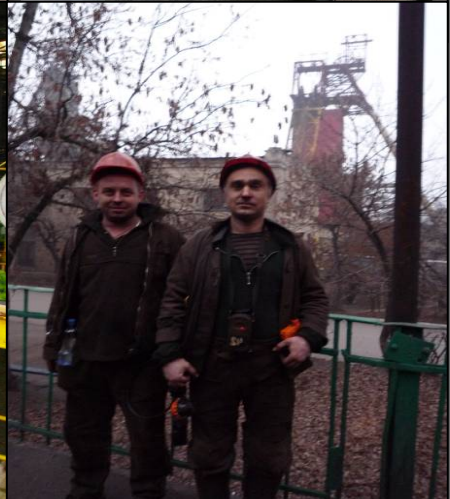




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# THE LABOR SECTOR AND THE MILLENNIUM CHALLENGE CORPORATION (MCC)



JANUARY 2009

This publication was produced for review by the United States Agency for International Development. It was prepared by ARD, Inc.

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## INTRODUCTION

In June, 2007, USAID awarded ARD, Inc. the first of two task orders under the Analytical II IQC. The task was to develop a rigorous approach to labor sector programming that can better contribute to evolving United States Government (USG) objectives in transformational diplomacy and development.

The first in a series of tools and resources developed under this task order is a technical paper, which presents a conceptual framework for analyzing labor issues in the foreign assistance framework (FAF). A key finding of this paper is that viewing the labor sector through the optic of a system helps us to understand how a properly functioning labor sector is important to the development of a liberal democracy and is favorable to market-driven economic growth. The paper describes how the four components of a labor-enabling environment (legal foundation, labor institutions, labor markets, and labor organizations) inter-relate, and what characteristics within each of these components support a labor enabling environment. By viewing labor through a systems optic, the paper demonstrates how promoting labor-enabling conditions in developing countries can be an efficient means of promoting the five cornerstones of the FAF: peace and security, governing justly and democratically, investing in people, economic growth and humanitarian assistance.

This topical briefing document presented here briefly describes the objectives and framework of the Millennium Challenge Corporation (MCC), a foreign assistance program with the goal of reducing poverty by promoting economic growth, and reviews key intersections between the MCC's core performance criteria (ruling justly, investing in people, and encouraging economic freedom) with labor programming goals. The paper goes on to identify the ways in which labor programming can preposition a threshold country to be more successful in committing to sustainable and equitable economic development principles during the compact period. Finally, the paper points out that not addressing labor related issues as components of the MCC's core objectives risks undermining the country's ability to engage in sustainable development during the compact period.

## THE MCC AND LABOR INTERSECTIONS

Millennium Challenge Corporation (MCC or the Corporation) is a USG program created in 2004 to provide financial support to countries that meet U.S. goals of good governance, economic freedom, and investments in their people. The MCC utilizes 17 policy indicators, including several that relate to some of the core labor standards, to determine country eligibility for multi-year assistance. Based on the outcome of country evaluations, the Corporation may assign countries as eligible to participate in one of the following two programs:

**MCC Compact Program:** Countries that meet or exceed the MCC's core criteria are invited to submit a proposal for Millennium Challenge Account (MCA) grant money. If selected, a grant is provided to the government and is used for infrastructure development, investment in schools, job creation,

agricultural improvements, or other large-scale initiatives to stimulate economic growth. Though the recipient government develops a proposal for the use of grant money, the actual spending is discretionary.

**MCC Threshold Program:** Countries that narrowly miss meeting MCC compact country criteria are eligible to receive threshold program funding. Rather than providing MCA grant money directly to the recipient country's government, funding is provided to international assistance programs aimed at strengthening performance in weak areas, and readying the country for compact assistance.

The threshold program provides a brief opportunity to establish or reinforce good governance and oversight mechanisms before the country receives an influx of money dedicated to stimulating economic growth. These foundations are needed to ensure that economic growth supports the broader goals of poverty reduction and sustainability. The technical paper finds that interventions in the labor sector can not only promote labor rights and other workers' interests, but can influence a broad range of governance and economic growth issues. Key intersections between the MCC's core performance criteria (ruling justly, investing in people, and encouraging economic freedom) and labor programming goals are described below:

### Ruling Justly

Performance in the ruling justly category is measured by six policy indicators (civil liberties, political rights, government effectiveness, rule of law, and control of corruption). Many of the factors rated to determine a country's commitment to ruling justly have a direct relationship to labor issues.

For example, the factors used to measure the **civil liberties indicator** include the degree of freedom of assembly, and collective bargaining; freedom from economic exploitation; existence of rule of law, and equal treatment under law; and equality of opportunity and gender equality. These factors have a clear and direct relationship to labor programming, which expressly supports the ability of labor organizations (e.g. trade unions, human rights groups, and other civil society actors) to promote labor rights in constitutions, laws, policies, and practices. Labor programming also strengthens the legal foundations, government institutions, and labor organizations that promote civil liberties as defined by the MCC. These interventions, while focused on labor-issues, can promote democratic governance more broadly.

The **political rights indicator** is measured by factors that are less explicitly related to labor, but which nonetheless can be supported instrumentally by labor programming. In particular, this indicator is measured by the ability of political parties and groupings to compete openly in the political system; the existence of a *de facto* opposition power; and government policies that reflect the will of the people. Labor programming can support political rights in a new or struggling democracy more broadly by supporting the development of trade unions and other workers organizations that are internally democratic and which serve as effective advocates for workers rights. In addition, as discussed in the technical paper, labor rights are defined by the international community to be basic human rights, and therefore core political rights. To exclude labor rights from performance criteria would be to omit a key indicator of political rights.

