

Guatemala and the Millennium Challenge Account: The Quest for Threshold Program Assistance

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EXECUTIVE SUMMARY

As part of an independent research project with the Tufts University Institute for Global Leadership, a team of undergraduate and graduate students endeavored to understand the roots of Guatemala's high poverty rates and the potential for a US foreign aid program, the Millennium Challenge Account (MCA), to address poverty. With its method of analyzing poverty and emphasis on good governance, the MCA offered the ideal lens to study poverty in such a complex country.

Interview-based research in Washington, D.C., and Guatemala with representatives of government, the private sector, academia, the media, civil society, and the Millennium Challenge Corporation (MCC) pointed to a variety of obstacles in the political, social, and economic arenas that help explain Guatemala's poverty rates and failing scores on the majority of the MCA indicators.

The MCA has generated great interest and technical expertise among public and private sector leadership in Guatemala, but two flaws exist in Guatemala's qualification process. Firstly, only a small, select group – primarily representing business interests – actively works on the MCA qualification effort. Moreover, they appear resistant to forming further partnerships with civil society groups, as the MCA mandates. Secondly, Guatemala's qualification efforts have focused disproportionately on the economic pillar of development, while the MCA gives equal weight to the roles of good governance and social investment. It is possible that Guatemala's weak performance in the non-economic areas is interrelated with the lacking national ownership of the MCA qualification effort.

Guatemala's failure to fulfill these two essential MCA tenants is hardly irreversible. The researchers offer recommendations to make the MCA qualification effort more inclusive and focus more on the areas of Guatemala's weakest performance. Indeed, it is possible Guatemala can one day reap the benefits of the MCA. It is the commitment of the MCC and leaders in Guatemalan government, private sector, and civil society to the common goal of making Guatemala a better place for all its citizens that will carry or crash the MCA qualification effort.

I. Introduction

In September 2007, the Institute for Global Leadership (IGL) at Tufts University launched the 2007-08 Education for Public Inquiry and International Citizenship (EPIIC) colloquium. EPIIC is a rigorous, multidisciplinary program where students study an annual theme through guest lectures, in-depth reading, designing an annual symposium, and conducting international research. The theme for the 2007-08 colloquium was “Global Poverty and Inequality.”

Connected to the EPIIC program is the IGL’s Institute Scholar/Practitioner-In-Residence (INSPIRE) Fellow program, which brings respected scholar/practitioners to campus each year to guide and mentor the students in the annual EPIIC theme. One 2007-08 Fellow was Mr. Jose Maria Argueta, former Guatemalan ambassador to Japan and Peru and president of the Institute for Central American Strategic Studies (ICASS). Under his leadership, a group of EPIIC students selected Guatemala as a case study country for research. The country presents an unusual paradox.

Unlike many poverty-stricken countries, Guatemala is not landlocked, is neither in conflict nor surrounded by countries in conflict, and does not suffer from either a lack of natural resources or from a severe dependence on one resource. Instead, Guatemala sits at the crossroads of two oceans and links North America with the rest of Latin America, creating an ideal opportunity for Guatemala to act as a center of trade and to export of Guatemalan goods. The country has rich soil, a range of exports, and, like the rest of Central America, has been at peace for over a decade. Moreover, since the 1996 Peace Accords, the 1998 Foreign Investment Law, and the 2006 Central American Free Trade Agreement (CAFTA), Guatemala has received significant foreign aid from the international community and increasing amounts of foreign direct investment (with net inflows reaching \$536 million in 2007, six times more than 1993-97 levels). In spite of these favorable conditions, poverty continues to plague the nation: more than half of all Guatemalans, and more than three-quarters of indigenous groups, live on less than two dollars per day. Sixteen percent of the nation lives in extreme poverty – less than one dollar per day.

The EPIIC students decided to study Guatemala through the Millennium Challenge Account (MCA) as it offers a holistic and objective portrayal of Guatemala’s current state. The MCA is a new and innovative US foreign assistance program that uses aid conditionality to encourage good governance reforms. The MCA evaluates countries based on seventeen independent and transparent indicators that consider performance in political, social, and economic areas. In addition, Guatemala’s attempt to qualify for MCA programs serves as a case study for analyzing the role that governance and national decision-making play in producing and reducing poverty.

II. The Millennium Challenge Account

Building on its commitment to reduce poverty at the 2000 United Nations Millennium Summit, the Bush administration announced the multi-billion dollar Millennium Challenge Account (MCA) at the 2002 United Nations International Conference on Financing Development. This “new compact for global development” would increase US foreign development assistance by over 50% by 2005. The overarching goals of the program are to stimulate sustainable economic growth and to promote the development of effective, democratic institutions to sustain that growth. This two-pronged strategy also increases the ability of aid-recipient countries to attract and effectively utilize foreign investment to fuel their own development. Indeed, the ultimate aspiration of the MCA is not only to achieve notable poverty reduction during and through their programming, but also to set countries on a path to finance their own development independently in the future.

