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# THE MILLENNIUM CHALLENGE ACCOUNT: A CRITICAL LOOK AT THE NEWLY FOCUSED DEVELOPMENT APPROACH AND ITS POTENTIAL IMPACT ON THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

by *Melanie Nakagawa*\*

## INTRODUCTION

On March 14, 2002, while addressing the Inter-American Development Bank, President George W. Bush announced that the United States would increase its foreign development assistance by fifty percent as part of the U.S. commitment to the United Nations Millennium Declaration, which calls for “more generous development assistance” and “enhanced debt relief” for less developed countries.<sup>1</sup> Much of the additional foreign aid from the United States would be administered through the Millennium Challenge Account (“MCA”) to countries that demonstrate they are ruling justly, promoting economic freedom, and investing in their people.<sup>2</sup> The MCA is implemented by the Millennium Challenge Corporation (“MCC”). While the MCC is an innovative attempt to achieve poverty alleviation, the MCA suffers from problems in its design and presents potentially challenging impacts on other donor organizations given its current implementation scheme. This article seeks to open the door to debate the potential effectiveness of the newly-created, independent institutional home for the MCA funds, the MCC.

As described by the former MCC Chief Executive Officer Paul Applegarth,<sup>3</sup> “the MCC was established [on January 23, 2004] as a new innovative foreign assistance program by the United States under the initiative and sponsorship of the President to reduce poverty in some of the poorest countries in the world by promoting sustainable economic growth.”<sup>4</sup> The MCA attempts to promote sustainable economic growth as a mechanism to reduce poverty by funding results-based projects, targeting countries, and having the financial support of a large grant-based budget. The consequences of these three components have the possibility of exerting a significant influence on how effective the MCA will be at poverty alleviation and economic development.

The approach characterized by the MCA is a departure from the target-setting approach of the Millennium Development Goals (“MDGs”). This article begins with an overview of the MDGs, and how development needs to be structured around these goals, their current status, and why the MDGs are unlikely to be achieved by the target date of 2015. The second section describes the MCA by identifying the key components of the MCA that make it distinct from other donor and development models. The second section also analyzes the differences between the MCA- and MDG-approaches to development assistance, such as the MCA’s country-initiated and country-owned approach. The third section provides examples of how and why the MCA might hinder the progress and efforts of donor organ-

izations to effectively provide foreign aid, specifically addressing the potential tension and friction between the MCA and U.S. Agency for International Development (“USAID”). This article concludes with open questions about how the MCA’s results-based and country-driven approach may have unintended consequences on U.S. development policy, including on donor agencies such as USAID, and encourages debate on these impacts that may extend to similar effects on other organizations such as the World Bank.

## THE MILLENNIUM DEVELOPMENT GOALS

At the September 2000 UN Millennium Summit, the international community marked the turn of the millennium by adopting the UN Millennium Declaration, stating that “only through broad and sustained efforts to create a shared future, based upon our common humanity in all its diversity, can globalization be made fully inclusive and equitable.”<sup>5</sup> Adopted as a General Assembly resolution, the UN Millennium Declaration built upon the international community’s previous commitments including those to human rights, the environment, and poverty alleviation. Over 150 heads of state of developing and developed nations unanimously adopted the Declaration, which pledges “to spare no effort to free all of humanity, and above all our children and grandchildren, from the threat of living on a planet irredeemably spoiled by human activities, and whose resources would no longer be sufficient for their needs.”<sup>6</sup> The global compact reached by these world leaders endorsed a set of time-bound and measurable targets to combat issues such as poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women, which became known as the Millennium Development Goals.

The MDGs provide a common language for this global pledge by enumerating eight goals: (1) eradicate extreme poverty and hunger; (2) achieve universal primary education; (3) promote gender equality and empower women; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDS, malaria, and other diseases; (7) ensure environmental sustainability; and (8) develop a global partnership for development. Goals One through Seven are interconnected and directed at reducing poverty in all forms. Goal Eight provides the means to achieve the first seven goals. The MDGs set out quantifiable targets to measure country progress ranging from halving extreme

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poverty to halting the spread of HIV/AIDS.<sup>7</sup> The targets are to be achieved by 2015. However, every country, whether it is an aid donor or recipient, is responsible for the determination and implementation of policies to achieve these goals.

If reached, the overall impact of the MDGs in the developing world would be unparalleled. For example, if the goals were met in just ten countries, the following would likely occur: almost six million children will go to school for the first time; 24 million more people will be able to drink clean water; for every thousand children under the age of five, one hundred of them would be saved from dying unnecessarily; and more than 25 million people would be raised above the poverty level of one dollar per day.<sup>8</sup>

The international community is far from achieving the MDGs. In particular, the success of achieving the environmentally specific goals has been quite mixed. The United Nations Development Programme's *Human Development Report 2003* provides a comprehensive status report on poverty trends.

This Report tracked the progress in achieving the MDGs, which use 1990 as the baseline year for measuring improvement. The Report found that many countries had moved forward in achieving parity between girls and boys in primary school enrollment and universal primary education.<sup>9</sup> However, the Report also found that many countries' rates of economic growth were not on target to halve income poverty

by 2015.<sup>10</sup> Similarly, in dozens of countries the report found that the standard of living had actually declined since 1990, and that the number of income-poor in sub-Saharan Africa, South Asia, and Latin America combined has increased by approximately ten million people each year over the same period.<sup>11</sup> Similarly grim, the Report noted that if developing countries do not accelerate their progress towards creating access to safe drinking water, close to 2.4 billion people will still be without improved sanitation in 2015, a number that is almost equal to the number of people lacking clean water and basic sanitation today.<sup>12</sup>

The international community is in general agreement that current trends indicate that meeting the MDGs by 2015 is not likely. While there are a variety of factors involved in the projected failure of the majority of developing countries to achieve the MDGs, three commonly cited explanations are worth discussing. The first is MDGs are too limited because they lack specific accountability for the developed countries and provide little guidance on how to meet the MDGs in the developing world. Second, developed nations are not implementing the goals in a consistent, coordinated fashion. This fractured approach is exemplified by the United States, which has chosen to break from the MDGs and follow its own plan for development. The third preferred explanation is that the overall amount

of funding is insufficient to achieve the great alleviation of poverty sought by the MDGs.

