

## The Millennium Challenge Account: Soft Power or Collateral Damage?

By Steven Radelet and Sheila Herring\*

**Summary:** In March 2002, President Bush proposed establishing the “Millennium Challenge Account” (MCA), a new foreign aid program designed to provide substantial assistance to low-income countries that are “ruling justly, investing in their people, and encouraging economic freedom.” The MCA could bring about the most fundamental changes to U.S. foreign assistance policy since the Kennedy administration. The significance of the initiative lies partly in its scale: the proposed \$5-billion annual budget represents a 50-percent increase over the FY02 foreign aid budget and a near doubling in the amount of aid focused strictly on development objectives. Perhaps even more important, the MCA brings with it the opportunity to improve significantly the allocation and delivery of U.S. foreign assistance as well as a recognition of the value of both hard and soft power in the pursuit of a safer and more secure world. If the new program is not implemented carefully, however, it could lead to greater fragmentation and confusion in U.S. foreign assistance policy, weaken the U.S. Agency for International Development (USAID), and impede coordination with other donors. Much will depend on the details of how the MCA is established during its first year, as well as the extent to which the administration implements changes in other assistance programs. This policy brief is a preview to the analysis and recommendations in *Challenging Foreign Aid: A Policymaker’s Guide to the Millennium Challenge Account* by Steven Radelet, available April 30, 2003.

### The promise of being different

The Millennium Challenge Account represents a dramatic change in the way the United States provides foreign assistance. The basic idea is to select a relatively small number of recipient countries based on their demonstrated commitment to sound policies, provide them with large sums of money, give them more say in designing aid-funded programs, and hold them accountable for achieving results. If implemented carefully and effectively, the MCA could fundamentally improve U.S. foreign assistance. Its success is far from

assured, however. The administration has not made the MCA a particularly high priority since the President announced the program more than one year ago, and that must change if the program is to succeed. This policy brief first describes how the MCA is intended to differ from existing programs, and then turns to specific recommendations on strengthening the design of the program to help the MCA achieve its promise.

The MCA is intended to be different from current aid programs in five critical ways, each of which has sparked debate, discussion, and controversy.

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1. **Focused objectives.** The MCA will focus on supporting economic growth and poverty reduction, not other foreign policy objectives. U.S. foreign aid suffers from the attempt to serve too many purposes at once, only one of which is economic development. Carol Lancaster<sup>1</sup> has classified six different broad purposes of U.S. foreign assistance:

- Promoting Security
- Promoting Development
- Providing Humanitarian Relief
- Supporting Political and Economic Transitions
- Building Democracies
- Addressing Transnational Problems (such as HIV/AIDS or environmental degradation)

These objectives are all important and legitimate goals for U.S. foreign aid and foreign policy more broadly. Problems arise, however, when one program attempts to simultaneously meet multiple, sometimes conflicting objectives. The most obvious conflict arises between diplomatic and security goals and long-term development goals. This tension is hardly new—it dates back to at least the Korean War, was a common theme throughout the cold war and the conflicts in Central America in the early 1980s, and heavily influences aid to the Middle East today.

The MCA is designed to provide a sharper focus on economic growth and poverty reduction for at least one part of the U.S. foreign assistance program. If this focus can be maintained, it will help reduce the tensions arising from multiple goals (although it will not eliminate them), increasing the likelihood that the MCA can achieve its development goals. The administration's proposal to use publicly available, development-oriented criteria to choose countries is a striking attempt to de-politicize the selection process. In effect, the administration is (loosely) tying its hands behind its back to protect MCA funds from being diverted to immediate security problems. Other funds can be used for that purpose.

Of course, the MCA cannot be completely de-politicized, and tensions with other goals will arise in at least four different ways.

- In choosing the countries, strategic goals are likely to influence decisions about countries that are on the margin of qualification, pulling some up and others down. Thus, favored countries close to meeting the standards could be added to the list, while less friendly countries that qualify could be dropped.
- In allocating funds once countries are selected, strategic partners may get a larger share of MCA funds than other countries.
- In assessing the consequences for countries that miss performance benchmarks, strategic partners may receive more lenient treatment than others.
- In establishing the overall budget for the MCA, the program may receive less than the \$5 billion annually that the President originally promised, with funds instead targeted for political and strategic partners.