The MCA was inspired by the belief that poverty alleviation is most effective within a framework of good governance and when countries take the driver’s seat for their own development. As articulated in the Millennium Challenge Corporation publication, “MCC and the Long Term Goal of Deepening Democracy,” published in November 2007, “although promoting democracy is not explicitly part of this mission, we recognize the link between democracy and economic growth, and several of MCC’s core founding principles implicitly value democratic institutions.”

The MCA system holds a number of advantages over other foreign aid programs that help ensure the effectiveness and sustainability of its programs:

Conditionality: Countries receive aid based on governmental, social, and economic performance in addition to considerations of foreign assistance needs. Potential MCA recipient countries compete within their income bracket on measures of good governance, economic freedom, and social investment. This form of conditionality serves the dual purpose of encouraging democracy and allocating aid where it can be used most effectively. (Unlike foreign aid programs from the World Bank or International Monetary Fund that use conditionality to tie aid to specific uses or structural adjustment measures, the MCA uses this form of conditionality only to select the recipient countries, not to determine how aid money is spent.)

Large funding commitments: The MCA offers much larger sums of money compared to US Agency for International Development (USAID) programs; commits the full amount of money up front once a country is selected for MCA assistance; and gives the money as a grant – not a loan to be repaid. These qualities increase the likelihood a project will be fully-funded and diminish donor reliance, a phenomenon considered to hamstring international development work. Thus the MCA improves on the current system in which many national aid agencies allocate funds on an annual basis, impeding recipient countries’ ability – or at least the incentive – to plan long-term projects that require multi-year funding.

No strings attached: Funds allocated by the MCA are never earmarked. Rather, countries qualifying for aid present project proposals to the MCA based on their own priorities for poverty alleviation. This system allows countries to make important decisions for their own development and improve implementation and monitoring skills, preventing donors from influencing or micromanaging how money is spent. In order to ensure completion of projects, the MCA chooses to fund projects that have concrete and measurable outcomes.

Encouraging broad-based participation: The MCA requires aid-recipient countries to exert “full country ownership” over the aid program to enhance aid effectiveness and sustainability. In other words, the MCA expects that the entire process include active participation and collaboration from the government, private sector, and civil society – from seeking initial eligibility and identifying key obstacles to development, to designing, implementing, and evaluating effective strategies to fuel economic growth.

In 2004, the US Congress established the Millennium Challenge Corporation (MCC) to oversee the MCA. Though it collaborates with USAID on some of its efforts abroad, the MCC is an independent US government corporation, receiving a yearly budget allocated by Congress. The MCC has its own CEO and Board of Directors. Since 2005, the MCC CEO has been John Danilovich, former US Ambassador to Costa Rica and Brazil. The Board includes major public sector figures such as the Secretary of State, Treasury Secretary, and USAID Administrator. It also includes prominent individuals from the private sector, appointed by the President and approved by the Senate.

Low income and lower-middle income countries become candidates for MCA programming through a Threshold Program or Compact Assistance. The countries are expected to produce measurable results from the aid program within a five-year period. Countries compete for funds and demonstrate progress through their performance on an annual MCA Country Scorecard.

The MCA Country Scorecard evaluates government policy in three categories: Ruling Justly, Investing in People, and Economic Freedom. Countries are eligible for MCA assistance only if they perform at a satisfactory level (above the median relative to other countries in their income group) on at least half of the indicators. Countries must also perform above the median on Control of Corruption, the only particular indicator that all countries are required to pass. The MCC pays paramount attention to corruption because, in the MCC’s own words, the phenomenon “undermines every aspect of sustainable development.”

Through its unique incentive and reward methodology, the MCA may provide the jumpstart for countries to make tangible development progress while helping to sustain existing national development efforts (rather than replacing or undermining them). The potential for the MCA programs to provide motivation for policy change can be seen even prior to a country’s establishment of a formal relationship with the MCA. This is called “the MCA Effect.” It can be observed in various arenas:

The publication of the MCA Country Scorecards may motivate candidate countries to begin to change their policies. Part of this motivation comes from the public, private, and civil sector leaderships as they learn that foreign investors may examine the MCA Scorecards in

deciding where to do business.

MCA programs may be prized across the political spectrum, and ownership of the program is supposed to rest across government and other sectors of society. As a result, sustained efforts to attain MCA eligibility for Threshold or Compact funding may facilitate continuity in poverty reduction and institutional reform efforts between government administrations. The possibility of qualifying for MCA programs can become a tool for public officials, civil society, the private sector, and the media to pressure governments for long-term and measurable reforms that outlast each political cycle.

Governments seeking MCA eligibility may invest in and demand better quality data production to help identify more accurately the true obstacles to better performance on MCA indicators.

USAID and other aid organizations utilize the three MCA foundational pillars – Ruling Justly, Investing in People, and Economic Freedom – to guide their own programs.

The MCA methodology holds potential to encourage developing countries to strive for holistic development not only during and after its partnership, but also prior to it.