First, civil society organizations have proposed that the MDGs are too limited because they lack specific accountability for the developed countries and provide little guidance on how to meet the MDGs in the developing world.<sup>13</sup> The MDGs' limitations primarily result from the fact that countries wanting to achieve the MDGs are not given adequate guidance on how to do so. For instance, the MDGs do not offer policy or economic suggestions, but rather leave the implementation aspects under the purview of each country. Compounding developing countries' frustration in attempting to enlist assistance from the developed world is the fact that the MDGs do not effectively engage the rich, developed countries in this process. Aside from signing a global compact to support the MDGs, the MDGs lack strong incentives or accountability measures for the developed countries to actually implement or promote them.

Second, although world leaders signed onto the MDGs in 2000, the developed nations have not implemented consistent measures to provide resources and funding for the developing world. Few donor countries have met the goal of providing 0.7 percent of their gross national product in foreign aid.<sup>14</sup> This inconsistent implementation of measures to promote the MDGs among developed nations was most recently exemplified by the U.S. attempt to renegotiate the proceedings at the most recent

UN World Summit in September 2005 in New York City. The United States has not only failed to provide anywhere near 0.7 percent of its GNP in aid, but has also broken completely with the strategy for development in the MDGs. Prior to the 2005 UN Millennium Summit meeting, the United States was no longer in agreement with other nations promoting the MDGs as the internationally accepted approach for framing the development agenda. Rather, the United States considered the MDGs one approach among others. The *Washington Post* reported that the "the Bush administration has thrown the [world summit] proceedings in turmoil with a call for drastic renegotiation"<sup>15</sup> by introducing more than 750 amendments to the draft agreement that all the attending world leaders would sign. These amendments called for "striking any mention of the [MDGs]. . . Instead, the United States has sought to underscore the importance of the Monterrey Consensus, a 2002 summit in Mexico that focused on free-market reforms, and required governments to improve accountability in exchange for aid and debt relief."<sup>16</sup> These changes "mark[ed] a final break with the pledge [to support the MDGs] agreed by the Clinton administration."<sup>17</sup>

The third explanation for the projected failure to achieve the MDGs is that there is insufficient financial support from the international community. Jeffrey Sachs, head of the Millennium

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*There is a debate on how [Millennium Challenge Account]'s large budget, new methodology, and country selection process will impact USAID.*

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Project based at Columbia University, developed teams of experts to examine policies and develop approaches necessary to accomplish the various goals. Sachs believes that it is critical for the developed world to recognize that without sufficient aid, the poorest countries will be unable to generate the capital necessary on their own to develop and will remain in what he calls the “poverty trap.” Sachs mentions that with “good governance, planning, and sufficient funds in place, the final step towards achieving the MDGs is the implementation of specific programs and national strategies.”<sup>18</sup> For instance, experts and engineers at USAID have the capacity to make progress in certain areas such as sanitation and infant mortality, but insufficient funding has limited the application of this expertise.<sup>19</sup> Criticism of Sachs focuses on the fact that his economics-driven approach overlooks the social, political, and physical environments of recipient nations; however, adequate funding is at least one critical factor in achieving effective development assistance.<sup>20</sup>

With less than a decade left before the target deadline for the MDGs, donor organizations and governments recognize that their current efforts are inadequate. The United States has refocused its development approach by institutionalizing a new methodology and a new agency with a relatively large sum of money for development assistance to address extreme global poverty. This newly focused approach, represented by the MCA, could present a unique opportunity for the current administration to significantly transform U.S. development policy and maximize its global impact, or it could hamper the effectiveness of already existing aid organizations.

### THE MILLENNIUM CHALLENGE ACCOUNT

In March 2002, President George W. Bush unveiled a new foreign aid program, the Millennium Challenge Account, to address development aid challenges. The Bush administration hopes the MCA will be an effective mechanism by which the United States can improve some of its foreign aid programs, which have faced much criticism. For instance, USAID has been criticized for its inability to achieve strong results in recipient countries and the lack of accountability among its many levels of bureaucracy. Similarly, USAID is often criticized for its highly bureaucratic nature and competing self interests. Additionally, the United States’ extensive practice of Congressional earmarking has forced USAID to allocate funds for politically popular programs, such as disaster relief, instead of entirely allowing USAID the freedom to determine on its own which programs need funding.<sup>21</sup> If the MCA proves successful, it is likely to have a great influence on the way future development is implemented.

Domestically, the MCA’s success could lead to stronger Congressional support for aid programs and general initiatives supporting low income countries.<sup>22</sup> If implemented properly, the

MCA could yield the most fundamental changes to U.S. foreign assistance policy since President John F. Kennedy introduced the Peace Corps, USAID, and the Alliance for Progress in the early 1960s by providing significant amounts of foreign aid that is bilateral and country-driven.<sup>23</sup> Policies promoting economic growth stimulate a wide range of positive effects on the environment, women, health, and children. Economic prosperity can improve people’s lives by providing families with options that promote sustainable development rather than, for example, unsustainable environmental degradation. If the United States has indeed found a more efficient way to promote economic growth through the MCA, the far-reaching effects will touch on many of the MDGs.

