Steve Radelet

Will the Millennium Challenge Account Be Different?

In March 2002, President George W. Bush proposed establishing a Millennium Challenge Account (MCA), beginning in fiscal year 2004, that would provide substantial new foreign assistance to low-income countries that are "ruling justly, investing in their people, and encouraging economic freedom."[1] The MCA promises to bring about the most fundamental change to U.S. foreign assistance policy since President John Kennedy introduced the Peace Corps and the U.S. Agency for International Development (USAID) in the early 1960s. The significance of the proposed program lies partly in its scale: the proposed $5 billion annual budget represents a 50 percent increase over the $10 billion annual foreign aid budget in FY 2002 and a near doubling in the amount of aid that focuses strictly on development objectives.

Perhaps even more important than its size, however, is that the MCA brings with it the opportunity to improve significantly the allocation and delivery of U.S. foreign assistance because, as currently planned, it will differ from existing programs in four critical ways.[2] First, it will have narrower and more clearly defined objectives, aimed solely at supporting economic growth and development and not other foreign policy goals. Second, it will provide assistance to only a select group of low-income countries that are implementing sound development policies, making the aid funds sent to those countries more effective. Third, the administration hopes that the MCA will have lower bureaucratic and administrative costs than current aid programs. Toward that end, it has proposed establishing a new government corporation called the Millennium Challenge Corporation (MCC) to administer the program. Fourth, the administration plans to give recipient countries a

Steve Radelet is a senior fellow at the Center for Global Development in Washington, D.C., and was deputy assistant secretary of the treasury for Africa, the Middle East, and Asia from January 2000 through June 2002.

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greater say in program design, implementation, and evaluation to improve program efficiency and effectiveness.

The MCA is a very promising new aid program. Many of the details on how it will operate, however, remain uncertain. As of January 2003, the administration has announced only its plans for selecting the eligible countries and for housing the new program in the MCC.[3] For example, it has not yet made clear its plans for operations on the ground in recipient countries, how programs will be evaluated, or how the MCA will coordinate its programs with other existing U.S. aid agencies, particularly USAID. These and other program elements will be worked out with Congress during the first half of 2003, with the aim of initializing operations in October 2003.

The MCA will nearly double the amount of aid that focuses on development objectives.

Moreover, even when these details are worked out, the MCA will constitute only one part of an overall foreign assistance program because it is designed to operate in a relatively small number of developing countries. To date, the administration has not developed clear foreign assistance strategies for countries that do not qualify for the MCA or for failed states that might be the breeding grounds for terrorism and transnational crime. Similarly, it has not developed a plan for addressing critical transnational problems, most importantly, the HIV/AIDS pandemic.

Sharpening the Focus

U.S. foreign assistance programs suffer from the attempt to do too many things at once. They have multiple objectives and purposes, often leading to a lack of coherence in everything from broad strategic planning to specific programs on the ground. The U.S. Foreign Assistance Act of 1961, as amended, specifies a remarkable 33 different goals and 75 priority areas. Carol Lancaster has classified these goals into six different broad purposes:[4]

- *Promoting security*. For many years, significant amounts of U.S. assistance were aimed at containing communism and supporting countries on the U.S. side of the Cold War. Since the late 1970s, and especially since the Camp David accords of 1979, a growing share of aid has focused on peacemaking. Israel and Egypt have long been the two largest recipients of U.S. foreign assistance, together typically receiving close to 20 percent of all U.S. aid. Since September 11, some foreign assistance has been used to support the war on terrorism, especially U.S. aid to Afghanistan and Pakistan.

- *Promoting development*. A core objective of U.S. assistance since the end of World War II has been to help poor countries finance investments in infrastructure, health, education, and a wide variety of other activities aimed at raising incomes, reducing poverty, and improving standards of living. The MCA is most closely aligned with meeting this objective.

- *Providing humanitarian relief*. The United States has long been a leader in providing relief in cases of both natural disasters and civil conflicts.

