



## ISSUE BRIEF Treasury Department

### Treasury's role with the Development Banks

The United States Department of the Treasury is responsible for a wide variety of functions. Although its jurisdiction includes important domestic monetary duties such as budgets and taxes, the Treasury Department also plays a role within the international community and works with the international development banks in a number of ways.

The Office of International Affairs is responsible for overseeing United States participation in the International Monetary Fund (IMF) and the multilateral development banks, including the World Bank (WB), the Inter-American Development Bank (IDB), the African Development Bank (AFDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the International Bank for Reconstruction and Development (IBRD). The Secretary of the Treasury is directly involved with the work of the development banks and serves as U.S. Governor of the IMF, IBRD, IDB, ADB, and EBRD.

Through the Office of International Affairs, the Treasury Department seeks to increase economic growth and improve economic stability in developing countries, emerging market countries, and industrial countries. This is done through the provision of timely policy advice and the implementation of new policy initiatives on a broad range of international economic and financial issues.<sup>11</sup>

### Linkages to the development Banks

The Treasury Department has played an active role in increasing the efficacy of the regional development banks and has focused specifically on productivity growth, measurable results, private sector reform and increased trade capacity. Every year, the Treasury Department provides loans to the development banks. A list of these loans is visible on the Treasury Department's website. According to the Treasury Department website, the development banks are seen to "serve critical United States' interests in promoting global economic growth and stability, especially in those areas of the world where poverty is most acute."<sup>12</sup>

### Regional Example: The Department of Treasury in Africa

The U.S. Treasury Department is active in all regions of the world. Africa represents one region where, in partnership with the IMF, World Bank and ADB, the Treasury Department has been a key contributor to growth and development. Over the past five years, the Treasury Department has worked with these institutions to commit \$18 billion in development assistance to Sub-Saharan Africa. The Treasury Department has also forgiven over \$1 billion in debt owed by 19 African countries and has actively worked with the development banks to establish programs for sustainable development for countries with exceptionally high debt. Additionally, the Treasury Department has offered direct technical assistance through the creation of a mechanism for allocating resources between the central government and local governments and has negotiated bilateral tax treaties favorable to developing African nations.

## **Millennium Challenge Account: A new compact for global development<sup>13</sup>**

In March 2002, President Bush announced the establishment of a Millennium Challenge Account (MCA), which would increase core U.S. development assistance by more than 50 percent over the next three years. Full funding of MCA would result in a \$5 billion annual increase in assistance over current levels by FY 2006.

MCA grants are meant to help foster economic growth and attract much-needed investment to poor countries. MCA grants are intended for countries, which govern justly, invest in their people, and open their economies to enterprise and entrepreneurship.

The funding is intended to respond to the most pressing issues in individual countries. Leaders are to propose specific programs to address the greatest challenges that they face. Eligible grant recipients include governments, non-governmental organizations, and private organizations. The money is slated to help achieve such goals as 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.

A new government corporation, supervised by a Board of Directors of Cabinet-level officials and chaired by Secretary of State Colin Powell, administers the MCA to ensure accountability and measure impact.

The MCA stresses accountability for both developed and developing nations. This means that while the amount of U.S. development money will increase, it will have many strings attached. The President announced that the Millennium Challenge Account will be “devoted to projects in nations that govern justly, invest in their people and encourage economic freedom.” Countries, which may be poor, but which are highly corrupt, will not be eligible for MCA funds.

### **Country Eligibility**

- In FY’04, the first year of MCA operation, countries eligible to borrow from the International Development Association (IDA), and which have per capita incomes below \$1,435, will be considered.
- In FY’05, all countries with incomes below \$1,435 will be considered.
- In FY’06, all countries with incomes up to \$2,975 (the current World Bank cutoff for lower middle income countries) will be eligible.
- Country eligibility will be reviewed by the Board.
- Countries prohibited from receiving assistance by current statutory restrictions will not be eligible.