2. **Country selectivity.** The MCA will provide assistance to only a select group of low-income countries, building on the idea that aid

is most effective in countries with governments that are implementing sound development policies. This view lies behind the President's call for the MCA to provide aid to countries that are "ruling justly, investing in their people, and establishing economic freedom."<sup>2</sup>

The MCA is hardly the first aid program to promise greater selectivity. President Kennedy called for greater aid selectivity in 1961 when he established USAID, envisioning that an independent aid agency could allocate aid based on development needs and not the political criteria that had been used extensively in the 1950s. Similarly, World Bank structural adjustment programs supposedly were focused on countries that introduced appropriate policy reforms, although in practice funds were allocated just as much to countries that simply promised reforms as to those that actually implemented them.

The MCA differs in two important ways:

- It proposes using a public and transparent process to select countries to receive aid. It remains to be seen how closely the administration actually sticks to these criteria, but the MCA appears to be the first program that uses pre-announced quantitative indicators to select recipient countries.
- Recipient countries must meet all the criteria before they qualify. In typical USAID, World Bank, or other donor programs in which aid is contingent on policy conditions, recipients enact only some of the reforms beforehand, and they promise to enact further reforms in return for disbursements of aid. All too often, the promised changes never take place and the aid is disbursed anyway.

The MCA country selection process has sparked tremendous debate. Some analysts are concerned that too few countries qualify, while other worry that the "wrong" countries qualify, either because the selection process highlights the wrong areas or because the underlying data are inaccurate.

3. **Greater recipient involvement.** The administration is proposing a new approach in which the government and non-government groups in eligible countries take the lead in developing and defending their own ideas for using aid. This so-called foundation approach calls for groups in qualifying countries to write proposals for various activities, with only the best ideas actually receiving funding. Proposals would be expected to spell out the specific actions that the recipient would take and the benchmarks by which success would be measured, pushing recipients to establish concrete goals. The approach embraces the belief that increased recipient-nation ownership of and commitment to development programs leads to better results. It also provides an opportunity to enhance donor harmonization, as countries' proposals would provide a blueprint allowing several donors to co-fund the same or related programs.

Giving recipient countries more flexibility and responsibility makes particular sense in countries with a demonstrated commitment to sound development policies, but it would not be effective in coun-

<sup>1</sup> Carol Lancaster (2000), *Transforming Foreign Aid: United States Assistance in the 21st Century* (Washington DC, Institute for International Economics).  
<sup>2</sup> <http://www.whitehouse.gov/news/releases/2002/03/20020314-7.html>

tries with less capable governments. Thus the selectivity of the MCA and the change in delivery mechanism go hand-in-hand.

**4. Lower bureaucratic costs.** The administration has proposed that the MCA be administered by a new “government corporation” designed to reduce administrative costs and increase effectiveness. The Millennium Challenge Corporation (MCC) is to be governed by a cabinet-level board of directors chaired by the secretary of state and managed by a CEO appointed by the president. The biggest advantage of establishing a new organization is that it could avoid the political pressures, bureaucratic procedures, and multiple congressional mandates that weaken current aid programs. Its status as an independent body could make it more flexible and responsive as well as allow it to attract top-notch talent. Its mission to do business differently than other aid programs, with a narrower focus, higher standards, and more flexibility, provides a rational case for a new institution. Establishing a new corporation, however, carries significant risks. It could further fragment foreign assistance programs and polices, which are already spread across several executive agencies with very uneven coordination. It could also further weaken USAID by drawing away its resources and eroding morale at the agency.

**5. Focus on results.** The administration claims that the MCA will be driven by results. It plans to provide more generous funding for successful programs, reduce funding for weaker programs, and withdraw funding from programs that fail. Ensuring strong results will require high-quality, carefully vetted proposals and a strong monitoring and evaluation system that reviews both recipient progress and the efficacy of the MCA’s delivery systems. Independent, effective monitoring and evaluation will be critical to keeping funded programs on track, guiding the allocation of resources toward successful activities and away from failures, and ensuring that the lessons learned from ongoing activities—both successes and failures—inform the design of new projects and programs.