- *Supporting political and economic transitions*. Since the collapse of the Soviet Union, substantial amounts of aid have been directed toward supporting transitions to free markets and democracies in former socialist economies. The magnitude of aid for this purpose has begun to decline in recent years.

- *Building democracies*. Since the late 1980s, the United States has helped promote and strengthen democracies, both as an end in itself and as a means toward other ends, such as the protection of human rights and the cessation of civil conflict.

- *Addressing transnational problems*. Some programs focus on problems that arise in one country that affect people in other countries, including high population growth, food insecurity, and health problems such as HIV/AIDS and malaria. Fighting these problems requires different approaches than those problems contained within the borders of one country.

These objectives are all legitimate goals for U.S. foreign assistance and foreign policy more broadly. Problems arise, however, when a single program attempts to meet more than one of these objectives at the same time. For example, the United States provided Pakistan with $600 million in assistance in late 2001 in the aftermath of the conflict in Afghanistan to help gain that government's support in the war on terrorism, with the objective of strengthening regional and global security. Some of the aid is being used to fund health and education programs, among other activities, with the objective of supporting economic growth and poverty reduction. These two objectives could easily come into conflict if the aid-financed social programs show weak results, which under other circumstances might lead to cutting that aid and redirecting it elsewhere. To continue receiving the full support of the Pakistani government, the United States might have to compromise on its goal of making its aid money as effective as possible in fighting poverty. Similar tensions can arise between other objectives, such as providing humanitarian assistance and building democracies. The United States regularly provides humanitarian assistance to nondemocratic governments facing natural disasters, which can have the unintended consequence of helping those governments strengthen their legitimacy and power base.

The MCA's sharper focus on economic growth and poverty reduction should help reduce these tensions, although they can never be fully eliminated. As a result, the MCA will be more able to define specific goals, ensure that resources are better allocated to meet those goals, and allow for stronger and clearer evaluation of results. This should help ensure that both recipient countries and the American public get better outcomes from our foreign assistance program.

Choosing the Right Countries

A central idea of the MCA is that aid can be more effective if it is focused on nations with governments that are committed to establishing policies and institutions conducive to economic growth and poverty reduction. Unfortunately, too many leaders in low-income countries are more interested in consolidating their power and enriching themselves than in fighting poverty, and aid programs in these countries suffer as a result. At one level, this difference is a matter of simple common sense: foreign assistance will go much further in countries where governments are committed to building better schools and clinics, creating good jobs, and rooting out corruption. Foreign assistance yielded great results in Korea and Botswana, where governments placed a high priority on growth and development. For example, aid complemented government efforts by building schools and training teachers while the government developed sound education curriculums and introduced policies that helped create jobs suitable for school graduates.

Aid proved to be a huge waste, however, in countries such as Zaire (now the Democratic Republic of Congo) under Mobutu Sese Seko and Nigeria under its succession of military rulers. These governments and others like them funneled aid into their own coffers and did little to provide the population with the opportunities necessary to pull themselves out of poverty. Because of Cold War politics, the United States and other donors were willing to look the other way and provide funds to buttress these leaders even though aid produced few results. Recent statistical research, for the most part, supports the idea that aid generally has a positive effect on growth in countries with good macroeconomic and trade policies, strong investments in health and education, good governance, and less corruption, while it tends to have little or no effect on growth in countries with weak policies and high corruption.[5]

It is easy to see the difference between Korea and Zaire. The problem, however, is that most developing nations are somewhere in between, with a combination of good and bad policies and a mixed commitment to development. The challenge for donors is to distinguish between countries where aid is most likely to be effective and those where it is less likely. This challenge lies at the root of Bush's call for the MCA to provide aid to countries that are "ruling justly, investing in their people, and establishing economic freedom." How, precisely, can the United States measure these three broad components of a country's development strategy?

