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The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative

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Summary

In a speech on March 14, 2002, at the Inter-American Development Bank, President Bush outlined a proposal for the United States to increase foreign economic assistance beginning in FY2004 so that by FY2006 American aid would be $5 billion higher than three years earlier. The new funds, which would supplement the roughly $16.3 billion economic aid budget for FY2003, would be placed in a separate fund — Millennium Challenge Account (MCA) — and be available on a competitive basis to a few countries that have demonstrated a commitment to sound development policies and where U.S. support is believed to have the best opportunities for achieving the intended results. These "best-performers" would be selected based on their records in three areas — ruling justly, investing in people, and pursuing sound economic policies.

Development of a new foreign aid initiative by the Bush Administration was influenced by a number of factors, including the widely perceived poor track record of past aid programs, recent evidence that the existence of certain policies by aid recipients may be more important for success than the amount of resources invested, the war on terrorism, and the March 2002 U.N.-sponsored International Conference on Financing for Development in Monterrey, Mexico.

The MCA initiative is limited to countries with per capita incomes below $2,935, although in the first two years — FY2004 and FY2005 — only countries below the $1,415 level would compete for MCA resources. Participants will be selected based on a transparent evaluation of a country's performance on 16 economic and political indicators, divided into three clusters corresponding to the three policy areas of governance, economic policy, and investment in people. Eligible countries must score above the median on half of the indicators in each area. One indicator — control of corruption — is a pass/fail measure: a country must score above the median on this single measure or be excluded from further consideration.

The Administration proposed to create a new entity — the Millennium Challenge Corporation (MCC) — to manage the initiative. The MCC would be supervised by a Board of Directors chaired by the Secretary of State. Several other key issues, including the number of participating countries and monitoring mechanisms, have yet to be determined.

Congress plays a key role in the policy initiative by considering authorization and funding legislation, and confirming the head of the proposed MCC. A number of issues have been addressed in the congressional debate, including country eligibility criteria, performance indicators used to select participants, creation of the new MCC, and budget considerations. Congress approved legislation (Division D of P.L. 108-199) authorizing the new program and appropriating $994 million for the first year. The measure creates a Corporation, as proposed, but alters the composition and size of the Board of Directors. It further limits the extent to which lower-middle income countries in FY2006 and beyond can participate in the MCA so that more resources will be available for the poorest nations. The legislation creates a roughly 90-day period after the Corporation is established for consultation and public comment before selecting MCA participants for FY2004. It is expected that the Board will name the initial MCA eligible countries in May 2004.

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Most Recent Developments

On January 23, 2004, President Bush signed into law the Consolidated Appropriations Act, 2004 (P.L. 108-199) within which Congress authorized the creation of the Millennium Challenge Account and appropriated $994 million for FY2004. The MCA legislation, included in Division D of the omnibus spending bill, resolved several key issues on which the House and Senate differed. The measure creates a new Millennium Challenge Corporation (MCC), headed by a CEO who reports to the Board of MCC Directions, instead of the Secretary of State (Senate) or the President (House). The Board includes the Secretary of State (chairman), the Secretary of the Treasury, the U.S. Trade Representative, the USAID Administrator, the MCC CEO, and four others from lists submitted by congressional leaders and nominated by the President. Low-middle income countries may participate in MCA programs beginning in FY2006, as proposed, but may not receive more than 25% of MCA appropriations. The legislation creates a roughly 90-day period during which the Corporation will name the list of countries that will compete for MCA selection in the first year ("candidate countries"), publish the methodology that will be used for identifying best performing countries, seek public comment on the initiative, and consult with Congress. Following this review period, countries will be selected ("eligible countries") and invited to submit program proposals for funding. This could take place as early as May 2004.

Introduction

In a speech on March 14, 2002, at the Inter-American Development Bank, President Bush outlined a proposal for the United States to increase foreign economic assistance beginning in FY2004 so that by FY2006 American aid would be $5 billion higher than three years earlier. He further pledged to maintain economic aid amounts at least at this level into the future. The funds would be placed in a new Millennium Challenge Account (MCA) and be available on a competitive basis to a few countries that have demonstrated a commitment to sound development policies and where U.S. support will have the best opportunities for achieving the intended results. These "best-performers" will be selected based on their records in three areas:

- Ruling justly — promoting good governance, fighting corruption, respecting human rights, and adhering to the rule of law.

- Investing in people — providing adequate health care, education, and other opportunities that sustain an educated and healthy population.

- Pursuing sound economic policies that stimulate enterprise and entrepreneurship — promoting open markets, sustainable budgets, and opportunities for economic growth.

If fully implemented, the initiative would represent one of the largest increases in foreign aid spending in half a century, outpaced only by the Marshall Plan following World War II and the Latin America-focused Alliance for Progress in the early 1960s. Administration officials characterize the MCA as representing the most comprehensive policy change ever in how the United States designs, implements, and monitors development assistance to low and lower-middle income nations. In particular, Executive officials emphasize the "results-based" aspect of the initiative in which countries will be selected based on past and current performance, and programs will be evaluated on and required to show measurable achievements that impact favorably on economic growth and poverty reduction.

Conditioning assistance on policy performance and accountability by recipient nations is not a new element of U.S. aid programs. Since the late 1980s at least, portions of American development assistance have been allocated by the U.S. Agency for International Development (USAID) to some degree on a performance-based system. What is significantly different about the MCA is that the entire $5 billion money pool — which is nearly twice the size of the FY2003 USAID "core" development aid budget — will be tied to performance and results. Moreover, program proposals will be based on national development strategies developed by the countries themselves, with a U.S. role limited to providing technical assistance in project design. Further, in another major departure from past policy, the MCA is intended to focus exclusively on development goals without being influenced by other U.S. foreign policy and geo-strategic objectives that often strongly influence U.S. aid decision making. Nevertheless, while new details regarding country eligibility, selection criteria, and organizational structure were announced in December 2003, many issues have not yet been decided and remain under review by the Executive branch.

Congress plays a key role in the approval of the initiative by way of considering authorization and funding legislation, and in confirming the head, or CEO, of the Millennium Challenge Corporation that manages the MCA under the President's plan. Congress will also maintain continuing oversight of the program as it is implemented and additional funding is sought in subsequent years. Among numerous policy issues for Congress raised by the MCA proposal were:

- **Country eligibility**: Should the MCA target both low and lower-middle income countries, as proposed by the Administration, or should it focus exclusively on the poorest nations where the needs are the greatest and where access to other financial resources is limited? And, if both, how should funds be allocated between the two groups?