### AVOIDING COMMON DONOR DILEMMAS: REDUCING BUREAUCRACY, PROMOTING ACCOUNTABILITY, AND PROVIDING INCENTIVES

The MCA may provide a solution for the three key shortcomings of MDGs: (1) ineffective national implementation; (2) lack of specific accountability; and (3) insufficient funding. The MCA’s streamlined organization and independent status enable it to avoid difficulties associated with other donor programs’ massive bureaucracies. Its results-driven approach addresses the typical problems caused by lack of coordination with recipient-country development strategies and focuses on achieving results rather than initiating sound policy and governance structures.<sup>24</sup>

The MCA avoids bureaucratic difficulties by channeling its funds through an independent government corporation, the MCC. The MCC requires accountability in recipient countries and is designed to be an accountable and transparent local institution itself. The eligibility criteria for MCA funds also provide an incentive for countries to demonstrate a strong commitment towards “ruling justly, investing in their people, and encouraging economic freedom.”<sup>25</sup>

### Reducing Bureaucracy

The MCA and the subsequent creation of an independent implementation institution, the MCC, represent the United States’ attempt to address and resolve the bureaucratic problems faced by other donor models and organizations. The MCC is designed to be flexible and efficient in its contracts, program implementation, and personnel management. The MCC sidesteps two major bureaucratic obstacles common to other development agencies by being an independent government corporation free from Congressional earmarks, and by maintaining a relatively small staff, congressionally capped at two hundred employees.

The MCC’s corporate structure is also an attempt to reduce the effects of bureaucracy by keeping policy authority centralized in a few people organized as a “Board of Directors.” As a corporation, it is managed by a Chief Executive Officer

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*It has yet to be seen how coordination and cooperation is progressing between [the Millennium Challenge Account and USAID].*

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(“CEO”) appointed by the President and confirmed by the Senate. It is supervised by a Board of Directors composed of the Secretaries of State and Treasury, the U.S. Trade Representative, the Administrator of USAID, the CEO of the MCC, and four non-government directors nominated by the President and confirmed by the Senate, with the Secretary of State acting as the Chairman of the Board.<sup>26</sup>

The Board selects countries eligible for the MCA based on sixteen indicators falling under the three categories: “ruling justly,” “encouraging economic freedom,” and “investing in people.” The Board has discretion to look at other factors drawn in, but not limited to, consultation with experts and supplemental information from the U.S. State Department Human Rights Reports and Transparency International’s Corruption Perception Index.<sup>27</sup> In keeping with a streamlined approach and decision making process to allocate development aid, the Board harmonizes the relationship between the recipient country and the MCC by signing “Compacts” with these countries. Compacts are agreements between the recipient country and the MCC where the recipient country has the principal responsibility of managing and implementing the compact, with the assistance of the MCC. Also, because MCA eligible countries are tasked with the responsibility of submitting proposals and providing oversight and monitoring, the MCC can remain a small institution in staff size tasked with moving the MCA to countries signing compacts. Instead of having a significant amount of MCC staff in each country where a compact exists, the MCC relies on each country to report back to them. This operational method has been called a “foundation approach” to development.

### Promoting Accountability

The MCA’s means to foster accountability and country responsibility represent departures from other development approaches and foreign assistance programs in four ways. First, the MCA only provides development aid to countries that show a commitment to sound development and economic policies. Second, the MCA proposes greater recipient involvement that includes a “foundation approach” where the MCC receives proposals from governments and chooses which will receive funding. This places the responsibility for program design and implementation on the recipient countries.<sup>28</sup> The MCA’s implementing charter, the Millennium Challenge Act of 2003, has focused objectives aimed at economic growth and poverty reduction through country-driven proposals and recipient country-monitored projects, unlike other foreign assistance programs where the agency or organization determines where money should be spent and for what purposes. Third, the MCA focuses on results that require MCA recipients to delineate measurable performance benchmarks in their proposals for each request. The benchmarks must focus on substantive goals, such as increasing test scores; raising immunization rates by a specific amount; and institutional goals, *e.g.* improving auditing systems, strengthening legal codes, or training a certain number of teachers.<sup>29</sup> These benchmarks are more specific than the MDGs. Also, each project must incorporate aspects of monitoring and evaluating the proposal’s progress. Fourth, the creation of the MCC to administer the MCA is meant to lower bureaucratic and administrative

costs by maintaining a small accountable staff and providing them with specific guidelines for aid allocation.

### Providing Incentives

While MDGs do not delineate a plan for domestic implementation of policies geared towards achieving the goals, the MCC provides incentives for countries seeking MCA funding to demonstrate their commitment to “ruling justly, investing in their people, and encouraging economic freedom.”<sup>30</sup> As former MCC CEO Paul Applegarth observed on the eligibility for MCA seeking countries, “if they can get the policy environment right, they will generate growth and capital.” Armenian Foreign Minister Vartan Oskanian testified that this incentive-based approach has had positive effects in that “inclusion in the Millennium program had made [his] country ‘more focused’ on governance, democracy, rule of law, and human rights.”<sup>31</sup>

While critics argue that the MDGs are inadequately funded, U.S. President Bush proposed that the MCA receive funding of five billion dollars per year within three years (by 2007), representing a fifty percent increase in official development assistance.<sup>32</sup> The impact of the MCA funding is significant. As Applegarth noted, “[w]hen the program is fully funded, each [MCC] eligible country could receive as much as \$300 million in additional aid per year beyond its current foreign assistance.”<sup>33</sup> Foreign aid and development expert Steve Radelet describes the amount in the following manner:

