

THE MCA: SNAPSHOT AND INITIAL REACTIONS

DATA played a critical role in the formation of the MCA when staff and spokesperson Bono worked with the Bush Administration in formative efforts prior to the initial announcement in March 2002. DATA proposed substantial new resources to be delivered in new ways to the best governed countries — countries which meet certain governance criteria in the areas of democracy, accountability and transparency. DATA continues to advocate that the MCA be part of an overall strategy for development assistance for Africa which should also include deeper debt cancellation and increased resources for countries which do not meet the MCA's governance criteria (such as the Presidential HIV/AIDS plan) and fairer trade policies. Combined, these would assist towards DATA's ultimate goal - a sustained drive at poverty alleviation and economic growth in Africa.

DATA has been delighted by the announcement of both the MCA and more recently the Emergency HIV/AIDS Relief Plan – and looks forward to these being made into a coherent overall U.S. development assistance and trade strategy.

MCA Snapshot: What is it?

- ✓ The Millennium Challenge Account (MCA) was announced by President Bush in March 2002 as a mechanism to deliver substantial new resources to a carefully selected group of poor countries to support development and poverty reduction.
- ✓ When announced, the President promised to begin funding the MCA in 2004 and scale up to \$5 bn in additional annual resources by 2006. According to the White House, this would result in a 50% increase in development spending by 2006. Because DATA includes less accounts in its assessment of 'key developmental accounts', the proposed \$5 bn for the MCA in 2006 would actually represent more than a 75% increase in spending over 2003 budget levels for these key accounts.
- ✓ Eligibility for the MCA is based on country income level and individual countries' commitment to good governance, economic freedom and investing in their people.
- ✓ In each of these three categories, the Millennium Challenge Corporation (MCC) will establish several criteria on which a country is scored. As currently proposed, if a country scores better than its peers on at least half of the criteria in each category (better than the "median" score of other countries), it will be eligible to apply for MCA funds. In addition, a country MUST be above the median on the corruption indicator to qualify. Final selection will be made by the MCC.
- ✓ Countries that qualify and apply may write applications for MCA funds in which they specify their poverty-reducing goals and would enter into contractual relationships with the new MCC in order to achieve those specified goals.
- ✓ The MCC will be a new government corporation supervised by a Board of Directors composed of Cabinet level officers and chaired by the Secretary of State.

Some Key Recommendations

The Administration's proposed legislation offers a solid basis for the MCA but certain recommendations would better ensure that the MCA remains focused on its primary goal—to reduce poverty for the poorest countries.

- **Funding Levels**—When first announced, the White House issued a fact sheet that stated that the MCA would be funded at approximately \$1.7 bn in its first year (2004). The President's FY04 budget only included \$1.3 bn for the MCA in 2004. Currently, Senate and House budget leaders

are considering major cuts to the MCA which would leave the account with start-up funds but very little programmatic funds in its first year. At least \$1.3bn in 04 is required because there need to be sizeable additional resources in the MCA to create the incentive for countries to improve governance and qualify in the future, and for those that do qualify to be really rewarded. True ambition requires flows a magnitude larger than at present.

- ***Focus on the Poorest Countries***—The MCA should be limited to those countries that are eligible to borrow from the International Development Association (IDA) which represent the poorest countries; MCA should not be dedicating resources to lower-middle income countries (which would include Egypt, Russia, Thailand) as proposed by the White House fact sheet unless the total pool of resources is increased beyond levels currently proposed.
- ***Selection Criteria***—In using the concept of the “median” as a measurement that would be recalculated each year, the MCA will inadvertently move goalposts. As MCA countries improve as a result of new resources, the median will rise, making it ever harder for non-MCA countries to qualify. This will remove the incentive for reform. Annual revision of the median will result in a broadening gap between those that qualify and those that do not. Instead, once the first round of scoring has been completed for 2004, the established median should be used as the standard by which countries are measured in 2005, 2006 and future years as well.
- ***Preserve integrity of funds***—Congress must refrain from earmarking funds for particular purposes, countries or projects as such activities undermine the efficiency of development assistance. In addition, Congress must also refrain from “tying” the MCA funds to U.S. goods and services. “Tied aid” requires that countries make particular purchases and enter into particular contracts that benefit the U.S. private sector. This destroys competition in the provision of services, reducing the cost-effectiveness of development assistance. MCA funds must not be tied – and indeed all US foreign assistance should be untied. This would model a new aid paradigm to the international community.
- ***Assess and assist reform in near-misses*** – The MCC should ensure no country is prevented from qualification simply because that country is so poor it does not have sufficient resources available to meet the median set by their peers. This can be achieved in two ways—1) by ensuring that the “Investing in People” indicators include some measurement of relative improvement over low starting points 2) by providing targeted assistance in matching grants to assist near-miss countries in improving their performance on those indicators which prevented them from qualification.
- ***Three to Five year authorizing legislation***—Congress should authorize a three to five year bill rather than a one year bill on the MCA. The expanded time line would help to give some confidence in the longevity of the plan and would ensure that the MCA would have more than one year to prove its impact and efficacy prior to having to be legislated again.