- **Performance indicators and selection process**: Will the indicators and the methodology proposed by the Administration identify the "best performers"?

- **Implications for other U.S. development aid programs**: How will the MCA affect global and country aid programs not part of the new initiative?

- **U.S. organizational structures:** Is the proposed Millennium Challenge Corporation, with a staff of 100, the most appropriate structural model for managing the MCA? What are the implications for the U.S. Agency for International Development, the primary government bilateral aid agency?

- **Program development and selection:** What types of activities should the MCA fund and how will these programs be designed?

- **Legislative and funding matters:** What should be the relationship between MCA authorizing legislation and current foreign aid laws and legislative practice? What are the budgetary implications on the MCA?

Background of the Millennium Challenge Account Initiative

Context

The concept of the Millennium Challenge Account is based on the premise that economic development succeeds best where it is linked to sound economic and good governance policies, especially where these conditions exist prior to expanding resource transfers. Past failures of economic aid provided by the United States and other international donors, some argue, have been caused to a large extent by a lack of attention to performance and the requirement for measurable results.[1] Executive branch officials say that the MCA abandons the process of basing aid allocations on promises by recipient governments to initiate policy changes in the future, and instead will make those decisions based on achievements already made and policies that are currently working.[2]

This view has been joined by a growing body of literature in the late 1990s concluding that there was little relationship between the amount of development aid

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[1] Others will argue, however, that of equal or perhaps more importance has been the close ties of U.S. foreign assistance with more strategic and geo-political goals where development results have been of secondary importance for policymakers charged with aid allocations and policy formulations.

[2] See remarks by Andrew Natsios, Administrator, USAID, at the U.S. Embassy in London, October 21, 2002. [http://www.usaid.gov/press/spe_test/speeches/2002/sp021021.html]

provided and success in raising economic levels and reducing poverty. Rather, some researchers argued that foreign assistance produced the greatest impact where the recipient country had already adopted sound policies.[3] Others have concluded that international development assistance has largely failed and will continue to do so unless the donor community fundamentally shifts its focus to support real policy change.[4] Despite many development successes in such areas as agricultural production and child immunization, by one calculation 97 countries receiving $144 billion (constant dollars) in U.S. aid since 1980 had their median per capita gross domestic product (GDP) decline from $1,076 to $994 by 2000.[5]

Also influencing the debate over the launch of a new foreign aid initiative are the terrorist attacks of September 11and an evaluation of their causes. There remain differences of perspective regarding a possible direct relationship between poverty and terrorism, especially given the fact that many terrorist leaders come from relatively wealthy backgrounds. But most agree that poverty can be a contributing factor. President Bush, in announcing the MCA on March 14, 2002, made numerous references to the war on terrorism, noting that "We also work for prosperity and opportunity because they help defeat terror." He further emphasized that although poverty does not cause terrorism, "poverty prevents governments from controlling their borders, policing their territory, and enforcing their laws. Development provides the resources to build hope and prosperity, and security."[6]

Accompanying this was a renewed interest in global development aid funding levels as governments, international institutions, and non-governmental organizations prepared for a mid-March 2002 U.N.-sponsored International Conference on Financing for Development in Monterrey, Mexico. Conference proponents hoped the session would serve as a catalyst for donors to increase aid commitments in order to achieve by 2015 the ambitious goal of reducing poverty by one-half relative to 1990. At the 2000 Millennium Summit, international leaders, including the United States, had pledged support for a set of specific targets, including those related to hunger, education, women's empowerment, child health, HIV/AIDS, and other infectious diseases, that became known collectively as the Millennium Development Goals. A World Bank analysis, released February 2002, estimated that to achieve these goals by 2015, donors would need to increase spending by $40 to $60 billion

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[3] See, for example, Craig Burnside and David Dollar, "Aid Spurs Growth — in a Sound Policy Environment," *Finance and Development*, December 1997; and Paul Collier and David Dollar, "Aid Allocation and Poverty Reduction," The World Bank, January 1999.

[4] See, for example, William Easterly, "The Failure of Development," *Financial Times*, July 3, 2001.

[5] Testimony of Brent Shaefer, The Heritage Foundation, before the House Foreign Operations Appropriations Subcommittee, June 27, 2002. Foreign Operations, Export Financing, and Related Programs Appropriations for 2003. Hearings, Part 3, p. 473.

[6] President Proposes $5 Billion Plan to Help Developing Nations. Remarks by the President on Global Development at the Inter-American Development Bank, Washington, D.C., March 14, 2002.

per year, or roughly double the amount provided in 2001.[7] As the Monterrey conference approached, international development advocates began pressing participating governments to issue specific pledges that would help close this funding gap identified by the World Bank.

Outlines of the MCA

Following the President's speech in March, an inter-agency team, including representatives from the National Security Council, Office of Management and Budget, State Department, USAID, and the Department of Treasury, met frequently to work out proposals to design and implement the U.S. initiative. The NSC managed overall policy development while the State Department took charge of outreach — seeking input from the non-governmental community — and the Treasury Department assembled economic and governance indicators that would be used to determine eligible countries. The team drafted recommendations on many, but not all MCA issues, and after being approved by the Secretaries of State and Treasury, the proposals were forwarded to the President.

After making further modifications, on November 25 President Bush endorsed several key principles of the initiative. Thereafter, the process of writing legislation, deciding on budget levels for FY2004, and consulting with Congress began. On February 3, 2003, the President proposed $1.3 billion for the MCA in FY2004, followed two days later by submission of a draft bill authorizing the initiative. The requested legislation was introduced as H.R. 1966 and S. 571, but ultimately enacted as part of the Consolidated Appropriations Act, 2004 (Division D of P.L. 108-199).

While several important issues have been decided, both through enactment of authorizing legislation and through inter-agency discussions, others remain under review as the MCA framework evolves. These issues are highlighted below and discussed in more detail in the following section on the MCA and congressional consideration.

MCA features announced by the Administration. The Administration issued proposals on a number of key MCA elements, some of which were incorporated into the enacted authorizing legislation:

- **Country eligibility.** In the first year — FY2004 — countries that can borrow from the World Bank's International Development Association (IDA) with a per capita income below $1,415 are eligible. The list will expand to 115 over the next two years to include all countries with per capita GNI less than $2,935. (For complete list, see appendix B.)

- **Selection criteria and performance indicators.** MCA participants will be selected based on their performance measured by 16

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[7] World Bank, *Goals for Development: History, Prospects, and Costs*, by Shantayanan Devarajan, Margaret Miller, and Eric Swanson, April 2002. Text available at [http://econ.worldbank.org/view.php?topic=19&type=5&id=13269].

economic and political indicators. In most cases, a score above the group median on the indicator would represent a passing "grade". The MCA Board of Directors will be guided by the statistical outcomes, but maintain some discretion over the final selection.