For the first year, Congress has approved [one billion dollars] in funding. If the administration’s list of first-year qualifiers ultimately includes, say, [fifteen] countries, the average country could receive \$67 million. This is equivalent to about one-sixth of the average total capital inflows (from aid and other sources) of \$384 per country for IDA-eligible countries. Ultimately, if the MCA receives a total budget of, say, three billion dollars (a figure more likely than the [five billion dollars] proposed by the president), and 25 countries qualify, the average per country would reach \$120 million per year, equivalent to about one-third of current capital inflows.<sup>34</sup>

The MCA’s relatively large budget, combined with the small number of qualifying countries, could create a strong incentive for countries to try to qualify, while enabling the contributions to make a significant impact on the developing countries that do qualify. How effective the MCC will be at achieving poverty alleviation by efficiently and effectively allocating aid is still largely speculation. While many are optimistic about the potential of this new methodology, others are wary that the MCC’s country selection process and relatively small institutional size may have unintended negative consequences on the poor developing nations that do not qualify for the MCA and other donor agencies, particularly USAID.<sup>35</sup>

### CRITIQUES OF THE MCA AND MCC

Critics of the MCA and MCC highlight a variety of problems in its design, as well as potential unforeseen or unintended consequences. The potential design flaws include the indicators for country selection, the administrative priority placed on the

MCC, and the size of the agency. The possible negative consequences include the abandonment of the poorest performing developing countries, and the neglect and undermining of the already established USAID. This section will discuss the critiques of the MCC and MCA's design, as well as the potential effects on the poorest countries. The next section will address the interplay and competition between the MCC and USAID.

The MCA country selectivity attempts to provide an incentive for developing countries to compete to qualify for funding. To ensure that the selection process for countries eligible for the MCA is on their merits, the MCA uses a numerical governance ranking system developed by private research institutes and international agencies. Eligible countries must perform above the average score of all countries in a minimum of half of the indicators within the categories of ruling justly,<sup>36</sup> economic freedom,<sup>37</sup> and investment in people.<sup>38</sup> This median approach is problematic because, as countries develop and improve, the overall median will inevitably rise. If countries grow at comparable rates, those countries developing slower than the average rate will fail to reach the ever rising median score. The effect will be to permanently exclude certain countries from MCA eligibility. Thomas Palley, the Director of the Open Society Institute's Globalization Reform Project, provides the following analogy to illustrate this point:

[T]he problem can be understood in terms of a simple analogy with two runners who are equally fast, but one of which begins with a half mile advantage. Given that they are equally fast, the disadvantaged runner never catches up with his rival, even though both are moving forward. The policy implication is that relying on relative performance (*i.e.* the group median) is problematic, and it is better to find measures that are absolute in character.<sup>39</sup>

This shifting median may ensure that some countries always narrowly miss MCA eligibility and will only be augmented by the currently proposed yearly expansion in the pool of eligible countries in year three to include 28 nations with average per capita incomes between \$1,435 and \$2,975. Although these countries will be assessed with separate median scores from the countries with average incomes less than \$1,435, nevertheless, "the nations potentially eligible in year three also have much greater access to alternative sources of financing, with higher private capital flows, savings rates, and government revenues . . . including this new group would divert aid resources away from countries with greater needs and fewer financing alternatives."<sup>40</sup>

Two issues remain to be fully examined because the MCC is not yet fully funded or fully staffed: (1) how the

Administration is prioritizing the MCA vis-à-vis other foreign aid programs; and (2) whether the MCA has the staffing capacity to accomplish all it sets out to achieve. If the past year provides any insight, the MCA is high on the Administration's priority list. The first MCA grant or "Compact" was signed on April 18, 2005 with Madagascar, just over a year after the MCA was established. Since then four other Compacts were signed with over \$600 million promised in aid.<sup>41</sup> However, whether this "Compact" approach is successful, and how results-based aid translates into reality, is still unknown, but it is clear that the MCA has momentum.

Some foreign aid scholars have questioned whether the small MCC staff, with a cap of two hundred employees that is one-tenth the size of USAID's staff, will be able to handle all these Compacts.<sup>42</sup> As Steve Radelet noted, "[two hundred] people

seems inordinately insufficient for a program with an annual budget of [five billion dollars]."<sup>43</sup> He has also speculated the MCC has contracted out many services, including monitoring and evaluation, and work through USAID staff in a particular country.<sup>44</sup> The MCC may also contribute to deeper fragmentation or confusion among U.S. aid programs through overlapping programs. Critics fear the high profile of the MCA could detract resources from other U.S. programs such as USAID. The coming year should shed light

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*The approach characterized by the [Millennium Challenge Account] is a departure from the target-setting approach of the Millennium Development Goals . . .*

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on the interplay between the MCC and USAID.

In its current state, the MCA may achieve its own poverty alleviation goals with the best performers of the developing world, roughly the top twenty percent, but this may come at the expense of the other eighty percent that will be left to seek funding from other sources.<sup>45</sup> Because the country selection process uses a ranking system with a shifting median, some poor performing countries are permanently unable to qualify. These countries, the "basket case" developing countries that do not meet the MCA standards, will be left on the doorsteps of other donor organizations. Other donor organizations will then be faced with more difficult challenges in providing effective aid to countries suffering from a myriad of factors detrimental to utilizing assistance, such as corruption, lack of good governance, and lack of political will. Further, because these countries are poor performers, donor agencies will be required to use additional resources to assist these countries in improving and then effectively utilizing the aid. One study concluded it unlikely that other donors would increase their own commitments to MCA countries in response to the U.S. presence.<sup>46</sup> This study found it "much more plausible that over time other donors will reduce their assistance to MCA countries . . . and funnel some of their aid to other countries."<sup>47</sup> The results of this shift can be either

positive or negative. On one hand, more aid is freed up for non-MCA countries when donor organizations move their projects out of MCA countries. On the other hand, donor agencies may find that they are funding non-MCA countries incapable of successfully utilizing aid and therefore adding to the list of failed projects.