Grant recipients will be expected to spell out specific measurable performance benchmarks in their proposals for each activity. **If** these benchmarks focus on substantive goals (such as increasing test scores or raising immunizations rates by a specified amount) and institutional goals (such as training a certain number of teachers, improving auditing systems, or strengthening legal codes), **if** monitoring and evaluation are incorporated into projects and programs from the outset rather than added as an afterthought halfway through the process, **if** both internal (carried out by the grantees) and external (carried out by contractors or other independent evaluators on behalf of the U.S. Government) evaluations are conducted to monitor compliance and high standards, and **if** the MCC itself is monitored and evaluated on a regular basis, the MCA may indeed be truly different.

While most observers applaud the focus on results, there is a danger that the administration may be over-zealous in its search for measurable results. Development inherently is a risky long-term process in which even the best-designed interventions may not succeed. While demanding results, the U.S. must encourage innovation, which will require accepting failures from good-faith efforts.

## Enhancing the prospects for success

*Challenging Foreign Aid: A Policymaker’s Guide to the Millennium Challenge Account* offers many recommendations for building on these opportunities to strengthen the MCA and make it truly different. The most important are the following.

**1. The country selection process must be implemented fairly and openly, and it should be strengthened over time.** Using the administration’s proposed methodology, approximately 12 countries would qualify for the MCA in the first year, with perhaps 18 qualifying during the first three years. Several other countries are close to qualifying. Many of these countries are reasonable candidates for the MCA, while others are more questionable.

The proposed selection methodology is a good start, but it must be improved and refined over time. A small number of new indicators should be added, especially in health, education, and the business environment, in order to better capture recipient country policies and institutions. Some of the weaker indicators (such as the trade policy index and spending on health and education) should be replaced over time as better indicators become available. Similarly, the most subjective indicators should be replaced with more objective ones when possible. The administration must work with recipients, other donors, and research institutions to improve the quality and availability of data that could be used as potential indicators.

The administration and Congress should establish an independent expert panel, consisting of outside academic and other technical experts, to review the selection process on an annual basis and offer recommendations for improvement. The process raises many issues about the choice of indicators, quality of data, weighting of indicators, choice of hurdles, and determination of income categories that cannot be solved through legislation but that are too important to be left to staff of the new corporation. An independent review panel would be the best way to give these issues the attention they deserve.

A significant drawback of the proposed methodology is that it limits severely the number of countries that can qualify over time, even if country performance improves significantly. At the root of the problem is the use of the median score as the standard for passing each hurdle. Although this sounds like a mundane statistical issue, it has profound impacts on the selection process:

■ First, medians are likely to improve over time, so recipient countries will be aiming at moving targets. Countries that strive to achieve a particular, say, immunization rate in order to qualify may be disappointed to find that even though they raised their immunization rate, the median rate rose even more and they still fail to qualify. Similarly, countries that qualify in one year may find that they do not qualify in a subsequent year even if their scores have risen, simply because the median scores have risen even more.

- Second, using the median limits the number of countries that can qualify. Using the current system, statistically speaking it is highly unlikely that more than 20 countries could qualify for the MCA in a given year, even if there were a widespread improvement on the 16 indicators. The reason is straightforward: as the countries that just miss qualifying work hard to improve their scores, the median score will rise, so some of the original qualifiers will drop off the list.

As a result, the use of the median as a hurdle undermines the goal of expanding the MCA over time. The administration already uses an absolute score for one indicator (a 20-percent inflation rate). It should immediately shift to absolute scores (equal to the median score in the first year) for other indicators where possible, and should work toward modifying the remaining indicators so that absolute scores can be used for all of them in the future.

A related problem with the median is that for several indicators (especially those on civil liberties, political rights, and trade), the range of scores is very narrow, and many countries are bunched together exactly at the median. In the administration's methodology, scores equal to the median do not count as passing a hurdle. As a result, these countries in effect are penalized because the indicators are measured with such a narrow range. The selection process should count median scores as sufficient to pass the hurdle.

The proposal to eliminate all countries with corruption scores below the median regardless of their performance on other indicators should be modified. Although the intention to provide funds only to countries making active efforts to control corruption is laudable, the data underlying this indicator (as with almost any indicator) are not reliable enough to be the sole basis for immediately disqualifying half of the countries eligible to compete for the MCA. One alternative would be for the administration to eliminate immediately the worst corruption offenders, where the data indicate that there is a 75-percent chance or greater that the true level of corruption is below the median. Similarly, it could eliminate countries where the corruption score is in the lowest quartile. Other countries would remain eligible and could qualify if they pass sufficient hurdles in other areas.