- **Corruption measure is "pass-fail".** To be eligible, a country must score above the median on the corruption indicator, as compiled by the World Bank Institute.

- **Program development and submission.** MCA programs will be "country-driven" in which participating country officials will design and submit project proposals based on national development objectives.

- **Types of programs supported.** MCA programs will be available not only for government-sponsored projects, but for activities proposed and implemented by local governments and communities, civil society, and other private entities. National governments, however, would remain responsible for the program and be the party to sign a compact between the U.S. and the country. Moreover, according to Administration officials, all types of assistance — budget support for government initiatives, infrastructure projects, and more targeted activities focused on specific sectors — are available for consideration.

- **Organizational management of the MCA.** The Administration asked and Congress approved the creation of a new entity — the Millennium Challenge Corporation (MCC) — that will be supervised by a Board of Directors chaired by the Secretary of State.

- **FY2004 funding.** The Administration proposed $1.3 billion for the MCA's first year and continues to support its pledge of $5 billion by FY2006. Congress, however, reduced the FY2004 funding to $994 million.

MCA issues undecided within the Administration. Beyond some of these key decisions, other matters remain under discussion.

- **Number of countries participating.** Because the MCA will be a "performance-driven" program, it is difficult to predict how many nations will qualify and participate. Administration officials have suggested, however, that the number will be relatively small — perhaps less than 20 by the third year. It is also undecided whether all or only some of the countries that qualify based on the performance indicators will receive MCA funding. The final list may comprise selections from the pool of best performing countries or the selection could be based on the quality of program proposals submitted by qualifying nations. Other options are also under review.

- **Impact on USAID program objectives in MCA countries.** MCA participants may or may not continue to receive regular development aid under existing USAID programs. If they do, it is unclear whether those activities will change focus in order to support MCA projects. The role of USAID missions in MCA countries is also yet to be clearly stated.

- **Monitoring and accountability.** Executive officials say that MCA programs will be closely monitored and scrutinized, perhaps by some independent auditing system, but they have not established plans or procedures.

- **Graduation or exit strategies.** A main objective in providing an increased resource pool to help "jump-start" or accelerate a country's development process, is to set it on the road toward graduation. What criteria to use to end programs in successful countries or how to withdraw from a non-performing MCA participant remain undecided.

The MCA and Congressional Consideration

As Congress considered MCA authorizing legislation and funding recommendations in 2003, and will later debate the confirmation of the MCC chief officer, followed by continuing oversight of program implementation, several key elements of the initiative have been, and will continue to be closely examined. These will include matters that have already been decided within the executive branch, as well as issues that remain under discussion.

Country Eligibility and Income Levels

One of the first questions addressed by the executive steering committee was where the income cutoff point should be drawn for purposes of defining potential MCA participants. The debate chiefly focused on whether only the poorest nations should be considered for MCA programs. As noted above, the Administration announced in late November 2002 that a pool of 115 countries, phased in over three years, would compete for MCA resources. They are grouped into three clusters according to income level and World Bank borrowing status, with a new cluster added to the competition each year corresponding to the anticipated rise in MCA resources. In FY2004, only the 75 IDA-eligible countries with per capita incomes below $1,415 can compete, while 12 more will be added the next year.[8] By FY2006, when $5 billion is planned for MCA programs, countries with per capita incomes between $1,415 and $2,935 — 28 in number — will be added. Since countries above $1,415 per capita income are likely to score higher on the eligibility indicators, the

[8] IDA-eligible borrowers total 81. While most fall below the $1,415 gross national income (GNI) per capita level, seven small island countries with incomes above this level also can borrow from IDA. See Appendix B for a complete list of countries falling into each income grouping.

White House further has decided to have separate competitions for the low and low-middle income groups to avoid income bias.

Issue: Income eligibility. There emerged at the outset a relatively broad consensus within the U.S. development community that the MCA should focus on IDA-eligible, low-income countries.[9] For a policy aimed at promoting economic growth and reducing poverty, most agreed that it made sense to place emphasis where the greatest needs existed. By expanding the number and income level of MCA participants beyond IDA-eligible status, some argued, the amount of money available for the poorest nations would be reduced. Some also noted that the 28 member low-middle income group includes nations that maintain strong political and strategic ties with the U.S. — Egypt, Jordan, Colombia, Turkey, and Russia. That would increase the possibility, or at least the perception, that countries might be selected on criteria other than MCA performance measures. It may further tend to blur the distinction between MCA goals and objectives of other aid programs, jeopardizing the unique approach of the MCA and the need for programmatic flexibility.[10] Achieving economic results as an objective has frequently taken a position secondary to strategic interests in U.S. aid allocation considerations in the past.

In addition, some point out that the poorest countries have far less access to capital from private sources, making MCA resources even more valuable to them. According to one analysis, aid as a percent of gross national income (GNI) for IDA-eligible countries with per capita incomes below $1,415 totals 10.8% compared with 1.4% for the higher income group (below $2,935); gross private capital flows as a percent of GDP for the poorer IDA-eligible countries (below $1,415) is 6.9% while those between $1,415 and $2,935 receive 10.3%. Tax revenues and domestic savings as a percent of GDP among low-middle income countries are roughly double the level of those for IDA-eligible borrowers below $1,415, thus providing a more expansive potential source of financing.[11]

Others, however, argue that low-middle income countries deserve equal consideration in a program intended to identify and partner with the "best-performers." In some cases, they assert, commitments to sound policies have enabled nations to move into the higher income range. If a primary goal of the MCA is to maximize the effectiveness of aid resources, then non-IDA countries should be

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[9] Three non-governmental organizations, for example, argued that the MCA should limit participation exclusively to IDA-eligible countries. See InterAction. *The Millennium Challenge Account: A New Vision for Development*, May 2002; Catholic Relief Services, *Improving Effectiveness: Recommendations for the Millennium Challenge Account*, June 24, 2002; and Bread for the World, *Rise to the Challenge: End World Hunger*, available at [http://www.bread.org/issues/rise_to_the_challenge/preview.html].

[10] See: Lael Brainard, *Compassionate Conservatism Confronts Global Poverty*, the Washington Quarterly, Spring 2003, p. 151; and Steve Radelet, *Qualifying for the Millennium Challenge Account*, Center for Global Development, December 13, 2002, p. 4.