### **MCA IMPACT ON THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

The MCA could fail to achieve its goals in its own right, as well as undermine the efforts of other donor organizations. The MCA's potentially significant impact on the USAID is an example of how the MCA may affect the allocation of development aid. At present, there is a debate on how MCA's large budget, new methodology, and country selection process will impact USAID. It seems inevitable that politics, institutional differences, and overlapping efforts between both agencies will cause friction and tension.

With a budget growing to five billion dollars in 2006, roughly doubling present U.S. spending dedicated to development, the MCA brings significant new resources to qualifying countries. While the USAID budget remains significantly smaller than MCA's, the MCA's expanding funds are not only perceived by many as an affront to USAID, but also as indicative of the Administration's political leanings towards promoting the MCA as a leader in foreign development. It is significant that the Administration chose to create a stand-alone MCC, rather than place it under the administration of USAID or the State Department. This move has the potential to undercut USAID, "by creating the impression that its programs are unlikely to be as effective as those funding by the [MCC]."<sup>48</sup> The impact the MCC may have on USAID ranges from USAID and the MCC working in harmony to shuttle countries from the Threshold Program<sup>49</sup> into the MCC's eligible country list, to USAID and MCC in competition for resources and struggling with inter-agency coordination, to USAID disappearing as a stand-alone agency and instead becoming absorbed under another agency, possibly the State Department or the MCC.

The MCA's institutional structure was created to avoid the problems faced by USAID and allow the MCA to function more independently and with less Congressional interference. The MCA has a relatively simple legislative framework governing it with no legislative earmarks. In contrast, USAID faces multiple demands from Congress each year, adding yet another layer of bureaucracy into its aid allocation process. For example, the U.S. Foreign Assistance Act, which determines the terms of international aid, is frequently amended and now contains 33 goals, 75 priority areas, and 247 directives.<sup>50</sup> USAID often allocates funding for other programs and development projects because Congress frequently engages in "earmarking," where funds are dedicated from the overall budget to specific, politically popular programs.<sup>51</sup> Congress has historically left foreign aid and USAID missions "hamstrung with its annual list of assistance earmarks . . . 274 at last count."<sup>52</sup> As one former USAID Foreign Service Officer noted, "these earmarks . . . are more driven by pork-barrel politics than developmental vision or knowledge of best practices, and drastically reduce levels of flexibility, respon-

siveness and effectiveness for foreign aid."<sup>53</sup> This hinders USAID in its efforts to maintain a consistent and clear budget.

Although the Administration claims that USAID and the MCA will not compete for Congressional funds, both institutions might find themselves in competition for other resources, such as employees and experts. USAID and MCA are independent agencies with separate budgets, and there is speculation that Congress, under Republican leadership, will be more inclined to fund the MCA and augment that budget in lieu of the USAID, given that the MCC is the current administration's initiative. The MCC "is likely to draw staff and resources from USAID, further weakening the agency, possibly engendering some resentment and making cooperation difficult."<sup>54</sup> On the other hand, others argue that, given the drastically different approaches to aid between the MCC and USAID, USAID's expertise will remain with the agency and with very few employees will move to the MCC.<sup>55</sup> Therefore, the MCC will be weakened from not having the years of experience in development assistance that some USAID employees could impart on this new agency. It has yet to be seen how coordination and cooperation is progressing between the two organizations, and this is likely to be under scrutiny as more of these Compacts are signed in countries with a strong USAID presence.<sup>56</sup>

There is concern that politically less popular development programs, such as USAID, will suffer from the reduction in the quality of recipient countries after MCA, as a Bush Administration initiative, picks the best performers. The deterioration of USAID recipient countries may increase USAID's difficulty in achieving successful development and lessen its ability to attract Congressional fiscal support, thereby weakening the institution as a whole. In contrast to USAID's struggle to receive funding for growth-oriented projects, the MCA will have five billion dollars for these projects. Therefore, a possible unintended effect may be that USAID will become the organization whose mission will be to assist countries ineligible for MCA funding, particularly the "threshold countries," to improve their domestic policy to become eligible for the MCA. This has already begun with the "Threshold Program,"<sup>57</sup> where USAID allocated \$40 million to help seven countries achieve MCA eligibility. To complicate the Program, threshold countries may qualify one year and not the next. In this situation, confusion may arise as these countries continually are shuffled between USAID and the MCA.<sup>58</sup> The ultimate trend signified by this shifting of "threshold countries" is that, for better or worse, USAID could become more of a supporting development agency for countries seeking MCC eligibility rather than as its own independent development agency.

The MCA has instituted a methodology for development aid, an approach that selects only particular countries and is both results-based and country-driven. If the MCA approach succeeds, there is likely to be an increase in pressure to reform USAID and accelerate global demands for greater accountability in recipient governments. The MCA has the potential not only to thwart substantive USAID development aid allocations, but also to force USAID and possibly other institutions to reexamine their current structure and effectiveness in foreign aid assistance.