III. The Millennium Challenge Account and Guatemala

The MCA has a strong presence in Central America, with Compacts signed or already in the implementation phases in El Salvador, Honduras, and Nicaragua. Yet Guatemala, which falls in the lower-middle income category and which has poverty levels comparable to the rest of Central America's, has not yet qualified for MCA Compact Assistance or the Threshold Program. After examining Guatemala's Scorecard, there is no mystery as to why it does not qualify.

On its fiscal year 2008 Scorecard, Guatemala had failing scores on each Ruling Justly indicator and on all but one Investing in People indicators. The only category in which Guatemala passed half the indicators is Economic Freedom. Only passing five of the seventeen indicators, with four of those five in Economic Freedom, demonstrates poor performance and a lack of significant improvements since 2002. Below follow the specifics of Guatemala's 2008 performance:

Ruling Justly: A measure of just and democratic governance

The **Political Rights** indicator “measures the quality of the electoral process and political participation.” Scoring **47%** in 2008, Guatemala approaches the median for lower-middle income countries but does not pass.

The **Civil Liberties** indicator “measures the level of freedom of expression, belief and association” and considers “how independent the media and judiciary are.” Guatemala

scores a failing **44%**.

The **Control of Corruption** indicator, perhaps the best forecast of a government's genuine commitment to political change and the likelihood of its ability to establish an MCC partnership, "measures the extent of public power being used for private gain." Guatemala scores **16%**, both failing and scoring worse than in previous years.

The **Government Effectiveness** indicator "examines the quality of public and civil services." Guatemala scores **22%**, failing and scoring worse than in previous years.

The **Rule of Law** indicator "calculates the level of public confidence in sectors of government such as courts and the police to abide by the rules of society." Guatemala scores **6%**, a failing score and notably worse than in 2002.

The **Voice and Accountability** indicator "primarily looks at the ability of a country's citizens to participate in choosing government leaders." Included in this category is the impact of political donations on public policymaking, government harassment of journalists, transparency of government-private sector relations, and political space for civic groups. Guatemala scores **47%**, failing though showing some improvement since 2003.

Investing in People: A measure of attention to health, education, and the environment

The **Immunization Rates** indicator "assess[es] the overall strength of the public health system" and "measures the government's ability to provide essential health services." Guatemala scores **31%**, failing and scoring worse than in previous years.

The **Health Expenditures** indicator "gauges the level of government investment in health and well-being." Guatemala scores **28%**, failing, though showing a slight improvement since 2001.

The **Primary Education Expenditures** indicator "measures governmental commitment to investing in public primary education." Guatemala scores **11%**, failing and scoring worse than in previous years.

The **Girls' Primary Education Completion Rate** indicator "measures the level of government investment in female primary education." Guatemala scores **4%** – failing, though markedly improved over past years.

The **Natural Resource Management** indicator "quantifies how well a government manages its environment, sanitation and water systems." Guatemala scores **72%** – comfortably passing, as it has since the indicator was established in 2007.

Economic Freedom: A measure of fiscal, monetary, regulatory, and trade policy

The **Regulatory Quality** indicator "measures the government's ability to create and implement regulations that promote private sector development." Guatemala scores **59%**, passing, as it has done previously.

The **Land Rights and Access** indicator "measures the extent to which the institutional, legal and market framework provides secure land tenure and equitable access to land in rural areas" and considers "how long it takes to register property in the capital city." Guatemala scores **54%**, a passing score and slight improvement over past years.

The **Business Start-Up** indicator "measures how much money and how long it takes for an entrepreneur . . . to start up a business." Guatemala scores **42%**, failing but showing

marked improvements over past years.

The **Trade Policy** indicator “calculates the average tariff rates and non-tariff barriers to trade to assess a country’s openness to international free trade.” Guatemala scores **81%**, an easily passing score and slight improvement over past years.

The **Inflation** indicator “examines how committed a government is to sound monetary policies, specifically dealing with control of inflation.” Guatemala scores **34%**, a passing score and showing inconsistent improvement over past years. (On this indicator, countries pass if they hold inflation below a certain level; they do not have to have lower inflation than half the other countries.)

The **Fiscal Policy** indicator “measures the overall quality of fiscal management.” Guatemala scores **48%**, a failing score on par with past years.

Guatemala must make radical improvements on the Investing in People and Ruling Justly indicators, paying particular attention to the hard hurdle of the Control of Corruption indicator, in order to be considered for MCA funding in the near future. However, it is also important to examine Guatemala’s efforts to reach MCA Threshold or Compact status thus far, discussed below.