[11] Radelet, *Qualifying for the Millennium Challenge Account*, Appendix, p. 3.

included.[12] In addition, countries falling in the $1,415 - $2,935 per capita income range, while maintaining higher income levels, also have large numbers of people living in poverty. These countries, with stronger institutions and better capacity may also be better positioned to apply MCA resources more effectively.

One argument of those favoring exclusive participation of countries below the $1,415 level — that better-off economies would score higher on the eligibility indicators, raise the median standards for qualification, and squeeze out the poorest nations — seems to be addressed by the Administration. Based on a preliminary estimate of the median scores of each group, the median would be higher — and in some cases significantly higher — for 14 of the 16 indicators for low-middle income countries compared with those below $1,415 GNI per capita.[13] In FY2006, when the 28 higher-income countries become eligible, they will be evaluated separately from the other 87, competing against each other to score above the group median on the 16 indicators. This would allow countries to qualify based on comparisons with their income-level peers. Whether the Administration will divide MCA resources into two pots of money for each income group has not been determined. In any case, unless the Administration and Congress agree to increase the MCA beyond the proposed $5 billion target, whatever number of low-middle income nations that qualify will reduce the amount of resources that would otherwise be available for those below the $1,415 level.

Congressional proposals to modify income eligibility. Reflecting the perspective that the MCA should remain focused on the poorest countries, the Senate Foreign Relations Committee recommended in S. 1160 (as added to S. 950) to permit participation by low-middle income country in FY2006 and beyond only if MCA funding exceeds $5 billion. If not, MCA programs could only be supported in countries that fall below the "historical per capita income cutoff of the International Development Association," a level that is currently $1,415. Even in years when the MCA appropriation exceeds $5 billion, the Senate bill would limit funding to low-middle income participants to 20% of the total amount. The Foreign Relations Committee further expressed its intention that MCA programs in the low-middle income countries should focus on poor communities in those nations.

The House International Relations Committee, in H.R. 1950, also limited to 20% the amount of MCA resources that could be allocated in FY2006 to low-middle income participants. But unlike the Senate, the House measure did not require an appropriation in excess of $5 billion for inclusion of the low-income group in FY2006. The Committee considered two amendments during markup related to the income issue. The first, offered by Congressman Payne and approved by the House panel, would have required low-middle income countries that are selected for MCA

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[12] Paolo Pasicolan and Sara J. Fitzgerald, *The Millennium Challenge Account: Linking Aid with Economic Freedom.* The Heritage Foundation, October17, 2002, p. 2.

[13] The two indicators for which this would not be the case are trade policy, which would be the same for each group, and three-year budget deficits. However, because qualification under the latter indicator is set at a specified threshold — less than 20 percent — group medians would have no impact on whether a country passed this hurdle. Source: CRS analysis based on data compiled by Steve Radelet, Center for Global Development.

grants to make a contribution from their own resources to whatever MCA programs are funded. The second amendment, proposed by Congressman Menendez, originated out of concern that few (7) Latin American nations would be eligible to compete for MCA resources in the first two years, despite large pockets of poverty in these countries. The Menendez amendment, which was defeated (10-24), would have made low-middle income nations, a group which includes nine from Latin America eligible from the beginning. Similarly, Congressman Kolbe proposed an amendment during House floor debate that would have allowed low-middle income countries to be eligible beginning in FY2005 rather than FY2006. The Kolbe amendment failed 110-313. While sympathetic to the concerns expressed by sponsors of the amendment, those opposed to changing the income eligibility structure argued that resources diverted from Latin America and many other nations would come at the expense of the world's poorest nations where the needs are greatest.

As enacted in Division D of P.L. 108-199, the MCA authorizing legislation follows the earlier House and Senate plan of including only low-income countries in the program during FY2004 and FY2005. Beginning in FY2006, low-middle income nations, with per-capita income above $1,415, may also participate, but they can only receive 25% of the amount appropriated for the MCA in that year.

Performance Indicators and Selection Process

Executive branch decisions on which performance indicators to use have been guided by whether the data and methodology are transparent, publically available, accurate, and easy to understand. Another key factor is whether the data source provides full coverage for as many countries as possible and is relatively current. Officials further sought to identify indicators that would be few in number but sufficient to reflect broad policy results in each of the three policy categories, and valid relationships between the indicators and economic growth and poverty reduction. Finding indicators that meet all of these requirements is difficult, and according to some, impossible. Gathering valid economic, social, and political statistics, especially in developing nations, has always been difficult, often resulting in significant gaps in coverage and long lag times. Gaining consensus on whether a given set of indicators accurately measures policy achievements unfettered of institutional bias by whatever organization or individuals collect and interpret the data is also a major challenge.

As noted above, the Administration has settled on 16 indicators for measuring performance and determining country eligibility. As shown in Table 1, six fall within each of the ruling justly and encouraging economic freedom categories, while four will determine results in the area of investing in people. Sources include international institutions, such as the World Bank, IMF, and U.N., and non-governmental and private organizations like Freedom House, Heritage Foundation, and the Institutional Investor Magazine. National statistics will also be drawn upon where gaps occur, but none of the data sets will be compiled by the U.S. government.

For aggregating country scores, the Administration decided to use a "hurdles" approach instead of adding up the results and ranking nations top to bottom. To qualify, a country must score *above* the median on half of the indicators in each

policy area; in other words, a country's ranking must be above the median of all 75 countries in the first year on three of the six indicators for ruling justly and economic freedom, and two of the four for investing in people. The one exception to the median standard is the inflation indicator — a country's inflation must be below 20 percent in order to pass that hurdle. Officials believe that the hurdle methodology will demonstrate that a country is committed in all three areas and more precisely identify policy weaknesses. In year three and beyond, when low-middle income countries are added to the competition, there will be separate evaluations for countries below and above $1,415 per capita incomes so that higher income countries will not drive up the median and exclude poorer nations from qualifying.

Importantly, one indicator — control of corruption — will be a "pass-fail" test, in which any country scoring at or below the median on this measure will be disqualified regardless of performance on any of the other 15 indicators. Executive officials argue that since there are strong links between financial accountability and economic success, a strong commitment to fight corruption must be demonstrated by all MCA participants.

Further, after passing all the required hurdles, a country's score will be evaluated by the MCC Board of Directors who will make the final recommendations to the President. The Board will be granted a degree of discretion in selecting the final participants, taking into account such things as missing or old data, trends in performance, and other information that might reflect on a country's commitment to economic growth and poverty reduction. Moreover, officials have yet to decide whether to fund programs in all countries that qualify and pass the final review. Final selection, for example, could hinge on the quality of program proposals submitted by the best performing nations, although other selection options are also under discussion. Presumably, the President will also maintain flexibility as to whether to agree with the Board's recommendations.