## Performance Indicators

MCA recipients will be judged through transparent and objective criteria. President Bush has said that the Millennium Challenge Account will “reward nations that root out corruption, respect human rights, and adhere to the rule of law...invest in better health care, better schools and broader immunization...[and] have more open markets and sustainable budget policies, nations where people can start and operate a small business without running the gauntlets of bureaucracy and bribery.”

The countries will be evaluated according to the following<sup>16</sup> indicators from the three broad categories of 1) governing justly, 2) investing in people, and 3) promoting economic freedom. Each indicator was established by the institution in parentheses. The variety of indicators should balance bias coming from any particular indicator and should give countries equal access to resources depending on their track records.<sup>14</sup>

## Governing Justly

- Civil Liberties (Freedom House)
- Political Rights (Freedom House)
- Voice and Accountability (World Bank Institute)
- Government Effectiveness (World Bank Institute)
- Rule of Law (World Bank Institute)
- Control of Corruption (World Bank Institute)

## Investing in People

- Public Primary Education Spending as Percent of GDP (World Bank/national sources)
- Primary Education Completion Rate (World Bank/national sources)
- Public Expenditures on Health as Percent of GDP (World Bank/national sources)
- Immunization Rates: DPT and Measles (World Bank/UN/national sources)

## Promoting Economic Freedom

- Country Credit Rating (Institutional Investor Magazine)
- Inflation (IMF)
- 3-Year Budget Deficit (IMF/national sources)
- Trade Policy (Heritage Foundation)
- Regulatory Quality (World Bank Institute)
- Days to Start a Business (World Bank)

## Performance Assessment

To qualify for assistance, each country must score above the median on half of the indicators in each of the three policy areas. The methodology attempts to assure that countries are committed to each of the three policy areas, allows countries to identify their greatest challenges, and does not prevent low income countries from receiving aid.

## The Importance of Performance Measures

The Millennium Challenge Account has introduced a new level of accountability for U.S. development resources. While some of its critics find the measures harsh, many people believe strongly in the notion of conditional giving; that is, a country or group should not receive funding if its leaders do not govern with a fair hand. The MCA, with its performance measures, therefore creates an incentive to perform better in order to receive funds. The hope is that this incentive will essentially translate into good governance, leading to higher productivity and economic growth.

The MCA, then, rewards “pro-growth” policies, which are represented by the 16 indicators. These policies, which were reviewed by an inter-agency committee including representatives from the Department of Treasury, are meant to increase growth and create an environment conducive to investment. The MCA model of conditional giving and the use of performance measurements can be applied to development initiatives around the world and could be considered in the case of development projects in Alaska.

## Role of the Domestic Policy Council

The Domestic Policy Council (DPC) coordinates the domestic policy-making process in the White House and offers policy advice to the President. The Council also works to ensure that domestic policy initiatives are coordinated and consistent throughout federal agencies. The DPC monitors the implementation of domestic policy, and represents the President’s priorities to other branches of government.<sup>15</sup>

Under President Bush, the Domestic Policy Council oversees major domestic policy areas such as education, health, welfare, justice, federalism, transportation, environment, labor, and veterans’ affairs. The Office of National AIDS Policy (ONAP), the Office of National Drug Control Policy (ONDCP), and the Office of Faith-Based and Community Initiatives (OFBCI) are also affiliated with the Domestic Policy Council. Membership includes the cabinet Secretaries and Administrators of federal agencies affiliated with the DPC’s major policy areas.<sup>16</sup>

<sup>11</sup> <http://www.ustreas.gov/offices/international-affairs/index.html>

<sup>12</sup> [http://www.ustreas.gov/offices/international-affairs/multilateral\\_banks/index.shtml](http://www.ustreas.gov/offices/international-affairs/multilateral_banks/index.shtml)

<sup>13</sup> <http://www.whitehouse.gov/infocus/developingnations/millennium.html>

<sup>14</sup> For greater detail on each indicator, please go to the respective website of the institution in parentheses.

<sup>15</sup> <http://www.allamericanpatriots.com/m-wfsection+article+articleid-160.html>

<sup>16</sup> <http://www.whitehouse.gov/dpc/>