The administration has proposed using 16 specific indicators for this task (Table 1), grouped into the president's three broad categories. Countries must score above the median (measured against all broadly eligible countries) on half or more of the indicators in each of the three groups to qualify for the MCA. That is, they must surpass the median in three of the six "rul-

Table 1. Eligibility Criteria for the MCA

INDICATOR	SOURCE
I. Ruling Justly	
1. Control of Corruption	World Bank Institute
2. Rule of Law	World Bank Institute
3. Voice and Accountability	World Bank Institute
4. Government Effectiveness	World Bank Institute
5. Civil Liberties	Freedom House
6. Political Rights	Freedom House
II. Investing in People	
7. Immunization Rate: DPT and Measles	WHO/World Bank
8. Primary Education Completion Rate	World Bank
9. Public Primary Education Spending/GDP	World Bank
10. Public Expenditure on Health/GDP	World Bank
III. Economic Freedom	
11. Country Credit Rating	Institutional Investor
12. Inflation	IMF
13. Regulatory Quality	World Bank Institute
14. Budget Deficit/GDP	IMF/World Bank
15. Trade Policy	Heritage Foundation
16. Days to Start a Business	World Bank

Source: "Fact Sheet: Millennium Challenge Account," distributed by the administration on November 25, 2002, available at www.cgdev.org.

ing justly" indicators, two of the four "investing in people" indicators, and three of the six "establishing economic freedom" indicators. In addition, a country must score above the median on corruption, regardless of how well it does on all the other indicators. This proposed methodology is basically sound, with some caveats as discussed below.

Using publicly available data and this methodology on the 16 indicators proposed by the administration, I have produced an illustrative list of countries that might qualify for the MCA during its first three years.[6] It is crucial to note that this list is illustrative, rather than official U.S. policy; data on all 16 indicators will be updated before the program actually starts in late 2003, so the group of top countries will change. Moreover, the administration has stressed that the list produced by the 16 indicators is not the final word—the board of directors of the new MCC, which will be explained below, can add or subtract countries in preparing a list for final approval by the president. Adjustments to the list may be necessary because of gaps, time lags, or other weaknesses in the data; the board will also be able to take into account "other material information, including leadership" in making its recommendations.[7] Despite these possible adjustments, the list determined by today's data provides some useful insight as to how the MCA might eventually develop.

U.S. foreign assistance programs try to do too many things at once.

In the first year, the administration has proposed that the pool of countries eligible for consideration for the MCA should be those that have an average annual per capita income less than $1,435 and are eligible for concessional borrowing from the World Bank. There are 74 countries in this group. Table 2 shows that 13 of these countries might qualify for the MCA during this period, based on data available in late 2002.

The administration proposes expanding the pool of eligible countries slightly in the second year, along with an increase in program funding, to include all countries with average per capita incomes less than $1,435, regardless of their borrowing status with the World Bank. This change increases the total number of eligible countries to 87. The new countries tend to be better off on average than the original 74, so the median values that a country must exceed to qualify rise on most of the indicators. As a result, only 11 countries qualify in the second year, including just 7 of the 13 that had qualified the first year.

Perhaps the most interesting qualifier in year two is China. In some ways, China's technical qualification is of little relevance both because it is unlikely to seek MCA funding and because it would be eliminated as a recipient by other statutory restrictions even if it did. Nevertheless, it passes the indicator tests. Because China's performance in economic growth and pov-

Table 2. Possible Qualifying Countries Using the Administration's Criteria

Year 1: IDA-Eligible Countries with Per Capita Incomes Less than $1,435	Year 2: All Countries with Per Capita Incomes Less than $1,435	Year 3: Countries with Per Capita Incomes between $1,435 and $2,975
QUALIFYING COUNTRIES		
Albania Bangladesh Benin* Bolivia The Gambia Georgia Honduras Lesotho* Malawi Mongolia Nepal Senegal Sri Lanka	Bolivia Benin* China Honduras Lesotho* Malawi Mongolia Philippines Senegal Sri Lanka Vietnam	Bulgaria Egypt Namibia Peru South Africa
ELIMINATED BY CORRUPTION		
Moldova Nicaragua	Ecuador Moldova Nicaragua Ukraine	
MISSED BY ONE INDICATOR		
Cambodia Côte d'Ivoire Ghana Guyana India Mali Mozambique Vietnam	Albania Bangladesh Cambodia Côte d'Ivoire The Gambia Georgia Ghana Guyana India Mali Morocco	Jamaica Jordan Tunisia