Congressional action on performance indicators. Measures considered in the Senate and House (S. 1160, as amended and incorporated into S. 925; and H.R. 2441, as amended and incorporated into H.R. 1950) did not directly legislate the list of performance indicators to be used, thereby allowing the executive branch to apply the measures that it has recommended. Both, however, provided for advance congressional consultation and public awareness. S. 925 required that the list of proposed indicators be published in the Federal Register and on the Internet and that the Administration consider public comment prior to issuing the final determination of the indicators. In this way, the Committee believed that the indicators could be refined and improved.

H.R. 1950 required the Corporation's CEO to consult with congressional committees prior to establishing eligibility criteria and methodology and publish such criteria once finalized. Both bills further directed that country eligibility would be based on an evaluation of performance criteria that closely matched the 16 indicators listed in Table 1 below. In its report on S. 1160, the Senate Foreign Relations Committee expressed its intent that the selection be based on development needs and performance, and not on immediate political considerations.

The enacted legislation, like earlier House and Senate bills, does not specify the specific performance indicators. In describing the criteria by which countries should be assessed, the MCA Act makes reference to the extent to which countries respect the rights of people with disabilities, promote the sustainable management of natural resources, and invest especially the health and education for women and girls. While none of the 16 indicators chosen by the Administration directly address these three additional concerns, it is likely that MCC officials will review existing indicators or search for new performance measure in order to better evaluate progress on these three factors added by Congress. The legislation further requires the Corporation to publish the eligibility criteria and methodology used for country evaluation on its website and in the *Federal Register,* and receive public comment and congressional input prior to country selection decisions.

Table 1. MCA Performance Indicators

Ruling Justly	Investing in People	Economic Freedom
Control of Corruption Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters3.html	**Public Primary Education Spending as % of GDP** Sources: National governments	**Country Credit Rating** Source: Institutional Investor Magazine, September 2003.
Voice and Accountability Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters3.html	**Primary Education Completion Rate** Sources: World Bank and UNESCO	**Inflation** (must be below 20%) Source: Multiple
Government Effectiveness Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters3.html	**Public Expenditure on Health as % of GDP** Sources: National governments	**Three-year Budget Deficit** Source: National governments
Rule of Law Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters3.html	**Immunization Rates: DPT and Measles** Sources: World Health Organization	**Trade Policy** Source: The Heritage Foundation, Index of Economic Freedom http://www.heritage.org/research/features/index/
Civil Liberties Source: Freedom House http://www.freedomhouse.org/research/freeworld/2004/table2004.pdf		**Regulatory Policy** Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters2003.htm
Political Freedom Source: Freedom House http://www.freedomhouse.org/research/freeworld/2004/table2004.pdf		**Days to Start a Business** Source: World Bank http://rru.worldbank.org/DoingBusiness/SnapshotReports/EntryRegulations.aspx

Issue: Association of performance indicators with economic growth and poverty reduction. Analysts will be examining the set of 16 indicators to determine how well they predict successful development outcomes. An initial assessment by the Center for Global Development suggests that many of the indicators show a reasonable or strong relationship with economic growth, infant mortality, and literacy rates, although a few show weak associations, especially in the economic freedom category. According to the Center's analysis, each of the six governance indicators maintains good or strong correlation to development outcomes. The measure of public primary education spending as a percent of GDP, however, is weakly associated with the three development standards. Three of the six economic freedom indicators — trade policy, days to start a business, and three-year budget deficits — are also found in the study as being weakly correlated with development achievements.[14]

Issue: Hurdles and median vs. aggregated ranking. Some argue that an aggregation of scores and top-to-bottom ranking rather than the use of hurdles is a better way in which to determine eligibility with an above-the-median score requirement. While the Administration holds that passing half the hurdles in each of the three policy areas ensures broad commitment to both economic growth and poverty reduction, it also means that countries do not have to meet each of the 16 standards to qualify. This approach departs from more traditional aid requirements in which recipients must comply with all conditions associated with a program framework, especially those of the World Bank, IMF, and in some cases U.S. aid agreements. Once a country passes a hurdle, there are limited incentives to keep improving in those areas. For countries that miss qualifying by a small margin, however, the incentive remains.

Use of the median also in some cases complicates efforts for a country to pass the hurdle due to outcomes beyond its control. The median will change over time, sometimes because new countries are added to the pool, as will be the case in FY2005. In other instances, a country may improve on a particular indicator but still not pass the hurdle because other countries improve more significantly and push the median higher. Conversely, a government could regress or remain stagnant over time but pass a hurdle it had failed the previous year because the median drops. A number of observers have suggested that instead of using the median, it would be better either to

Possible First-Year Qualifiers — One Analysis

Armenia	Honduras	Senegal
Bhutan	Lesotho	Sri Lanka
Bolivia	Mongolia	Vietnam
Ghana	Nicaragua	

Source: Steve Radelet, "Which Countries Are Most Likely to Qualify for the MCA? An Update." Center for Global Development. May 30, 2003. Available at: [http://www.cgdev.org/pubs/challenging_aid/country%20qualification%20update1.pdf]

[14] Radelet, *Qualifying for the Millennium Challenge Account.* See especially Table 2, Appendix, p. 2. This study also provides a useful critique of each of the 16 indicators concerning data availability, reliability, and other relevant issues. Text available at [http://www.cgdev.org/nv/Choosing_MCA_Countries.pdf].

set specific, individual thresholds that would be relevant to each indicator or to use absolute scores.[15]

A further issue in use of the median is that for three of the indicators — political rights, civil liberties, and trade policy — the range is relatively narrow for scoring country performance, resulting in many falling at the median. The Freedom House assigns scores on a 1-7 scale, while the Heritage Foundation uses a scale of 1-5. For the trade policy indicator, for example, 15 of the 75 IDA-eligible countries are assigned the median score of 4. Since a country must place above the median to pass a hurdle, this eliminates a number of candidates with limited differentiation of performance.

Issue: Surprising country outcomes and modifying the indicators. Many have been surprised by the possibility that countries such as Vietnam and China might qualify, despite scoring near the bottom on half of the indicators for ruling justly. Both countries pass the hurdles for corruption, rule of law, and government effectiveness, but have some of the worst scores in the categories of political rights, civil liberties, and voice and accountability. Since they score above the median for three of the six indicators and pass the corruption measure, they would qualify, at least in the ruling justly category.