The administration's proposal that the board of directors of the corporation be allowed to modify the list of qualifying countries under limited circumstances is appropriate. However, care must be taken that over time the administration (present and future) does not abuse this discretion by using MCA funds to reward strategic and diplomatic partners.

**2. The administration's proposal to include countries with per capita incomes between \$1,435 and \$2,975 starting in the third year of the program should be dropped.** The MCA should focus its grant financing on the poorest countries. The countries with per capita incomes between \$1,435 and \$2,975 have less acute development needs and more options for financing, by borrowing from the World Bank, through private capital markets or with domestic saving. In particular, on average these countries are four times richer than the low-income countries and have substantially lower illiteracy rates,

higher life expectancy and lower infant mortality. They also receive larger amounts of private capital, generate more tax revenue and have higher saving rates than the low-income countries (see Table 1). Moreover, including this group of countries risks politicizing the MCA, since it contains several countries of great strategic importance to the United States. As an alternative, MCA-eligible countries could be split into two different groups: countries with per capita incomes of \$875 or less and those with per capita incomes between \$875 and \$1,435. Under this system, the 87 poorest countries in the world would be eligible for the MCA, with 68 in the first group and 19 in the second. This formulation would keep the focus of the MCA on the poorest countries.

**3. The program design process must balance openness and inclusiveness in the recipient country with efficiency and lower administrative costs, with much of the responsibility for program design shifted to potential recipients.** There should be an extensive participatory process in the qualifying countries to ensure widespread input into the design of MCA-funded programs. This approach is intended to encourage innovation, creativity, and true ownership of the development programs being implemented on the ground. To meet this goal, the corporation should accept proposals from a variety of institutions in qualifying countries, including national and subnational governments, NGOs, and some private-sector entities. Forcing all such proposals to go through a single in-country clearance process and be embodied in one "contract," as the administration seems to be favoring, will give the recipient government too much power over the process at the expense of independent subnational governments (which may represent a different political party) and NGOs. Opening the proposal process more widely will add to the administrative burden of the new corporation, but it will result in more original, higher-quality programs, in stronger results, and in a more effective MCA.

A key ingredient to designing high-quality MCA activities is the proposal review process. All proposals should be carefully and thoroughly vetted by U.S. government staff with appropriate country and substantive expertise, especially including staff on the ground with in-depth knowledge of the recipient country. To facilitate unbiased and high-quality technical input, the review process should include local and international nongovernmental experts. In addition, the MCC should post on the Internet all proposals that it accepts for funding in order to ensure full disclosure and transparency in the review process.

The MCA should not try to do everything. Ideally, the program should focus on a core set of activities that meet four criteria: they should be demonstrable contributors to economic growth and poverty reduction, consistent with achieving the Millennium Development Goals set by the United Nations and with each country's poverty reduction and development strategies, services that the private sector is likely to underprovide, and areas where aid can actually make a difference. The most promising areas for MCA funding include health, education, agriculture, environment, and some limited private-sector activities (such as microfinance and possibly small and medium-sized enterprise funds).

Shifting toward greater country ownership and involvement in the design process inevitably will create new responsibilities for recipients. Thus an important challenge for the MCA will be to avoid overwhelming potential recipients with the application and implementation process. Particularly important will be to avoid requiring recipients to produce multiple project audits, environmental impact reports, procurement assessments, and other requirements that differ from those of other donors. The effectiveness of the MCA will be undermined if it simply becomes one more set of hoops for recipients with limited administrative capacity to jump through. The corporation should offer small amounts of funding to recipients to allow them to hire local and international technical assistance to help prepare proposals. Corporation staff must work closely with recipients and other donors to harmonize reporting processes and other administrative requirements. Achieving high standards for the MCA need not require multiple standards for recipients, nor should it lead to more bureaucracy.