## CONCLUSION

The MCA is a significant attempt by the United States to address poverty alleviation and sustainable development through a different approach than the MDGs. However, the debate surrounding the effectiveness of the MCA and its approach leads to a broader discussion on how to improve the MCA to better achieve its goals and minimize the impact of the MCA on other donor organizations. No easy solution exists, and since the MCA is still in its beginning stages, this article hopes to foster debate and discussion on the potential impacts of the MCA.

The following are a few questions for future consideration, for those interested in how the MCA is impacting foreign development programs. For example, has the United States decreased its financial commitments toward other development organizations such as USAID and the World Bank since the establishment of the MCA? Have donor organizations withdrawn their funding or interest from certain countries as a result of the MCA presence there? Has the World Bank noticed a decrease in countries requesting loans and are these countries instead seeking MCA grants? Has there been a noticeable increase in the num-

ber of developing countries not eligible for the MCA at the World Bank or USAID?

This article has provided an overview of two development approaches, the MDGs' target-setting approach and the MCA's country-driven and results-oriented approach. The MCA is a newly focused mechanism for foreign development aid and provides the United States with an opportunity to reassert global leadership through an effective foreign assistance program. With only five Compacts signed and awaiting allocation of funds to begin implementing the various proposals, the future of the MCA is unclear. The potential problems with the MCC as an institution are still only speculative. Nevertheless the impacts of the MCA could be considerable and merit considerable attention. These include the potential for leaving a significant portion of developing countries at the door steps of other agencies and leaving these agencies with countries where more resources are likely to be needed to be effective.

It is hoped that this article serves as a starting point for what will become a continued analytical discussion on the MCA and its impact on both U.S. and international donor organizations. 

## ENDNOTES: MCA and USAID

<sup>1</sup> Amy McFarlane, *In the Business of Development: Development Policy in the First Two Years of the Bush Administration*, 21 BERKELEY J. INT'L L. 521, 522 (2003).

<sup>2</sup> LAEL BRAINARD ET AL., CTR. FOR GLOBAL DEV. & BROOKINGS INST., *THE OTHER WAR: GLOBAL POVERTY AND THE MILLENNIUM CHALLENGE* ACCOUNT 28 (2003).

<sup>3</sup> Paul Applegarth announced his intent to step down as CEO of the MCC on June 15, 2005. MILLENNIUM CHALLENGE CORPORATION PRESS RELEASE, *Millennium Challenge Corporation CEO Paul Applegarth Announces Plans to Step Down in Future* (June 15, 2005), available at [http://www.mca.gov/public\\_affairs/press\\_releases/pa\\_061505.shtml](http://www.mca.gov/public_affairs/press_releases/pa_061505.shtml) (last visited Nov. 1, 2005). President Bush announced his intent to nominate Ambassador John Danilovich to serve as CEO of the MCC on Aug. 11, 2005. MILLENNIUM CHALLENGE CORPORATION PRESS RELEASE, *President Bush Announces Intent to Nominate New Millennium Challenge Corporation CEO* (Aug. 11, 2005) available at [http://www.mca.gov/public\\_affairs/press\\_releases/pr\\_081105\\_danilovich.shtml](http://www.mca.gov/public_affairs/press_releases/pr_081105_danilovich.shtml) (last visited Nov. 1, 2005).

<sup>4</sup> Brookings Inst., *Environment, Poverty, and the Millennium Challenge Corporation: Leveraging U.S. Aid to Improve Natural Resource Management*, (June 24, 2005) available at [http://www.brookings.edu/fp/events/20050624\\_MCCtranscript.pdf](http://www.brookings.edu/fp/events/20050624_MCCtranscript.pdf) (last visited October 30, 2005).

<sup>5</sup> G.A. Res. 55/2, U.N. GAOR, 55th Sess., 8th plen. mtg., Agenda Item 60(b), at 2, U.N. Doc. A/55/L.2 (2000) available at <http://daccessdds.un.org/doc/UNDOC/GEN/N00/559/51/PDF/N0055951.pdf> (last visited Oct. 30, 2005).

<sup>6</sup> G.A. Res. 55/2, U.N. GAOR, 55th Sess., 8th plen. mtg., Agenda Item 60(b), at 6, U.N. Doc. A/55/L.2 (2000) available at <http://daccessdds.un.org/doc/UNDOC/GEN/N00/559/51/PDF/N0055951.pdf> (last visited Oct. 30, 2005).

<sup>7</sup> See UNITED NATIONS, *MILLENNIUM DEVELOPMENT GOALS*, at <http://www.un.org/millenniumgoals/> (last visited Oct. 30, 2005) (Containing more information on all the Millennium Development Goals).

<sup>8</sup> Erin Chapman, *Meeting the Millennium Challenge*, Debt, AIDS, Trade, Africa (DATA.org Report) 8 (Apr. 2004).

<sup>9</sup> UN, DEP'T OF ECON. AND SOC. AFFAIRS, *Progress towards the Millennium Development Goals* (June 13, 2005), available at [http://millenniumindicators.un.org/unsd/mi/mi\\_coverfinal.htm](http://millenniumindicators.un.org/unsd/mi/mi_coverfinal.htm) (last visited Oct. 30, 2005).

<sup>10</sup> UN DEV. PROGRAM, *Millennium Development Goals: A compact among nations to end human poverty*, HUMAN DEVELOPMENT REPORT 2003, available at <http://hdr.undp.org/reports/global/2003/> (last visited Oct. 30, 2005); Income poverty refers to the percentage of the population living on less than 50% of the median adjusted disposable household income (UNDP, "Human Development Indicators 2003," available at [http://www.undp.org/hdr2003/indicator/indic\\_34\\_1\\_1.html](http://www.undp.org/hdr2003/indicator/indic_34_1_1.html) (last visited Nov. 1 2005).