IV. Student Research

In January 2008, after a semester studying the Millennium Challenge Account and Guatemala, the student research team from the Institute for Global Leadership at Tufts University traveled to Guatemala for ten days of interviewing. The “Guatemala Group” met with high-level representatives from government, the private sector, academia, the media, and civil society. The interviews presented the independent research team with a full range of perspectives about the challenges Guatemala faces in attaining a partnership with the MCA and engaged the team in broader discussion about the causes of poverty in Guatemala. Between this trip and a previous one to Washington, DC, in November, 2007, prominent interviewees included:

Representatives of the Guatemalan government

Guillermo Castillo, Guatemalan Ambassador to the US; and Georges de La Roche, then-Deputy Chief of Mission;
Luis Felipe Polo, Assistant to then-Vice President Eduardo Stein;
Harris Whitbeck, then-Presidential Commissioner for the Commission for the Reform, Modernization, and Strengthening of the State and its Decentralized Entities (COPRE); and
Guillermo Luna, then-Coordinator for the Socioeconomic Area of COPRE; and
Roderico Segura Trujillo, Assistant to the Human Rights Ombudsman.

Representatives of the Guatemalan private sector

Roberto Ardon, Executive Director of the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations (CACIF), the influential private sector lobby group;

Fernando Montenegro, President of Corporacion Dinamica, a coffee businessman, and Rigoberta Menchu's vice presidential running mate in the 2007 elections; and Carlos Ponce, Operations Manager at AG Corporacion: Aceros de Guatemala, a major Guatemalan steel company.

Representatives of academia

Pedro Trujillo, Director and Professor of the Institute for Political Studies and International Relations (EPRI) at Francisco Marroquin University (UFM); Francisco Beltranena and Glenn David Cox, Professors in EPRI-UFM

Edgar Bustamante, Director of the Institute for Security Studies at the Galileo University; and

Nicholas Virzi, Director of the Economics Department, and Julio Zelaya, Professor, at Rafael Landivar University.

Representatives of the media

Jose Ruben Zamora, President of ElPeriodico, one of the leading Guatemalan national newspapers.

Representatives of civil society

Edgar Heinemann, President of the Board of the Foundation for the Development of Guatemala (FUNDESA), the largest private sector development think tank; and Pablo Schneider, Director of FUNDESA's Center for Development Initiatives;

Roberto Caceres and Cesar Barrientos representing the National Association of Natural Resources of the Environment Non-governmental Organizations (ASOREMA); and Sheila Herrling, Manager of the Millennium Challenge Account Monitor at the Washington, DC-based think-tank, Center for Global Development.

Representatives of the Millennium Challenge Corporation

Bradley Parks, Associate Director for Development Policy at the Millennium Challenge Corporation; and Sarah Rose and Sophia Sahaf, officials of the MCC.

This ground-level interviewing experience allowed for more in-depth exploration into how Guatemala's political dynamics and economic and social structures override significant geographic, natural, and geopolitical development advantages to lock its citizens into cycles of poverty and exclusion. Several problem areas were frequently mentioned in interviews. These include:

In the political arena:

Endemic corruption;

Cronyism and lack of transparency in judicial and ministerial appointments;

Lack of transparency in political campaign contributions;
Influence peddling through political party financing;
Misappropriation of government contracts and generally ineffective government spending;
Lack of government meritocracy in the civil service; and
Rapid and poorly orchestrated turnover of national administrations.

In the economic arena:

Prevalence of vested economic interest groups;
Large informal economy and high levels of economic exclusion;
Low levels of economic competition;
Narcotics trafficking; and
Low, narrow tax base and general hostility towards paying taxes.

In the social arena:

Presence of organized crime;
Rigid socioeconomic hierarchy;
Untrustworthy domestic security forces;
Unequal land distribution; and
Marginalization of indigenous communities.

These factors paint a compelling picture of Guatemala and shed light on some root causes of poverty, one of the Guatemala Group's original research interests.



V. Research Conclusions

The Tufts Guatemala Group observed from their research that the MCA has generated great interest and technical expertise among leaders during the current and preceding Guatemalan administrations. However, the Guatemala Group found that only a small, select group, which primarily represents business interests, are working on the MCA qualification effort. Thus, the Guatemala Group found that in addition to – and perhaps related to – its unsatisfactory performance on Ruling Justly and Investing in People indicators, Guatemala does not meet the MCA's standards for full country ownership of the effort to establish and MCA partnership. Moreover, the Tufts students found that these Guatemalan entities working on MCA qualification have focused disproportionately on the Economic Freedom category of the MCA indicators – a distortion particularly problematic as the MCC gives paramount importance to the Control of Corruption indicator. Lastly, it appears that those who have taken the lead on the MCA qualification effort in Guatemala are strongly reluctant to partner with other Guatemalan entities representing other societal sectors and with different areas of expertise.

It is possible that Guatemala's unsatisfactory performance on the Ruling Justly and Investing in People indicators, lacking “full country ownership” of the MCA qualification effort, and disproportionate attention to the Economic Freedom indicators are interrelated

problems.