**4. The corporation must be established with a solid foundation, including strong board membership, adequate staffing, appropriate coordination with other agencies, and fewer legislative mandates than existing programs.** Creating a new government corporation is a reasonable strategy, given the relatively unique nature of the MCA and the restrictions and bureaucracy that impinge on USAID's operations. This step entails some risks, however: it could lead to more confusion and inconsistency in foreign aid policy and it could weaken USAID by drafting staff and other resources from the agency. For the new corporation to operate effectively, it needs the right board of directors. The three key administration representatives should be the secretary of state, the secretary of the treasury, and the administrator of USAID. The administration's proposal to include the director the Office of Management and Budget instead of the administrator of USAID should be dropped. In addition, two representatives from outside the government should be on the board to provide the organization with independent ideas and fresh perspectives.

The administration's proposal to use staff on detail from other agencies is sensible, so long as the home agency is not expected to pay the costs. Staff on detail from other agencies should complement a core staff of longer-term employees who will provide continuity and institutional memory for the new organization, with the MCC covering the full costs of its operations, both in Washington and in the field.

The administration has suggested a staff of 100 for the new corporation. Although the objective of keeping the corporation lean is laudable, this number is too small and risks undermining the quality of MCA programs. Certain services can be contracted out to private firms or other government agencies, but relying too much on other agencies or outside consultants ultimately would undermine the corporation's effectiveness. A staff of at least 250, including a strong presence in each recipient country to be the "eyes and ears" of the program on the ground, will be essential for maintaining high-quality proposals, financial accountability, rigorous monitoring and evaluation standards, and strong results. Corporation staff members will need to establish mechanisms to closely coordinate their work with other U.S. agencies working on development issues, especially in USAID and the Departments of State and Treasury.

Existing U.S. foreign assistance programs are enmeshed in an elaborate web of legislative mandates and directives that weaken their performance. To be effective, the MCA must be freed from many of these restrictions. There should be no earmarking or tied aid in the MCA, as these policies seriously undermine program flexibility and effectiveness. MCA funds, once appropriated, should be available until expended and not lost if unused by the end of the fiscal year. Pressures to "use it or lose it" undermine the quality of programs and the ability to focus programs squarely on achieving results.

**5. A rigorous monitoring and evaluation system will be central to the MCA's success.** A results-based approach for foreign aid cannot succeed without a solid monitoring and evaluation (M&E) process. A strong

**Table 1: Who needs the MCA most?**

Low-income countries have greater development needs, and less access to resources than the lower-middle-income countries:	Countries with income less than \$1435	Countries with income between \$1435-\$2975
<b>Development Status</b>		
GNI per capita, 2001	\$460	\$1965
Adult illiteracy rate, adult total, 2000 (%)	33	14
Life expectancy at birth, 2000 (years)	56	70
Mortality rate, infant, 2000 (per 1,000 live births)	69	27
<b>Resources Flows and Financing</b>		
Adult illiteracy rate, adult total, 2000 (%)	33	14
Life expectancy at birth, 2000 (years)	56	70
Mortality rate, infant, 2000 (per 1,000 live births)	69	27
<b>Number of Countries</b>	<b>87</b>	<b>28</b>

M&E system will help ensure that programs meet specified goals, indicate when adjustments are needed to keep activities on track, inform decisions to change or eliminate funding, avoid problems with absorptive capacity, and shape the design of new activities. Both internal (by the grantee) and external (by a contractor or a government agency, such as the General Accounting Office) monitoring and evaluation processes are required, and they should be built into each proposal from the outset. In order to strengthen the basis for determining the impacts of MCA funded projects, a small number of evaluations should be carried out more rigorously using control and treatment groups. In addition, the M&E process should include regular assessments of the corporation itself and its effectiveness and efficiency in delivering aid. M&E programs must go beyond the standard approach of fiduciary oversight and actually focus on achieving development results. So far the administration has given little attention to M&E issues. If the MCA does not establish a much stronger M&E system than in existing programs, it is doomed to fail.

**6. Be patient.** Development takes time, even under the best of circumstances. There should be no temptation to “graduate” recipient countries from MCA assistance prematurely, or even to threaten this step, in the hope that a few years of MCA assistance will be enough to put low-income countries on a path of sustainable development. To do so could be counterproductive. Even in some of the more successful developing countries, aid flows were sustained for relatively long periods of time. For example, consider the experience of the countries that have permanently graduated from the World Bank’s concessional lending window, the International Development Association (IDA). On average in these countries it took 10 years for aid flows to decline to 50 percent of their peak level, and another 10 years to decline to 25 percent (See Figure 1). It will take many years for even the best of the MCA countries to graduate. For example, Ghana does everything right under the MCA and achieves sustained 7 percent per capita annual growth (a rate similar to that achieved by South Korea and Taiwan), it will take it 21 years for it to reach a per capita income of \$1,435, the upper income level for the first group of MCA countries. Instead of trying to graduate countries too early, the administration should plan to follow successful programs with new ones for progressively smaller amounts of funding, as long as recipients continue to meet the overall qualifying standards and use MCA funding well.