<sup>11</sup> UN DEV. PROGRAM, *UN Millennium Development Goals Frequently Asked Questions* (2003), at <http://www.undp.org/mdg/faqs.html#Areweontrack> (last visited Oct. 30, 2005).

<sup>12</sup> U.N. DEV. PROGRAM, *supra* note 10.

<sup>13</sup> John W. Foster, *Montreal Int'l Forum (FIM), The Millennium Development Goals: Instrument for Advance or Diversion of Energies* (Dec. 2003) available at [http://www.fimcivilsociety.org/english/3-John\\_Foster-EN.pdf](http://www.fimcivilsociety.org/english/3-John_Foster-EN.pdf) (last visited Oct. 30, 2005).

<sup>14</sup> The United States has consolidated its position as the world's largest aid donor in volume terms, providing 24 percent of total DAC ODA. It was followed by Japan (thirteen percent), France (eleven percent), Germany (ten percent) and the United Kingdom (nine percent). EU members combined provided 54 percent of total Development Assistance Committee ("DAC") Official Development Assistance ("ODA"). Denmark, Luxembourg, the Netherlands, Norway and Sweden are still the only countries to meet the United Nations ODA target of 0.7 percent of gross national income. Of these, Sweden aims to achieve one percent in 2006, Norway aims to achieve one percent in 2006-09, and Luxembourg aims to reach this level in the long term. Four other countries have given a firm date to reach the 0.7 percent target: Ireland by 2007; Belgium and Finland by 2010; and France to reach 0.5 percent by 2007 and 0.7 percent by 2012. Spain has indicated it may reach 0.7 percent by 2012, and the United Kingdom that it may reach it by 2013. OECD "Final Data for 2003," available at <http://www.oecd.org/dataoecd/19/52/34352584.pdf> (last visited Nov. 2, 2005).

<sup>15</sup> Colum Lynch, *U.S. Wants Changes in U.N. Agreement*, THE WASH. POST, at A01 (Aug. 25, 2005).

<sup>16</sup> *Id.* at A01.

<sup>17</sup> Julian Borger, *Road map for US relations with rest of world*, THE GUARDIAN (Aug. 27, 2005) available at <http://www.guardian.co.uk/usa/story>

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/0,12271,1557488,00.html (last visited Oct. 30, 2005).

<sup>18</sup> Alexander Bardzik, INTERACTION, *Meeting Our Commitment to the Millennium Development Goals*, SUMMARIES OF FORUM 2003 PROCEEDINGS, available at [http://www.interaction.org/forum2003/cdpp\\_sessions.html#MDG](http://www.interaction.org/forum2003/cdpp_sessions.html#MDG) (last visited Oct. 30, 2005).

<sup>19</sup> Summary notes from InterAction Forum session on “Meeting Our Commitment to the Millennium Development Goals” available at [http://www.interaction.org/forum2003/cdpp\\_sessions.html#MDG](http://www.interaction.org/forum2003/cdpp_sessions.html#MDG) (last visited Oct. 28, 2005).

<sup>20</sup> Critics of Sachs’ approach promoting funding the poorest nations, those caught in the “poverty trap,” also argue that his approach is giving money to countries who may not know how to manage the aid due to issues such as rampant corruption. Although Sachs’ theory is a sound logical argument where the poorer a country is, the higher the marginal value of the dollar and arguably in the poorest nations the dollar has a more significant impact, this cannot be done without taking into account additional contextual factors such as the social and political infrastructure of a recipient nation.

<sup>21</sup> Summary notes from InterAction Forum session on “Meeting Our Commitment to the Millennium Development Goals” available at [http://www.interaction.org/forum2003/cdpp\\_sessions.html#MDG](http://www.interaction.org/forum2003/cdpp_sessions.html#MDG) (last visited Oct. 28, 2005).

<sup>22</sup> Steven Radelet, CTR. FOR GLOBAL DEV., *Challenging Foreign Aid: A Policymaker’s Guide to the Millennium Challenge Account*, 3 (2003) [hereinafter Radelet Challenging].

<sup>23</sup> *Id.* at 1.

<sup>24</sup> *Id.* at 2.

<sup>25</sup> LAEL BRAINARD ET AL., CTR. FOR GLOBAL DEV. & BROOKINGS INST., *THE OTHER WAR: GLOBAL POVERTY AND THE MILLENNIUM CHALLENGE ACCOUNT* 28 (2003).

<sup>26</sup> See U.S., MILLENNIUM CHALLENGE CORPORATION, available at <http://www.mca.gov/> (last visited Oct. 30, 2005) (Providing more information on the Millennium Challenge Corporation).

<sup>27</sup> Elizabeth Spiro Clark, *The Millennium Challenge Account: Spur to Democracy?* FOREIGN SERVICE J. at 31 (Apr. 2005).

<sup>28</sup> Steve Radelet, *The Millennium Challenge Account: Transforming US Foreign Assistance Policy?* AGENDA, Vol. 11, No. 1 (2004), 59 available at [http://www.cgdev.org/doc/mca%20monitor/Agenda\\_McLeod.pdf](http://www.cgdev.org/doc/mca%20monitor/Agenda_McLeod.pdf) (last visited Nov. 1, 2005) [hereinafter Radelet Transforming].

<sup>29</sup> Radelet Challenging, *supra* note 22, at 8.

<sup>30</sup> BRAINER, *supra* note 21.

<sup>31</sup> Glenn Kessler, *Reinventing the U.S. Foreign Aid at Millennium Challenge Corp.* THE WASH. POST, at A17 (Aug. 10, 2004).