One analyst attributes this to the high degree of correlation among several indicators in a single category that tends to magnify existing data deficiencies. When half the indicators in a single category are strongly related to one another, and a country scores well in those areas, the other indicators essentially become irrelevant. Egypt is also cited as an example of a country with a poor record on regulation and trade, but would have passed the economic freedom grouping with data available in early 2003 based on the strength of macroeconomic indicators.[16]

One modification to the current proposal that would address this potential weakness would be to make sure that highly correlated indicators represent less than one-half the total cluster. In this way, a country would not pass one of the three categories based on a strong showing in one respect but very poor standards for the other measures. Another alteration to the Administration's plan would be to add an additional indicator in each category so that there would be an odd number of measurements in each category. In a sense, the added element would become a "tie-breaker" in cases where the current indicators tended to cluster in two, evenly divided, highly correlated groupings. One review of the MCA proposal argues that the initiative does not include sufficient attention to democracy issues because it includes indicators in the ruling justly category that are better measures of economic, not political freedoms. This analysis recommends a shift of the corruption, rule of

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[15] See, for example, Nancy Birdsall, Ruth Levine, Sarah Lucas, and Sonal Shah, *On Eligibility Criteria for the Millennium Challenge Account*, Center for Global Development, September 12, 2002, p. 5; and Radelet, *Qualifying for the Millennium Challenge Account*, p. 25. As noted above, the Administration's proposal sets a specific threshold for the inflation indicator.

[16] Brainard, *Compassionate Conservatism Confronts Global Poverty*, p. 158. According to more recent data, Egypt would not qualify in FY2006.

law, and government effectiveness indicators to the economic policy category. Under this scenario, countries like Vietnam and China would fail the ruling justly test.[17]

Issue: Data accuracy and availability. Due to the difficulty in collecting accurate data, especially those based on perceptions, a certain degree of error can be expected in each of the 16 measurements. This cannot be overcome but is mitigated to some extent by the requirement of only having to pass half the hurdles in each policy area. But it appears most problematic for the pass/fail test of corruption. According to an assessment made by the authors of the corruption index, there is a large margin of error and high degree of uncertainty for 25 countries that score slightly above or slightly below the median. Either cross-country data are not informative or sources disagree on a country's corruption standing. Of the total of 25, 13 fall below the median and would therefore be eliminated from further consideration, despite strong doubt as to whether the data measured performance accurately. To overcome this potential weakness, the authors recommend that MCA managers employ in-depth country diagnostics regarding governance performance for countries that fall near the medium — the "yellow light countries."[18]

Missing data also pose challenges. A strict interpretation of the data would result in a failing grade on a hurdle where no figures were available. Only 87 of the 115 possible MCA-eligible countries have been reported with regard to the indicator "days to start a business," although the number has increase from 63 a year ago. For other indicators where data were incomplete or lagged, especially in the cases of education and health spending as a percent of GDP, executive officials say they will rely on information collected at U.S. embassies in each country.

Issue: MCA Board of Directors discretionary authority. Allowing the Board some latitude to depart from the purely statistical record will help address some of the data accuracy and availability problems. But there appears to be divided opinion over how much discretion should be permitted.

Arguing for broader flexibility, some note that countries that just miss qualifying, possibly because of the lack of data, could still be reconsidered and approved.[19] In the case of "close-calls," the Board could examine trends over time to assess if a borderline country was improving or falling back in performance, and make appropriate adjustments. In order to maintain the integrity and transparency of the selection process, final judgments that deviate from the methodological base will need to be clearly explained and closely examined.[20] This will be especially

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[17] Thomas Palley, *The Millennium Challenge Accounts: Elevating the Significance of Democracy as a Qualifying Criterion.* Open Society Institute, January 2003.

[18] Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi, *Governance Matters III: Governance Indicators for 1996-2002*, discussion draft, June 30, 2003. Available at [http://www.worldbank.org/wbi/governance/pdf/govmatters3.pdf].

[19] Daniel Kaufmann and Aart Kraay, *Governance Indicators, Aid Allocations, and the Millennium Challenge Account*, discussion draft of December 6, 2002.

[20] One observer acknowledges that some discretionary authority is needed, but adds when (continued...)

important in cases where the country with close strategic and political ties to the United States is included despite not meeting all the hurdle tests. The same will be true should the President decide to reject a country that has recently opposed or refused to support an important U.S. security-related policy. Others disagree, however, contending that any discretion on the part of the Board would invite unwarranted political influence and undermine MCA effectiveness.[21] Another analyst argues that one way to avoid undue foreign policy intrusion would be to channel MCA funds through multilateral entities, such as the World Bank.[22]

Congressional proposals to modify Board of Directors discretion. As noted below, the Senate Foreign Relations Committee initially reported an MCA authorization bill that did not authorize the creation of a Millennium Challenge Corporation, with a Board overseeing its operations. Instead, S. 1160 placed the MCA within the State Department under the authority of the Secretary of State and gave the Secretary the power to determine eligible countries through the evaluation of a government's commitment to several factors in the three areas of ruling justly, economic freedom, and investing in people.

Subsequently, however, the Senate voted on July 9, 2003, to modify the MCC structure and the role of the Board of Directors by adopting revised text that was largely based on a proposal offered by Senator Lugar (S. 1240). The modified arrangement, which was incorporated as Division C of S. 925, established a Corporation to be managed by a CEO. Under the Senate measure, the CEO would report to and be under the direct authority and foreign policy guidance of the Secretary of State. S. 925, as amended, further established a Board of Directors, chaired by the Secretary of State, and grants the Board the power to determine eligible countries by evaluating the commitment of a country to democratic governance, economic freedom, and investments in people. This did not, however, appear to limit the Board's selections based solely on the results of the performance indicators. In this way, the Senate measure seemed to permit a similar degree of discretion that the Administration's plan envisioned.

The House-passed measure (H.R. 1950) was similar to the Senate bill in that it required eligible countries to have demonstrated a commitment to bolstering democracy, investing in health and education, and promoting sound economic policies, but did not specifically identify how such a commitment would be determined, other than through the creation of eligibility criteria and a methodology.

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[20] (...continued)
the Board issues a waiver and deviates from the performance indicator outcome, it should be required to publically issue a policy justification and rationale for making the exception. See, Palley, *The Millennium Challenge Accounts: Elevating the Significance of Democracy as a Qualifying Criterion*, p. 14.

[21] Brent D. Schaefer and Paolo Pasicolan, *How to Improve the Bush Administration's Millennium Challenge Account.* Heritage Foundation Backgrounder no. 1629, February 28, 2003.