Observation 1: The MCA Has Generated Substantial Interest in Elements of Guatemala

As noted earlier, the MCA generated great interest within the administration of former President Oscar Berger. At the time of the interviews in January 2008, the Commission for the Reform, Modernization, and Strengthening of the State and its Decentralized Entities (COPRE) together with the Foundation for the Development of Guatemala (FUNDESA) were spearheading Guatemala's effort to qualify for an MCA partnership. Bradley Parks, a Development Policy Officer for Threshold Programs and one of the Guatemalan government's main contacts at the MCC, noted in a November 2007 interview that he was impressed by Guatemala's task force to qualify for the MCA. In May 2008, the groups working on MCA qualification shifted: the Vice President's office took over. FUNDESA no longer plays a leading role in Guatemala's qualification efforts and COPRE ceased to exist as an organization because it allegedly "duplicated functions" that other commissions carry out.

COPRE, created in 2004 by presidential decree, was an executive branch commission designed to promote, orient, and regulate national development through effective public administration, the use of technology, inter-institutional coordination, and by generating investment for economic development. During its existence, COPRE engaged in several initiatives to move Guatemala towards MCA qualification, including promoting a civil service law and creating a plan for land titling in Guatemala. In an interview at the Guatemalan Embassy in Washington, D.C., then-Commissioner of COPRE, Harris Whitbeck, compared the MCA Scorecard to an "MRI scan of the country." He said that when countries perform poorly, it creates a "naming and shaming" effect and plays off the desires of national leaders for international legitimacy in addition to their desires to attract foreign investment.

FUNDESA continues to serve as a source of information and proposals for public policy, though it no longer leads the MCC qualification effort. However, until this year, the organization had been an active proponent of getting the MCA on the government's agenda. According to its website, FUNDESA is a:

Private, nonpartisan, independent and nonprofit organization, made up by business people, acting in a personal capacity. The foundation conducts research and engages in advocacy in several areas such as social policy and economy that contributes to the integral, sustainable and democratic development as well as the promotion of a market economy and the rule of law.

Evidently, FUNDESA takes pride in its "long-term vision for key Guatemalan development issues."

FUNDESA educated itself extensively regarding Guatemala's MCA Scorecard and the MCC. Demonstrating thorough research and a deep understanding of the program, Pablo Schneider, Director of FUNDESA's Center for Development Initiatives, gave a detailed analysis of indicator compositions in discussing which international sources

determine Guatemala's performance on the Scorecard. Mr. Schneider argued that Guatemala's poor performance outside of the Economic Freedom category, particularly on the Ruling Justly indicators, was largely the result of poor measurement and prejudice by the international institutions that compile the indicators. This perspective echoes what the Guatemala Group heard from other interviewees at COPRE, FUNDESA, and the Guatemalan Embassy in Washington.

For example, Edgar Heinemann, President of FUNDESA, commented that sources of data for the MCC Scorecard like Freedom House, Amnesty International, and the Economist Intelligence Organization were looking for a "scapegoat" on issues such as human rights, and thus refused to acknowledge the dramatic improvements in Guatemala in recent years. As a result of this analysis, FUNDESA and COPRE believe that the way to improve Guatemala's performance on the Scorecard is to develop stronger relationships and channels of communication with these international organizations to reduce data "inaccuracies."

Observation 2: Guatemala's MCA Qualification Effort Lacks Full Country Ownership

FUNDESA's close relationship with each government administration positioned it to offer institutional continuity and credibility. Mr. Parks of the MCC pointed out that the Guatemalan government was strategic in involving FUNDESA in the MCA qualification process for this reason. And, in part to FUNDESA's credit, the MCA remained on the government's agenda to a degree. President Colom discussed it with President Bush at a meeting at the White House in April 2008.

Yet while FUNDESA's work has been crucial to Guatemala's qualification process, its prominent role had some unintended side effects. Specifically, FUNDESA gained disproportionate jurisdiction over the MCA qualification process. Meanwhile, other governmental, civil society, and private sector entities that might offer perspectives and expertise to complement FUNDESA's remained sidelined.

The leadership of FUNDESA showed no desire to involve other organizations in the qualification efforts. Mr. Heinemann expressed concern that other civil society organizations would focus on specific issues and co-opt the greater effort. In addition, he argued that the inclusion of too many groups could engender difficulties in determining and maintaining clear leadership of the MCC qualification process.

Meanwhile, interviews with several civil society and business leaders in January 2008 revealed that many had never heard of the MCA, let alone of FUNDESA's and COPRE's activities related to qualifying. These leaders appeared frustrated at not being included in the process, and articulated the desire to participate in this national effort. Members of ASOREMA, the coalition of more than two dozen progressive environmentalist groups, felt that the interests of their constituencies were not represented by FUNDESA or COPRE. |

This level of exclusion in managing the MCA process violates the MCA mission statement, which describes "Operate in Partnership" as one of the "Three Essential Elements of MCC Activity." The document states: "Countries that receive MCA assistance

are responsible for identifying the greatest barriers to their own development, ensuring civil society participation, and developing a multi-year MCC compact.” While many aspects of Guatemala’s qualification process are admirable, its exclusive nature is in direct violation of one of the MCA’s central tenets.

