Guarantee Agency (MIGA). Additionally, as part of their budget-authorization legislation, the United States should require export-credit agencies extending support to natural-resource extraction companies to implement transparency criteria as a precondition for such lending.

1. The IBP questionnaire draws upon many of the international guidelines developed by the OECD and IMF mentioned above, as well as other important international norms important to accountable budgeting.
2. For more details regarding the study and the researchers who participated, please see the IBP website at <http://www.internationalbudget.org/openbudgets/index.htm>.