[22] Nicolas van de Walle, *A Comment on the MCA Proposals*, Center for Global Development, January 9, 2003. Available at [http://www.cgdev.org/nv/features_MCA.html]

As enacted, the MCA authorizing legislation follows the general themes of earlier House and Senate bills. "Eligible" countries are to be determined, to the maximum extent possible, by objective and quantifiable indicators measuring a country's commitment to the three core policy goals of ruling justly, promoting economic freedom, and investing in people. The legislation directs that the selection is to be based on the consideration of three factors: the extent to which the country meets or exceeds the eligibility criteria; the opportunity to reduce poverty and promote economic growth in the country; and how much money is available to carry out MCA programs. This appears to provide substantial flexibility and discretionary authority in the selection process.

Where the House and Senate bills diverged, however, regarded who made the determination of eligibility and therefore, who would be in position to exercise discretion in deviating from a strictly statistical evaluation. S. 925, as amended on July 9, gave the Board of Directors authority to determine whether a country is eligible, while H.R. 1950 placed the power with the Corporation's CEO. The enacted legislation gives this authority to the Board of Directors.

Implications for Other U.S. Assistance Programs

The MCA initiative will be an additional economic assistance tool of the United States, and is not intended to replace or substitute for any existing channel of U.S. foreign aid. It can be expected, therefore, that overall American aid will continue to serve multiple national interests and foreign policy goals, including security, humanitarian, multilateral, and commercial objectives. Administration officials have made a commitment that the MCA will be in addition to existing aid activities and that regular U.S. programs will continue even in MCA-participating countries. Nevertheless, because of the priority being placed on the MCA policy orientation and the size of the financial investment, there almost certainly will be ramifications of the new initiative for current programs. Foremost may be funding tradeoffs, especially given rising budget deficits and the costs of fighting the war on terrorism. (Spending issues are also discussed below in the section on legislation and budgets.)

Issue: Commitment to global initiatives. During the past year, some analysts have argued that a portion of the MCA should be dedicated to effective and results-oriented global programs operated on a multilateral basis. One concern is that the large amount of resources directed to the MCA may limit the U.S. ability to maintain or expand upon commitments to such activities as the Global Fund to Fight HIV/AIDS, Tuberculosis, and Malaria. Another worry is that soundly managed, high impact programs in countries with weak governance and poor corruption standards will miss out on the MCA opportunity to accelerate a process that is already making a contribution to long-term economic growth and poverty reduction. Proponents of this view advocate a "two-tiered" approach to the MCA in which separate pools — and perhaps multiple pools — are maintained to serve several types of activities.[23]

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[23] See, for example, Gene Sperling and Tom Hart, A Better Way to Fight global Poverty Broaending the Millennium Challenge Account, Foreign Affairs, March/April 2003, p. 9.

The trade-off for this approach would be that significantly fewer resources per country would be available, most likely reducing the impact of MCA assistance. Some also caution that multilateral programs, regardless of their merits, do not necessarily have the same results-oriented performance requirements of the MCA, a fact that would undermine the main objective of the MCA. Increased resources are only one important feature of the new initiative, and to many MCA advocates, the most significant feature by far is the goal of allocating the aid where it will have the greatest impact and be most readily accounted for.

Issue: Policy coherence and USAID program goals in MCA countries. The Administration says it will maintain regular development aid programs in a country while it simultaneously launches a far larger MCA-designed activity. Executive officials have not said, however, how this might affect the shape and goals of continuing programs managed by USAID missions. Some may argue that regular aid objectives should be re-oriented to maintain policy consistency with the MCA initiative and in some cases to help facilitate the core focus of the larger pool of resources. Others, especially within USAID country missions, may question whether successful projects should be abandoned, with a potential negative impact on the target population. In perhaps the clearest statement to date, USAID Administrator Natsios told the House Foreign Operations Appropriations Subcommittee that actions may vary from country to country. He noted that USAID missions in MCA-selected countries would likely undertake a strategic review of their programs and may adjust projects to support the MCA contract. In other cases, however, missions might continue high-priority activities, such as those combating HIV/AIDS or curbing trafficking in persons, or terminate certain activities.[24]

Some of these same issues regarding policy coherence are being raised regarding the relationship between the MCA and other U.S. economic and trade tools aimed at promoting economic growth in developing nations. One study, for example, concludes that there is very little overlap between countries likely to qualify for the MCA and those currently eligible for debt reduction under the Heavily Indebted Poor Country (HIPC) initiative or for trade preferences under the African Growth and Opportunity Act.[25] Congressman Jim Kolbe, Chairman of the House Foreign Operations Subcommittee, the House panel with jurisdiction over funding the MCA, suggests that MCA qualifiers should get special consideration for expedited trade preferences that would further accelerate economic growth possibilities.[26] Still others who support the MCA framework find fault with the Administration for not devising simultaneously an overall foreign aid strategy into which the MCA fills one of several elements of a comprehensive policy.[27]

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[24] Statement by Andrew Natsios, Administrator USAID, before the House Foreign Operations Appropriations Subcommittee, May 21, 2003.

[25] Brainard, *Compassionate Conservatism Confronts Global Poverty*, p. 160.

[26] Jim Kolbe, *Lessons and New Directions for Foreign Assistance*, The Washington Quarterly, Spring 2003, p. 197.

[27] Steve Radelet, *Will the Millennium Challenge Account be Different?* The Washington Quarterly, Spring 2003, p. 184.

Beyond U.S. programs and policies, other foreign aid donors and institutions are expressing concerns that the MCA may be creating additional, and perhaps competing performance goals to those that already exist. How MCA program goals align with the Millennium Development Goals is of particular concern.

Organizational Structures

One of the most contentious issues associated with the MCA policy review process has been and is likely to continue to be where the MCA program management will be placed. This debate has raised issues discussed for many years concerning under what auspices U.S. foreign aid policy should be designed, coordinated, and managed. Over the years, suggestions have ranged from coordination within the National Security Council, creation of umbrella organizations, like the ill-fated International Development Cooperation Agency, and most recently the merger of such responsibilities into the State Department. After extensive debate during the mid-1990s, a decision was reached to make USAID, the principal U.S. government bilateral aid agency, totally independent, but to have it operate under the guidance of the Secretary of State.