Observation 3: Guatemala’s MCA Qualification Effort Lacks Attention to All MCA Indicator Categories

The third finding of the Guatemala Group – that the MCA qualification effort severely ignores the Ruling Justly and Investing in People categories – is related to FUNDESA’s dominance and the lack of broader participation in the MCA qualification process. FUNDESA concentrated exclusively on the area of Economic Freedom. This is understandable in that it is their area of expertise; but what is less acceptable is that they have opposed collaborating with other entities with other areas of proficiency. The skewed distribution of attention is particularly problematic given Guatemala’s sufficient performance on the Economic Freedom indicators and deficient performance on the Control of Corruption indicator, which the MCA sets apart from all the other indicators in terms of importance.

Signs of insufficient consideration to all the MCA indicator categories have been evident for years. In an interview in October 2005, after meeting with then-President of Guatemala, Oscar Berger, then-Deputy Secretary of State Robert Zoellick highlighted this deficiency:

Guatemala “will be eligible in 2006 [for the Millennium Challenge Account], but it has to meet objective criteria, that deal with corruption, accountability, democracy and others... We have to look at external standards, these objective standards, there’s external reviewers, but we can try to work with Guatemala so it can upgrade their performance in the areas in which it is short. In a number of areas like trade, I think it will do well. In macro-economic policy it will do well; in democracy I hope it will do well, investing in people, one will have to see, because these are done as a medium in comparison with other countries. The Berger administration has done good work on corruption, went after some members of the prior government, but it has to be sustained and strengthened more generally.”

During interviews, members of FUNDESA claimed the organization had begun to broaden their capacity so as to work increasingly on areas beyond Economic Freedom. However, the organization’s representatives had not seriously thought through recommendations for improving Guatemala’s performance on either Ruling Justly or Investing in People.

Meanwhile, COPRE’s mission to focus on government effectiveness was hamstrung by the political climate – the organization’s vulnerability to change. As mentioned previously, the organization ceased to exist under the Colom administration. This unpredictability in efforts to improve government effectiveness underscores the need for greater civil society participation to provide the same type of consistency across administrations in the areas of Ruling Justly and Investing in People that FUNDESA provided for the Encouraging Economic Freedom indicators.

VI. Recommendations

Since the Tufts Guatemala Group's in-country research, much has changed in the structure of the MCA qualification effort in Guatemala. The Vice President, Rafael Espada, has created a new Millennium Challenge Committee, with one office in Washington, D.C., and one in Guatemala to centralize all the collaborating entities working on the MCA qualification and to integrate the data they each supply. Both offices report directly to the vice president and provide him with a quarterly progress report. The vice president also directs the relevant cabinet-level ministers and congressmen on their MCA-related functions.

These changes are a positive sign. The Guatemala Group has derived recommendations from their research for the MCC and Guatemala in the interest of advancing Guatemala progress even further. Failing to fulfill two MCA tenants – full country ownership and sufficient attention to all development pillars – is hardly irreversible. Moreover, certain remedies to the current situation offer extra benefits to Guatemala in addition to bringing the country to meet MCA partnership criteria.

Recommendation 1: Increase Participation of Other State, Civil, and Private Entities

The Guatemala Group recommends that the MCC build relationships with other Guatemalan state, civil, and private organizations that offer a broader range of perspectives on challenges to and opportunities for development in Guatemala. Vice President Espada's new Millennium Challenge Committee can serve as the central point of contact both for the MCC and the newly involved organizations.

If successful, the benefits to the MCC, the Guatemalan government, newly involved entities, and Guatemala as a whole are immeasurable. For the MCC, broader participation from different sectors of Guatemalan society will improve the quality of work now and in the future coming from Guatemala. It would also reduce the credibility of any argument against the MCC: for example, that the MCC does not meet its own standards or that, as an entity created under a Republican administration, it tends to favor business interests.

For the Guatemalan government, inviting new strategic partnerships ought to increase the country's likelihood of qualifying for Threshold funding. Looking beyond the MCA, building trust, communication, and a working relationship across pivotal societal players may behoove the government on other key issues affecting the country.

For the newly involved organizations, the opportunity to participate in the MCA qualification effort would most likely mean expanding their knowledge and experience with development programs and strategies. Working specifically with such influential entities as the Vice President's office and the MCC would also serve the organizations immensely. In particular, Guatemala's efforts to qualify for the MCA are an opportunity to reverse the tendency for civil society to be ineffective and excluded.

Guatemala as a whole only stands to gain from greater communication, understanding, and collaboration across sectors of such a divided nation. On the other hand, the longer other civil society groups are marginalized from the MCA qualification process, the greater the potential that they will feel less invested in it. Moreover, if the

status quo continues, the MCA could contribute to furthering the power inequality between sectors of Guatemalan society – a destabilizing situation that serves no one’s long-term interests.

If Guatemala’s MCA situation is to improve, all relevant actors will need to participate in developing a more inclusive process. The MCC may have a role to play in encouraging the Guatemalan government to reach across political and social boundaries to build the most effective team. While long-standing and deep social and political clashes impede cooperation across sectors, the MCC might use “carrots and sticks” to help overcome these obstacles. The MCC might also encourage collaboration on specific portions of the MCA qualification effort – such as the efforts related to the Investing in People indicators – to depoliticize the process. Eventually, the MCC might consider making public the strength of civil society participation in countries qualified or seeking qualification for the MCA as means to pressure for a more inclusive process in Guatemala and elsewhere.