* For Benin and Lesotho, data for the corruption indicator are currently unavailable, so technically they would not qualify. However, these data are expected to become available within the next few months, and these two countries are likely to qualify when the MCA begins in late 2003.

Source: Steven Radelet, "Qualifying for the Millennium Challenge Account," www.cgdev.org.

erty reduction has been among the best in the world for the last 20 years, perhaps its fulfillment of the requirements should not be such a surprise.

China's qualification by numbers, however, highlights the importance of the administration having the flexibility to adjust the list of country qualifiers before final approval. Allowing for this kind of discretion makes sense, given the weakness in some of the data. Adjustments should be the exception rather than the rule, however, and they should only be made with appropriate justification. The administration must not elevate undeserving countries to the qualifying list simply because they are strong U.S. political allies or demote countries because of a diplomatic scuffle. Too many adjustments would undermine the credibility of the selection process. Congress should require in the MCA authorizing legislation that the administration make publicly available country scoring, any recommended adjustments to country eligibility, and the rationale for those adjustments.

Approximately 18 different countries might qualify over the first three years.

The administration proposes sharply expanding the pool of eligible countries in year three (in line with the increase in annual funding to the full targeted amount of $5 billion) to include the 28 nations with average per capita incomes between $1,435 and $2,975. This group of countries would be judged separately from the 84 countries with average incomes less than $1,435, with separate median scores to assess country qualification. Adding this last group of nations is controversial among development experts and nongovernmental organizations (NGOs) and may not be in the long-term interests of the program. The administration's main reason for including them is that many people in these countries still live in poverty. Yet, as conveyed by Table 3, this group of nations is far better off than the 87 countries considered in year two, with average incomes more than four times higher, much lower infant mortality rates, and much higher literacy rates. 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. Thus, including this new group of countries would divert aid resources away from countries with greater needs and fewer financing alternatives. In addition, adding this group of 28 nations heightens the possibility that MCA funds will be diverted to support political allies, as the group includes Colombia, Russia, Egypt, Jordan, and Turkey, among others.

Based on data available today, 5 of these 28 nations would qualify in year three if the administration's proposal were adopted, as shown in Table 2.

Table 3. Development Status, Resources Flows, and Financing for Three MCA Country Groups (medians)

	IDA-eligible countries with income less than $1,435	Countries with income less than $1,435	Countries with income range $1,435-$2,975
Development Status			
GNI per capita, 2001 ($)	380	460	1965
Adult illiteracy rate, adult total, 2000 (%)	36	33	14
Life expectancy at birth, 2000 (years)	54	56	70
Mortality rate, infant, 2000 (per 1,000 live births)	75	69	27
Resources Flows and Financing			
Aid/GNI, 2000 (%)	10.8	8.5	1.4
Gross private capital flows/ GDP (%)	6.9	8.7	10.3
Tax revenue/GDP (%)	11.7	12.6	21.8
Gross domestic savings/ GDP, 2000 (%)	7.3	8.4	16.2
Number of Countries	**74**	**87**	**28**

Source: Steven Radelet, “Qualifying for the Millennium Challenge Account,” www.cgdev.org.

Note that these countries are in addition to those that qualify in year two (not instead of) because they compete to qualify as a separate group. Both because these 28 have access to other financing and because their inclusion in the pool raises the risk of politicizing allocation decisions, this group should be dropped from the MCA. Alternatively, if these nations must remain included, the administration should allocate only a limited portion (a maximum of $1 billion) of the annual $5 billion for them, with the rest reserved for the poorest nations.