As the MCA unfolds, it will be extremely important to keep expectations realistic. Some programs will show weak results, even if they are carefully planned and skillfully implemented. No aid program—no matter how big, well targeted, and efficient—can transform poor countries overnight, and probably not even over decades.

### **Making a real difference requires more than the MCA**

To achieve U.S. foreign policy goals of ensuring a more open, equitable, and prosperous global economic system and fighting terrorism, the administration and Congress must look beyond the MCA.

Although this is a promising program, it is only one part of a comprehensive foreign assistance program. The administration and Congress must develop clear strategies for countries that do not qualify for the MCA, from near-miss countries to failed states. Different approaches are required for different circumstances, with varying design procedures, delivery mechanisms, objectives, and monitoring and evaluation processes. And, of course, the risks will be greater and the results harder to achieve in these countries. In those that just miss qualifying for the MCA, allowing recipients to write limited proposals focused on the specific areas where they fall short of qualification could strengthen traditional aid programs. In countries with weaker governments, donor funding should continue to concentrate on specific projects, but with streamlined contracting and procurement procedures to make projects more cost-effective. Where governments are especially weak (or are part of the problem), aid should be channeled through NGOs and other service providers on the ground. In some circumstances, no aid should be provided at all.

Developing strategies beyond the MCA will require a thorough rethinking of the objectives and strategies for USAID. To be more effective, USAID should focus its activities more narrowly and set clear priorities and transfer its more politically based programs to the State Department. Many of the legislative mandates that undermine the agency should be reviewed and simplified. The right way to make these changes would be to rewrite the 1961 Foreign Assistance Act. While this would be a difficult and time-consuming process, it is much needed and long overdue, and central to making U.S. foreign assistance programs more effective. The current bipartisan support for foreign aid provides an unusual opportunity to take on this task.

Foreign aid alone, however, will not be enough to create meaningful economic opportunities and fight poverty in low-income countries. By far the most important actions are the policies introduced by governments in low-income countries and their commitment to improving the welfare of the poor within their own borders. Nevertheless, other U.S. policies also have a strong influence, especially U.S. trade policies. Opening U.S. markets more fully to low-income countries would be a far more effective way to support sustained economic growth and development than the MCA can ever be. If the U.S. government is serious about leading the world toward greater openness and prosperity, it must reduce farm subsidies and lower trade barriers on agricultural and labor-intensive manufactured products. Other areas that need improvement include debt relief, health policy, and climate change.

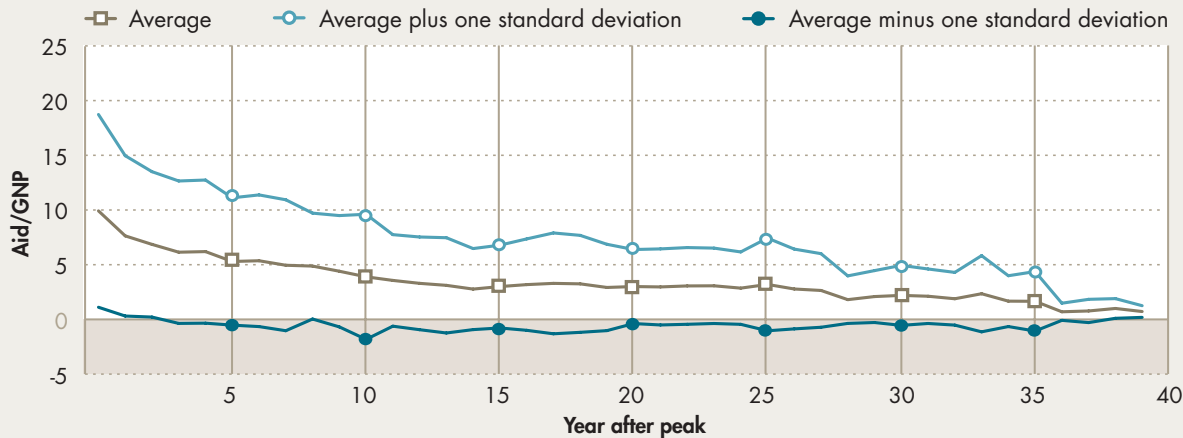
### **Keeping the promise: wither development dollars?**