The **voice and accountability indicator** measures the extent of freedom of expression, freedom of association, and media independence. Success in these areas is believed to foster economic growth by encouraging stability and social trust, and improving government responsive and accountability. Factors to measure this indicator include freedom of speech, assembly, association and demonstration; and the transparency of the business environment and government actions. Intersections between this indicator and labor programming are clear—labor programming traditionally supports the process by which employee organizations, unions and other worker organizations, and government institutions resolve disputes and find common interest. This indicator also is measured by equality of opportunity, including gender equality, a core labor standard.

The **government effectiveness indicator** is measured in part by the participation of civil society in the policy-making process; and the degree to which red tape hinders business activity. The role of trade unions and other worker organizations directly contribute to the development of civil society, which is generally considered to include labor organizations. In addition, other civil society organizations (CSOs), such as human rights groups, also often engage with governments in support of labor rights.

The most obvious beneficiaries of success on the **rule of law indicator** are business and foreign investment, which are attracted by and function best in a predictable, rules-based environment. Equally critical to the development of a well-functioning labor environment is the relationship between rule of law and core labor rights. Factors to measure this indicator include the independence, effectiveness, and predictability of adjudication systems as well as the enforceability of private and government contracts. Labor programming can support improvements to this indicator by building the capacity of government institutions such as labor courts and tribunal boards, and the capacity of worker organizations and other CSOs to demand accountability and transparency from their government.

Like the rule of law indicator, a country's performance on the **control of corruption indicator** has clear and direct implications for foreign investment and enterprise development. Corruption is detrimental to business interests because it increases costs and lowers productivity. Government institutions have an interest in fighting corruption because it discourages trade, leads to the misuse of public funds for health, education, and development, and erodes public confidence in public institutions. Worker organizations and civil rights groups fight corruption because it weakens public services, reduces the profit and competitiveness of business, and reinforces systems that disenfranchise the poor. Corruption, when viewed from a labor perspective, offers a unique opportunity to join employer organizations, government institutions, and worker organizations in a shared effort. Each of these groups is negatively impacted by corruption, and each has a stake in combating it. Labor programming can support improvements to this indicator by improving the capacity of worker organizations and other CSOs to act as watchdogs and whistleblowers, and by facilitating dialogue between the tripartite stakeholders to combat corruption for their own respective self-interests.

## Investing in People

Performance in the investing in people category is measured by five policy indicators: health expenditures, primary education expenditure, immunization, girls' primary education completion rate, and natural resource management. Labor programming can have a direct influence on two of these indicators—**primary education expenditure** and **girls' primary education completion rate**.

The influence of labor programming in this area is threefold. Firstly, labor interventions work to build human capital through investment in training and educational programs. Secondly, labor programs work to combat workplace discrimination by supporting the development and progressive improvement of anti-discrimination legislation, and helping unions and other civil society groups to combat workplace discrimination. Thirdly, labor programs advocate for the needs of female workers, such as skills training, the provision of childcare services, and other programs aimed at integrating women more effectively into the workforce.

## Encouraging Economic Freedom

Labor is a critical, if sometimes overlooked, component of any sustainable economic growth strategy. Recognizing the integral role of labor, the MCC has included “a proven commitment to economic policies that respect workers rights, including the right to form labor unions” as one of 12 criteria for evaluating whether a country is promoting economic freedom. A country striving to achieve compact eligibility, therefore, has incentive to develop laws and policies that allow the establishment of labor unions.

However, once a country meets the benchmarks and is granted MCA funds, a commitment to workers rights may be cast aside in an effort to focus on the “harder” indicators of economic growth—easing regulations and processes for new business, encouraging foreign investment, increased flexibility for hiring and firing workers, increased participation of private sector in infrastructure projects, etc. While these indicators are important factors in a country’s economic development, the ensuing development will be neither equitable nor sustainable if not balanced by a commitment to core labor rights.

Labor programming in the threshold period is critical to ensuring that economic growth serves the broader goals of MCC assistance. Employer organizations, worker organizations, civil society groups, and governments all have a stake in promoting equitable economic growth. Labor programming can help these stakeholders—often perceived as adversaries with inherently conflicting interests—to find common ground through training, facilitation of dialogue, and the development of efficient and effective processes to resolve disputes.

## CONCLUSIONS

The evaluation methodology used by the MCC is aimed at identifying countries that are best positioned to translate financial assistance into strategies to promote broad-based, sustainable economic growth. A well-functioning labor sector can play a key role in ensuring that MCC compact recipients maintain a commitment to equitable growth, good governance, and the broader goals of poverty reduction and sustainability. A focus on labor programming during the threshold period is critical to establishing the systems to reinforce this commitment during the period of rapid growth that follows a compact award. Not including labor proves to be challenging to several MCC indicators.

### Recommendations

For the ongoing Analytical II Indefinite Quantity Contract (IQC) task order, the Program Handbook can be modified by the development of programming modules to directly address the labor elements outlined in the above discussion on MCC assistance. In particular, labor elements should be explicitly incorporated into the two indicators of ruling justly and encouraging economic freedom. In addition, the task order should consider conducting country labor assessments in MCC eligible and MCC compact countries.

The MCC can improve its ability to evaluate candidate country’s commitment to, and capacity for, equitable growth and anti-poverty strategies by more systematically including labor indicators in its selection methodology.

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**Task Order under the Analytical Services IQC** Second Phase of Analytical Work: The Role of Labor in the Foreign Assistance Framework USAID – State/DRL

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