Thus, based on the administration’s proposal, over the course of the first three years, approximately 18 different countries might qualify for the MCA. More than a dozen other countries miss qualifying by just one of the indicators. Several of these countries could easily qualify within the first few years by improving their scores in that one deficient area. Therefore, it is quite conceivable that 20–25 countries could qualify for the MCA by its fourth or fifth year of operation.

This list of countries is not perfect, but it is a good start. Weaknesses and inconsistencies in the data result in some countries appearing on the list that probably should not qualify, while there are a few nations that just barely miss and have a strong record of using aid effectively (e.g., Mozambique) that should qualify. The existing methodology attempts to be strictly objective, but it is not perfect. Some changes to the criteria (details are beyond the scope of this paper)[8] could improve it. Nevertheless, the proposed system provides a reasonably sensible way to begin distinguishing between nations that show a strong commitment to development and those that do not.

Improving the U.S. Bureaucracy

The U.S. foreign aid system is bogged down by a heavy bureaucracy, overly restrictive legislative burdens, and conflicting objectives. The United States delivers aid in basically the same way in countries with competent, committed governments as in countries with high levels of corruption and poor development policy. The administration wants the MCA to be different. It has proposed that the program be administered through a new government corporation, the MCC, designed to reduce administrative costs and increase effectiveness.

Details on the structure and operations of the MCC are scant and will be developed more fully by the administration and Congress in early 2003 so the corporation can become operational by October 2003. The administration has proposed that the MCC be governed by a cabinet-level board of directors chaired by the secretary of state and managed by a chief executive officer appointed by the president. Staff will be drawn from a variety of government agencies for a limited term. Its biggest advantage would be that an MCC could avoid the political pressures, bureaucratic procedures, and multiple congressional mandates that weaken current aid programs. Its status as separate from any existing department could make it more flexible and responsive as well as allow it to attract some top-notch talent.

Establishing an MCC as proposed, however, entails certain risks. Dividing the U.S. foreign assistance program into two major agencies (USAID and the MCC), in addition to several smaller agencies such as the Peace Corps, could impede coordination and increase redundancy. Furthermore, the administration hopes to keep the MCC small, but its projected staffing of somewhere between 100 and 200 people seems inordinately insufficient for a program with an annual budget of $5 billion. It is also not clear who will represent the MCC on the ground in the qualifying countries. Presumably, it will contract out many services, such as monitoring and evaluation, or it might try to work through USAID staff in each country. Nevertheless, there is a risk that the new agency will be understaffed and thus unable to deliver the high-quality operations that will be expected. In addition, having the secretary of state serve as chairman of the board of the MCC could give the Department of State too much control over qualification and allocation decisions, which could compromise the objectivity of the MCA in favor of other foreign policy goals.

One of the biggest concerns is the impact of the MCC on USAID and the relationship between the two organizations. The MCC is likely to draw staff and resources from USAID, furthering weakening the agency, possibly engendering some resentment, and making cooperation more difficult. Many issues remain uncertain. For example, will USAID continue to operate in the MCA countries, or will it pull out once a country qualifies? On one hand, having both institutions operating in the same country could be very confusing for recipient countries and unnecessarily duplicate services. On the other hand, there may be some projects and programs that USAID is better positioned to administer because of its prior experience and established operations on the ground in MCA countries. This issue could prove particularly tricky for borderline countries that qualify for the MCA for several years, then fail to qualify, then qualify again. Switching back and forth between MCA and USAID programs could be very cumbersome. Similarly, will the MCC operate under new or existing foreign assistance guidelines for procurement of goods and services and other operations? Although more flexible guidelines might seem useful for the MCC, if the two agencies are operating under vastly different rules within the same country, it could lead to serious confusion.