Meanwhile, the Guatemalan government has already made strides in centralizing the country’s efforts under the Vice President’s office. Building relationships with international organizations that provide data to the MCC for its Country Scorecards, such as the Panamerican Health Organization, is a positive step for clarifying Guatemala’s challenges and taking action to address them. However, the government ought to use these relationships to design and implement productive projects to change the reality on the ground. Thus far, Guatemala has spent disproportionate energy ensuring that the international data-providing organizations have up-to-date and accurate data while neglecting to work on efforts that would significantly change Guatemala’s performance. Focusing only on the country’s Scorecard performance without looking deeper as to what causes that performance, is a mistake Guatemala can no longer afford to make.

While the difficulties for potential new organizations to access a partnership with the Guatemalan government may seem great, it would be helpful, at minimum, for them to be receptive to the government’s invitations, despite their being left out originally from the process and despite possible long-standing distrust of, or political or ideological differences with, the government. Ideally, the advantages of bringing an MCA program to Guatemala and of the ability to be a part of the design, implementation, and monitoring of such a program should offer some incentive to overcome the typical clashes among these entities.

Recommendation 2: Improve Distribution of Effort Across Indicator Categories

When the MCC was first established, former US Secretary of State Colin Powell, who served as the first chair of the MCC Board, highlighted explicitly what the MCA is about. He said:

“MCA grants will be awarded to governments, non-governmental organizations, and private organizations, which they will put to work promoting good governance, furthering economic reform and anti-corruption efforts, developing enterprise and the private sector, building capacity for trade and investment, raising agricultural productivity and promoting health and education.”

Guatemala can get away with doing no less, despite the political obstacles, if it is to qualify

for the MCA.

The Guatemala Group rejects the claim that Guatemala's poor performance on the Ruling Justly and Investing in People indicators are products exclusively of poor measurement and biases among the international institutions doing the measuring. Instead, the Group believes change must take place on the ground – in governmental policies, accountability, and resource expenditure and effectiveness – if Guatemala is to qualify for, and put to good use, MCA funding. Yet recalling the section of this paper on the political, economic, and social factors to which the group's interviewees typically attributed poverty and exclusion in Guatemala, achieving real improvements on the MCA indicators will hardly be a matter of a one-time, narrow, or politically easy change.

Still, some progress is feasible, and the MCA does not require countries to produce outstanding results in a short time so much as demonstrate effort in order to qualify for Threshold programming. Thus, the government of Guatemala ought to concentrate on inviting a few strategic new organizations with expertise in the Ruling Justly and Investing in People categories to be a part of the MCA qualification efforts. This first step towards reorienting qualification efforts may not produce on its own serious progress on indicator performance, but it is the foundation for such progress.

Secondly, the MCC might emphasize what the Guatemalan government must already know: the highly intertwined nature of the three development pillars. In other words, governance, economic policy, and social investments affect each other, and sustainable progress in any category is most likely to result from the three advancing in concert. In the short-term, it is tempting to believe that Guatemala's strong economic performance can be sustained regardless of problems in governance, health, and education. Yet the complex and quiet reality is that the three MCC pillars are deeply connected, and that high levels of corruption and government ineffectiveness, as well as pervasive violence, severely increase the cost of producing a good business climate.

VII. Conclusion

The Guatemala Group believes that the situation in Guatemala may jeopardize the integrity of the MCA qualification process and is, at best, a lost opportunity to strengthen civil society and to create incentives for more effective and inclusive governance in Guatemala. One act – the thoughtful and strategic inclusion of more representative organizations in the MCA process – could make meaningful progress on both of these accounts.

The Guatemala Group is hopeful that Guatemala can one day earn and reap the benefits of the MCA if the critical leaders follow the right steps. The strong initial interest in the MCA and the foundation FUNDESA and COPRE have built are reasons for optimism. Ultimately, it is the commitment of the MCC, the Guatemalan government and other cooperating entities in Guatemalan society to the common goal of making Guatemala a better place for all its citizens that will carry or crash the MCA qualification effort.

Appendix A: Guatemala's 2008 MCA Scorecard

United Nations Economic Commission for Latin America and the Caribbean (ECLAC); based on official figures as of 30 April 2008. <http://www.eclac.org/cgi-bin/getProd.asp?xml=/prensa/noticias/comunicados/3/32933/P32933.xml&xsl=/prensa/tpl-i/p6f.xsl&base=/tpl-i/top-bottom.xsl>

The World Bank: Guatemala Country Brief (September 2006) <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/GUATEMALAEXTN/0,,contentMDK:20904081~menuPK:328123~pagePK:1497618~piPK:217854~theSitePK:328117,00.html>

“Today, I call for a new compact for global development, defined by new accountability for both rich and poor nations alike.” Quote from President Bush’s address at the Inter-American Development Bank in Washington, D.C. on March 14, 2002. <http://www.whitehouse.gov/infocus/developingnations/>

Alicia Phillips Mandaville. “MCC and the Long Term Goal of Democracy.” Millennium Challenge Corporation, November 2007.