<sup>32</sup> Lex Rieffel & James Fox, *Moving Toward Smarter Aid*, BROOKINGS INST. POL’Y BRIEF 145 at 2 (Aug. 2005).

<sup>33</sup> Kessler, *supra* note 31.

<sup>34</sup> Radelet Transforming, *supra* note 28, at 59.

<sup>35</sup> Steve Radelet, *Will the Millennium Challenge Account be Different?* 26 WASH. Q. 2, at 171 (Spring 2003) [hereinafter Radelet Different].

<sup>36</sup> Ruling Justly: based on Freedom House rankings of civil liberties and political rights as well as World Bank Institute indices on accountability, governance and control of corruption. MILLENNIUM CHALLENGE CORPORATION, “MCC Selection Policy Indicators: Short Descriptions” available at [http://www.mca.gov/countries/selection/short\\_descriptions.shtml](http://www.mca.gov/countries/selection/short_descriptions.shtml) (last visited Nov. 1, 2005).

<sup>37</sup> Economic Freedom: determined by credit ratings, inflation rates, business start-up times, trade policies and regulatory regimes as measured by such institutions as the World Bank, the International Monetary Fund and the Heritage Foundation Index of Economic Freedom. MILLENNIUM CHALLENGE CORPORATION, *MCC Selection Policy Indicators: Short Descriptions* available at [http://www.mca.gov/countries/selection/short\\_descriptions.shtml](http://www.mca.gov/countries/selection/short_descriptions.shtml) (last visited Nov. 1, 2005).

<sup>38</sup> Investment in People: gauged according to public expenditure on

health and primary education, immunization rates and primary school completion rates as recorded by the national governments, the World Health Organization and the U.N. MILLENNIUM CHALLENGE CORPORATION, “MCC Selection Policy Indicators: Short Descriptions” available at [http://www.mca.gov/countries/selection/short\\_descriptions.shtml](http://www.mca.gov/countries/selection/short_descriptions.shtml) (last visited Nov. 1, 2005).

<sup>39</sup> Thomas I. Palley, *Linking the Community of Democracies with Millennium Challenge Accounts: A Case of Win-Win*, OPEN SOCIETY INSTITUTE (2003), at 10.

<sup>40</sup> Radelet Different, *supra* note 35, at 178.

<sup>41</sup> At the time of this writing the five Compacts signed are with Madagascar, Cape Verde, Honduras, Nicaragua, and Georgia. Millennium Challenge Corporation available at <http://www.mca.gov/compacts/index.shtml> (last visited Nov. 1, 2005).

<sup>42</sup> Ross Herbert, *A New Face for US Aid?*, 2 AFRICA (June 2004), available at: <http://www.saiia.org.za/modules.php?op=modload&name=News&file=article&sid=345> (last visited Oct. 30, 2005) (hereinafter “Ross Herbert”).

<sup>43</sup> Radelet Different, *supra* note 35, at 180.

<sup>44</sup> Radelet Different, *supra* note 35, at 180.

<sup>45</sup> Although Jeffery Sachs would disagree with this notion that leaving these poorer performing countries for USAID and other donor organizations is problematic based on Sachs’ argument that “poverty trapped” countries is where the world should be focusing their attention and not on the upper tier of developing countries—also known as the MCA eligible countries.

<sup>46</sup> Michael Clemens & Steven Radelet, CTR. FOR GLOBAL DEV. *The Millennium Challenge Account: How much is too much, how long is long enough?* WORKING PAPER NUMBER 23 at 6 (Feb. 2003).

<sup>47</sup> *Id.*

<sup>48</sup> Paul Blustein, *Bush to Call for New Foreign Aid Agency*, WASHINGTON POST, at A4 (Nov. 26, 2002).

<sup>49</sup> The Threshold Program has been established to assist countries that are on the “threshold,” meaning they have not yet qualified for Millennium Challenge Account (“MCA”) funding assistance; but have demonstrated a significant commitment to improve their performance on the MCA eligibility criteria. The Threshold Program is designed to assist countries that are committed to undertaking the reforms necessary to improve policy performance and eventually qualify for MCA funding. USAID is expected to be the primary implementing partner of the Threshold Program. THE MILLENNIUM CHALLENGE CORPORATION, “Threshold Countries,” available at: <http://www.mca.gov/countries/threshold/index.shtml> (last visited Nov. 2, 2005).

<sup>50</sup> Herbert, *supra* note 42.

<sup>51</sup> *Id.*

<sup>52</sup> Aaron M. Chassy, *The Millennium Challenge Corporation: Making It Work*, FOREIGN SERVICE J. at 38 (Apr. 2005).

<sup>53</sup> *Id.* at 38.

<sup>54</sup> Radelet Different, *supra* note 35, at 181.

<sup>55</sup> Chassy, *supra* note 52, at 41 (“USAID, which has considerable experience in dealing with such conflicts of interest [such as reporting too critically on a project’s progress which might preclude themselves from being competitive in a bid for follow-up activity], has many rules and regulations to reduce the frequency of this phenomenon. However, it is these very rules and regulations that motivated the Bush administration to exclude USAID from serving as the MCA’s executing agency.”).

<sup>56</sup> Radelet Different, *supra* note 35, at 181.

<sup>57</sup> For more information on the Threshold Program, see the Millennium Challenge Corporation’s website available at <http://www.mca.gov/countries/threshold/index.shtml>. See U.S., MILLENNIUM CHALLENGE CORPORATION THRESHOLD COUNTRIES, available at <http://www.mca.gov/countries/threshold/index.shtml> (last visited Oct. 30, 2005).

<sup>58</sup> Radelet Different, *supra* note 35, at 181.