> **Government and nongovernment agencies alike should be entitled to receive funds.**

The administration has not yet addressed these questions, and Congress certainly will have strong views that may differ from the administration. If not resolved carefully through strong planning and coordination, the difficulties in operating two foreign assistance programs from two very different parts of the U.S. government are sure to become apparent.

Ensuring Success on the Ground

Regardless of where the MCA is housed, program design, implementation, and evaluation—all of which will be critical—have yet to be developed. Currently, most U.S. foreign assistance is delivered through a country-programming approach in which USAID staff members develop a country strategy, design specific interventions, and evaluate the outcomes. This top-down approach has many shortcomings, including the absence of recipient-nation ownership of specific projects, only partial coordination (at best) with the recipient country's overall development strategy, a heavy requirement of USAID staff, and little competition between proposed projects. This approach, or parts of it, might make sense in countries with weak governments that show little commitment to development, but it makes little sense for the MCA. Because MCA recipient nations will have an established record of good development policies, the administration should give them much more of the responsibility for program design so that MCA-funded programs are more consistent with their national development strategies.

The MCA essentially deals with the easiest cases among poor countries.

Specifically, the MCA should draw from the approach used by most foundations where recipients write proposals for various activities and only the best ideas actually receive funding. For example, the government of an MCA recipient country could write a proposal to fund a significant portion of its education program. To write a good proposal, the government would first have to develop a strong education strategy—something most developing countries lack. It would need to give careful consideration to budgets, costs, trade-offs, and the various steps necessary over time to achieve success. 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. Government and nongovernment agencies alike, such as private NGOs, clinics, and schools, should be entitled to write proposals and receive funds, as private agencies implement some of the best development programs.

Such an approach would place responsibility for development programs where it belongs—with recipient nations, not with aid agencies. It would ensure that recipient governments and other agencies within MCA recipient countries set their own priorities and develop their own strategies. If such an approach is implemented, the MCA can increase recipient-nation ownership of and commitment to development programs, which should lead to better results. Of course, many MCA countries will initially lack the capacity to develop strong proposals and programs, but the only way they will develop these capacities is if they are given the responsibility to do so, along with some funding for technical assistance in the early years. Obviously, this approach can only work in those countries that have shown and continue to show a real commitment to development.

The key to making the MCA system work is to ensure high-quality MCA-funded programs from conception through implementation. Program design is only the first step. For the program to succeed, the MCC should foster robust competition for funds both within and across countries by soliciting proposals from a variety of government and nongovernment agencies. Proposals should be reviewed through a disciplined process by staff with expertise in both the recipient nation and the substantive area of the program. The MCC should grant funds only for the best proposals, rejecting the weakest and sending back for further development those that are promising but incomplete. To make the proposal process work best, Congress should not earmark MCA funds for specific purposes. Rather, the proposal design, proposal review, and monitoring and evaluation processes should determine where funds are allocated.

The final and perhaps most crucial element is program monitoring and evaluation. Without a much stronger monitoring and evaluation capacity, the MCA is doomed to fail. Effective monitoring and evaluation is critical for keeping funded programs on track to meeting their goals, 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.

Two distinct kinds of monitoring and evaluation are required: financial accountability and progress toward substantive goals. Financial accountability should ensure that funds are spent where they are supposed to be, the project remains within budget, regulations on procurement and payment are followed, and funds are not stolen. Substantive accountability focuses on attaining specified benchmarks, such as purchasing a certain number of textbooks, training a certain number of teachers, building a designated number of schools, increasing test scores by a certain amount, or increasing a school's graduation rate. Monitoring and evaluation must be incorporated into projects and programs from the outset, not added as an afterthought halfway through the process. Both internal (carried out by the grantees) and external (carried out directly by the MCC or a contractor for the MCC) audit will be needed to ensure monitor compliance and high standards.

Of course, providing recipient nations with a greater say in program design, implementation, and evaluation entails some risks. Giving recipients greater flexibility can only work in countries that demonstrate the strongest commitment to development—exactly the countries for the MCA to target. With that greater flexibility, however, should come greater responsibility. Strong results should be expected from the MCA, and grantees should be held accountable for achieving the goals specified in their programs. Programs that achieve results should be funded generously while funds for those that do not should be reduced.