Lower-income countries are defined by the MCC as having per capita Gross National Income (GNI) at or less than \$1735. Lower-middle income countries are defined by having per capita GNI at or less than \$3595. Only 25 percent of total MCC assistance is allocated for lower-middle income countries.

Threshold Programs are small grants (around \$10-50 million) designed to support countries that do not yet qualify for Compact Assistance in their efforts to improve performance on specific failing indicators. Compact Assistance means a full, multi-year MCC-eligible country agreement (around \$100-500 million) organized around specific programs to reduce poverty and prompt economic growth.

The MCA Country Scorecard is comprised of independent and transparent indicators related to good governance; health, education, and the environment; and economic policy. The indicators are compiled with data from such entities as: The World Bank Institute, Freedom House, World Health Organization (WHO), United Nations Educational, Scientific, and Cultural Organization (UNESCO), the International Finance Corporation (IFC), and the Heritage Foundation, among others.

Ruling Justly refers to respect for political freedom, civil liberties, and rule of law. Investing in People refers to investment in health, education, and the environment. Economic Freedom refers to fiscal, trade, regulatory, and other economic conditions.

In the January 2008 edition of the Latin Business Chronicle, an article on the new Colom administration taking office in Guatemala included, among other recommendations that: “The U.S. should encourage Guatemala to introduce reforms that will make it eligible for a Millennium Challenge grant.” Quote from: Ray Walser, “Perspectives: Colom and Guatemala: New Optimism.” Latin Business Chronicle. <http://www.latinbusinesschronicle.com/app/article.aspx?id=1984>

The Millennium Challenge Corporation: A Partnership for Success: The Millennium Challenge Corporation in Guatemala (9 June 2008) <http://www.mcc.gov/documents/factsheet-061008-latinamerica.pdf>

See Appendix A to view Guatemala’s 2008 Scorecard.

Indicator descriptions are from the MCC Sample Scorecard.

The conclusions derived from the Guatemala Group’s preliminary research focus on Guatemala’s qualification process and on its relationship with the MCC, rather than the complex set of reasons for the country’s failure on the indicators.

In-person interview: Millennium Challenge Corporation office in Washington, DC: November 30, 2007.

“El Gobierno crea comision para liquidar la COPRE.” Prensa Libre, 24 April 2008.

Comisión Presidencial para la Reforma, Modernización y Fortalecimiento del Estado y sus entidades

Descentralizadas: Quienes Somos. http://www.copre.gob.gt/quienes_somos.html

In-person interview: COPRE office, Guatemala City, Guatemala: January 2008. <http://www.prensalibre.com/pl/2008/abril/24/234205.html>

In-person interview: Guatemalan Embassy, Washington, D.C.: August 2008.

In-person interview: FUNDESA office, Guatemala City, Guatemala: January 2008
Fundacion para el Desarrollo de Guatemala: Mission and Vision. <http://www.fundesa.org.gt/page/whatIsFundesa-mission>
In-person interview: Millennium Challenge Corporation office in Washington, DC: November 30, 2007.
“President Bush Meets with Guatemalan President Alvaro Colom,” Office of the Press Secretary, 28 April 2008, The White House. <http://www.whitehouse.gov/news/releases/2008/04/20080428.html>
MCC Annual Report: 2005. http://www.mcc.gov/about/reports/annual/mcc_annual_report_2005.pdf
In fact, Guatemala’s efforts have earned it high praises from individuals as high up as the CEO of the Corporation: In MCC CEO Ambassador John Danilovich’s opening remarks at the American Enterprise Institute in January, he praised Guatemala as “a story that, for me, sums up the underlying *power* of awarding development assistance to countries through an 1. objective, 2. competitive, 3. indicator-based selection process.” (“Can Indicator-Based Competition Make Foreign Aid Work?” *Keynote Opening Remarks by MCC CEO Ambassador John Danilovich*. 14, January, 2008. <http://www.mcc.gov/press/speeches/documents/speech-011408-aei.php>.)
This praise comes despite the country’s blatant violation of an essential element of the MCC process. “Remarks by Former Deputy Secretary of State Robert Zoellick.” Interview with Juan Carlos Llorca, Associated Press. Guatemala City: 3 October 2005. <http://www.state.gov/s/d/former/zoellick/rem/55174.htm>
“Millennium Challenge Account: A New Compact for Global Development.” *Economic Perspectives: An Electronic Journal of the U.S. Department of State*, Vol. 8, No. 2, March 2003. US Department of State, International Information Programs. <http://usinfo.state.gov/journals/ites/0303/ijee/ijee0303.htm>

Guatemala and the Millennium Challenge Account: The Quest for Threshold Program Assistance