To achieve stated U.S. foreign assistance objectives, the MCA and other critical foreign assistance programs require full funding and strong leadership. The administration boldly announced that the MCA and its new HIV/AIDS initiative would provide substantial



**Figure 1:** Patience is a Virtue: Even the most successful developing countries graduated slowly from aid.

## Aid flows to 20 IDA-graduate countries



**Note:** This graph shows the pattern of aid flows following their peak for 20 countries that have permanently graduated from IDA. The solid line shows the average for all 20 countries. Some of the 20 countries are closer to the average than others, but most fall within the dotted lines (technically, the dotted lines represent one standard deviation above and below the average). The peak year is different for each of the 20 countries, but in all cases the peak year is between 1960 and 2000. This graph shows the average for 20 of the 22 permanent IDA graduates, excluding Jordan and Equatorial Guinea.

**Source:** Clemens and Radelet (2003) [http://www.cgdev.org/wp/cgd\\_wp023.pdf](http://www.cgdev.org/wp/cgd_wp023.pdf)

new financing for fighting global poverty, and that these funds would not come from existing programs. It must now fulfill those promises. Whereas the administration claimed that it would make the MCA a very high priority following the President's announcement, to date it has given inadequate attention to working with Congress, shaping the program, and designing the new corporation. The pace of progress on the MCA has been slow compared with other programs such as the Global Health Fund and President Kennedy's founding of USAID in 1961. Much stronger leadership will be necessary to get the program started on time with a solid foundation.

On the funding front, growing budget deficits will create pressures to provide smaller amounts of funding for the MCA, to delay the full implementation of the program over more than three years, and to reduce funding for other programs. However, underfunding these commitments would diminish the chances of their success, weaken the opportunity for the United States to regain global leadership on foreign assistance issues, and reduce the extent to which the United States can achieve its broader foreign policy goals.

The administration requested \$1.3 billion for the MCA for FY04, \$400 million less than it originally implied it would seek. Moreover, it indicated that it intended to seek the same amounts for FY05 and FY06, rather than ramping the program up to \$5 billion as initially indicated. Administration sources have indicated that the

figures for future years were errors; however to date an erratum has not been issued. Perhaps more interestingly, the Congressional Budget Office has estimated MCA outlays of just \$130 million in FY04, \$652 million in FY05, and \$964 million in FY06. These figures suggest a slow start for the MCA and long delays in the program fulfilling its promise.

The reality of tight budget constraints means that all new spending proposals will face tough sledding. That was the prewar reality. Now the rubber meets the road on demonstrating a commitment to match hard military power with what could be tremendous soft power in the quest for a safer, healthier, and more prosperous world. The MCA provides an opportunity for the United States to reassert itself in a global leadership role it has not filled in recent years, both because of the program's size and its (potentially) innovative delivery mechanisms. If it is fully funded, implemented efficiently, responsive to needs on the ground, and focused on realistic results, the MCA could dramatically improve foreign aid programs both in the United States and in other donor countries. If the MCA is complemented with new strategies for making existing U.S. foreign assistance programs more effective, the combination could yield much stronger results in combating poverty while furthering U.S. strategic interests around the world. Foreign assistance policy in the United States stands at an important crossroads. It remains to be seen whether the promise of an MCA translates into a priority or gets caught in the crossfire.

The **Center for Global Development** is an independent, non-partisan, non-profit think tank dedicated to reducing global poverty and inequality through policy oriented research and active engagement on development issues with the policy community and the public. A principal focus of the Center's work is the policies of the United States and other industrial countries that affect development prospects in poor countries. The Center's **research** assesses the impact on poor people of globalization and of the policies of governments and multilateral institutions. In collaboration with civil society groups, the Center seeks to identify **policy alternatives** that will promote equitable growth and participatory development in low-income and transitional economies. The Center works with other institutions to improve **public understanding** in industrial countries of the economic, political, and strategic benefits of promoting improved living standards and governance in developing countries.



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