Toward a More Complete Foreign Assistance Strategy

Although the MCA is an exciting new program with enormous potential, only a small number of countries will receive MCA funding. Thus, it is only a partial strategy for U.S. foreign assistance. Because the MCA focuses on those countries with governments that have shown the strongest commitment to development, it essentially deals with the easiest cases among poor countries. The administration has not developed comparable strategies for different groups of nations that fail to qualify for MCA funding, whether they just miss qualifying or are failed states mired in perpetual conflict. Nor has it articulated a strategy for confronting major issues that cut across national boundaries, particularly the HIV/AIDS crisis, which experts within the administration and on Capitol Hill are beginning to realize hold strategic importance.

One extreme position would be to reserve all U.S. assistance for countries that qualify for the MCA. This position would be both negligent and shortsighted, as many non-MCA states, including Afghanistan, Pakistan, India, Israel, Nigeria, Ethiopia, Russia, Ukraine, Colombia, Mexico, and Indonesia, remain central to U.S. foreign policy interests. At the same time, the United States cannot and should not provide foreign assistance to every country, particularly ones whose egregious governments merit no foreign assistance at all. Still, developing a strategy for how to work with non-MCA nations is essential to a complete U.S. foreign assistance strategy.

U.S. objectives and local circumstances in non-MCA countries are bound to differ from those in MCA countries, demanding that a different approach be applied. Consider first the countries that almost qualify for the MCA but fall short in one or two areas. U.S. objectives here are broadly similar to those in the MCA countries—economic growth and poverty reduction—but the circumstances on the ground in these countries are not yet strong enough to allow for the more flexible funding mechanisms envisioned for the MCA. Because these countries fall outside the MCA, USAID will play the primary role, implying that the administration needs to develop a strategy to make USAID more effective on the ground. USAID programs in these nations should focus on the areas where the state falls short of qualifying for the MCA, with the aim of helping them qualify in the near future. As part of these programs, USAID should allow these nations to take a strong role in designing specific interventions, perhaps even writing proposals for funding as has been proposed for the MCA.

In nations with weaker, more corrupt governments that show no interest in development, USAID should direct funds carefully, with many activities performed through nongovernment agencies rather than through the government. The precise methods should be determined on a case-by-case basis. In some nations with weaker governments—especially new ones or those in postconflict situations, such as Afghanistan for example—working through the government may make sense as a way to strengthen government institutions and provide a basis for stronger development policies in the future. The greatest challenge lies in failed states, where governments are either ineffective or nonexistent and terrorism, drug trafficking, money laundering, and other transnational crime can easily breed. The Bush administration's 2002 National Security Strategy (NSS), released in September, is notable both for its emphasis on failed states as a foreign policy concern and for the complete absence of a strategy for dealing with them.[9]

Developing a strategy for how to work with non-MCA nations is essential.

Yet another approach is needed to fight the HIV/AIDS crisis. This pandemic has the potential to destroy many fragile societies, leading to generations of weak institutions, political instability, and misrule, with manifold possible negative repercussions for U.S. interests. Western leaders must show much greater leadership in combating HIV/AIDS, working together with leaders of developing nations and international institutions. Stronger efforts are needed across the board: encouraging proactive local leadership, strengthening initiatives to prevent transmission, providing treatment and care for those with the virus and related infections, developing strategies for families and orphans of victims, and pursuing research into vaccines. President Bush announced in his January 2003 State of the Union address his intention to request $15 billion over the next five years for HIV/AIDS funding. If realized, this funding would be a major step forward. The challenge ahead is to convert the funding into an effective strategy to fight the pandemic.

Finally, seriously helping low-income nations establish the basis for robust private-sector activities, sustained economic growth, and poverty reduction requires that the United States rethink some of its other policies affecting these nations—most important, protectionist U.S. trade policies that forbid poor countries from selling their textile and agriculture products in U.S markets. The recent farm bill was a major step backward because it will encourage even greater surplus U.S. agricultural production, thereby artificially depressing world prices further and undermining the incentives and opportunities for some of the poorest farmers in the world to make even a subsistence standard of living. As significant as the MCA is, opening U.S. markets to allow the world's poorest farmers to sell their products on an equitable basis would be far more beneficial to a greater number of poor nations as well as to the U.S. economy.

Similarly, greater debt relief is imperative for some of the poorest countries in the world (Uganda, Ghana, Tanzania) to make the public investments in health and education necessary to provide the basis for economic growth. The United States has already forgiven 100 percent of its claims on these and other low-income countries, including some potentially MCA-eligible countries, through the Heavily Indebted Poor Country (HIPC) Initiative.[10] This was a huge step forward, but the United States should work actively toward finding ways for the International Monetary Fund, the World Bank, and other international institutions to provide more debt relief for deserving countries. More broadly, the United States should ensure that all of its policies toward developing countries are consistent in their objectives and complement one another, rather than conflict with or undermine each other.

The MCA provides an opportunity for the United States to reassert its leadership.

Attacking these key problems that lie beyond the reach of the MCA first requires that Congress fully approve the president's plan to allocate $5 billion in annual MCA funds in addition to current foreign assistance spending. The MCA should not be funded by cutting back on these other programs—which are underfunded as it is. U.S. foreign assistance essentially has been level in nominal terms since the mid-1980s and has fallen steadily after adjusting for inflation or the size of the U.S. economy. The United States currently ranks last of 22 industrialized countries in foreign assistance as a share of GDP.[11]

Partly because of its relatively low level of funding, the United States has given up much of its leadership role on foreign assistance in recent years. The MCA provides an opportunity for the United States to reassert this leadership, both because of its size and its (potentially) innovative delivery mechanisms. Nevertheless, simply maintaining or increasing funding for non-MCA programs will not be enough. The United States must formulate new strategies for making its non-MCA foreign assistance programs more effective, which will require both a clear vision for and strong leadership of USAID. The MCA initiative, as currently conceived, is a good start, but the administration and Congress need to work together to develop all of the components necessary for an effective foreign assistance strategy to combat poverty and further U.S. strategic interests around the world.

Notes

1. Located at www.whitehouse.gov/news/releases/2002/03/20020314-7.html.
2. For a series of papers and analyses of the MCA, see Center for Global Development, www.cgdev.org/nv/features_MCA.html.
3. For the administration's fact sheet on its proposal, see www.cgdev.org/nv/MCA_FactSheetNov.doc.
4. Carol Lancaster, *Transforming Foreign Aid: United States Assistance in the 21st Century* (Washington, D.C.: Institute for International Economics, 2000).
5. See Craig Burnside and David Dollar, "Aid, Policies, and Growth," World Bank Working Paper #1777, June 1977; World Bank, *The Role and Effectiveness of Development Assistance: Lessons from the World Bank Experience* (2001).
6. See Steve Radelet, "Qualifying for the Millennium Challenge Account," www.cgdev.org/nv/Choosing_MCA_Countries.pdf.
7. For the administration's fact sheet, see www.cgdev.org/nv/MCA_FactSheetNov.doc.
8. See Radelet, "Qualifying for the Millennium Challenge Account."
9. For one approach, see John J. Hamre and Gordon R. Sullivan, "Toward Postconflict Reconstruction," *The Washington Quarterly* 25, no. 4 (autumn 2002): 85–96; subsequent articles.
10. For an analysis, see Nancy Birdsall and John Williamson, *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture* (Washington D.C.: Center for Global Development and Institute for International Economics, 2002).
11. If private contributions were added, the United States would probably move up the list a bit, but it would still rank among the least generous of contributors to low-income countries.