After considering numerous options, including the placement of the MCA as a separate unit with the State Department, the Administration proposed to create a new government entity — the Millennium Challenge Corporation — to manage the initiative. Given the innovative and non-traditional approach inherent in the MCA concept, executive officials said it makes sense to establish a new entity to oversee its implementation. The Corporation, as proposed, would have a CEO, confirmed by the Senate, and a staff of no more than 100 that would be drawn largely from other government agencies and serve for limited-term appointments. A Board of Directors, chaired by the Secretary of State and include the Treasury Secretary and OMB Director, would oversee the MCC. Although it appears there is no precise existing model in the U.S. government, officials said that the MCC would most closely resemble the Overseas Private Investment Corporation, an organization that promotes private American investment overseas, and the Commodity Credit Corporation, an arm of the Department of Agriculture that manages export credit guarantee programs for the commercial sale of American agricultural goods. An important difference between these and the MCC, however, is the proposal to have a cabinet-member Board oversee the latter and make final recommendations.

Issue: The need for a new organization. Before agreeing on the MCC, the inter-agency steering committee reportedly looked seriously at the option of creating a separate unit within the State Department to manage the MCA. One reason for rejecting this proposal may have been the relative lack of experience of State Department staff in administering aid programs. This was one of the central issues considered when the question of whether to fold USAID into the Department was under debate. This technical shortcoming, however, could have been overcome by adopting the MCC principle of detailing aid experts from other agencies to staff the office. A broader reason for not placing the MCA within the State Department, however, may have been a concern that it would be located too close to the center of the U.S. foreign policy apparatus that would limit the program's immunity from strategic and political influences. At a minimum, many observers believed, there would be a perception problem — whether true or not — that the MCA did not truly

represent a departure from the past aid entanglements with broad U.S. foreign policy interests.

At the same time, many groups encouraged the Administration to establish the MCA as an office within USAID, but apart from the normal operations of the agency. Various external groups have argued that USAID, with its 40 years of development experience, maintained the knowledge, staff, and on-the-ground country presence to most effectively administer and monitor the MCA. To place responsibility elsewhere, they contend, would risk duplication of effort, competing priorities, and inconsistent policies.[28] Another, business-related organization also opposes the creation of a new institution. Rather it recommends the establishment of a "small core office" (unspecified as to where it would be placed) that would identify program priorities and distribute the MCA funds to USAID and the Trade and Development Agency (TDA).[29]

Others are skeptical, however, that USAID is best suited to implement the MCA concept. The Agency is frequently criticized as encumbered with excessive regulations, managed with poor financial systems and time-consuming planning cycles, and burdened by extensive congressional oversight. One analysis, after weighing both the merits and disadvantages of placing the MCA within USAID, concluded that if the Administration wants the MCA to operate differently than USAID, it should create a new agency to manage it.[30]

Congressional proposals to modify the organization structure. Proposals considered by the Senate shifted positions on the organizational issue as bills moved through the legislative process in 2003. S. 1160, as reported by the Foreign Relations Committee in May 2003, did not authorize the creation of the MCC, as proposed by the President. Instead, the legislation designated the Secretary of State as the coordinator of MCA assistance and directed the Secretary to designate a coordinator within the State Department for managing the program. The coordinator, who would be confirmed by the Senate, would have authority to develop the list of performance indicators, select eligible countries, and to coordinate MCA programs with other donors.

The Committee adopted this approach by approving an amendment offered by Senators Hagel and Biden (approved 11-8). The sponsors noted that in 1998 Congress had consolidated two independent agencies — USIA and ACDA — in the State Department in order to give the Secretary more director authority over all tools of U.S. foreign policy. To create a separate entity to manage what could become the cornerstone of American foreign assistance, they argued, would run counter to these recent efforts to better integrate and coordinate foreign policy decision-making.

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[28] See, for example, the arguments of InterAction, raised in its May 2002 policy paper, *The Millennium Challenge Account: A New Vision for Development.*

[29] *Business Recommendations for Administering the Millennium Challenge Account.* Business Council for International Understanding. Available at [http://www.bciu.org/MCA.pdf].

[30] See Carol Lancaster, *Where to Put the Millennium Challenge Account?*, Center for Global Development, October 15, 2002.

Supporters further questioned what value the OMB Director would provide by being on the Board of Directors, given that the Director is generally not assigned policy-making responsibilities.

The Administration strongly opposed the Committee's action to place the MCA in the State Department. At the markup session on May 21, 2003, Chairman Lugar read a letter from Secretary Powell underscoring the value of a new, independent, and creative entity for managing this "new start" to U.S. foreign aid. The Secretary said that if this approach remains in the final bill, he would recommend that the President veto the legislation.

Senator Lugar, who opposed the Biden-Hagel amendment, proposed an alternative structure in new legislation. S. 1240, as introduced on June 11, would create a Millennium Challenge Corporation, headed by a CEO who would report to the Secretary of State. Senator Lugar intended that such an arrangement would provide the Corporation with the same degree of independence and status as USAID, but establish a chain of command that would permit the Secretary of State to exercise broad authority over the MCA. S. 1240 created a Board of Directors, made up of the Secretary of State (Chairman), the Secretary of the Treasury, the USAID Administrator, the U.S. Trade Representative, and the MCC CEO. The full Senate adopted the general approach proposed by Senator Lugar when it voted on July 9, 2003, to incorporate a modified text of MCA authorizing legislation into S. 925, an omnibus foreign policy authorization bill. The approved text further strengthened the explicit relationship between the Corporation and the Secretary of State by adding that the CEO shall "report to and be under the direct authority and foreign policy guidance of the Secretary." The Administration did not express objection to the revised legislation.

The House bill, H.R. 1950, took a somewhat different approach than the modified Senate proposal that was closer to the Administration's position, although with some important differences. H.R. 1950 would create a new Millennium Challenge Corporation sought by the President, but altered the composition of the Board of Directors and, as noted above, the authority of the MCC's Chief Executive Officer. The Board would include the Secretary of State as Chairman and the Secretary of the Treasury, as proposed, but deleted the Director of OMB and added the USAID Administrator, the U.S. Trade Representative, and the CEO of the MCC. The bill also included four additional members, to be appointed by the President from a list submitted by the majority and minority leaders of the House and Senate. The Board would further include as non-voting ex-officio members, the CEO of OPIC, and the Directors of the Trade and Development Agency, Peace Corps, and OMB. The House measure further created an Advisory Council that would advise, consult, and make recommendations to the CEO and Board of Directors for improving the MCA. The Council would include seven CEO-appointed members from the non-governmental sector, including business, labor, private and voluntary organizations, foundations, public policy organizations, and the academic community.

As enacted (Title VI of the Foreign Operations Appropriations Act, 2004, as included in Division D of P.L. 108-199), the MCA authorizing legislation combined approaches found in both House and Senate bills. The statute creates an independent Millennium Challenge Corporation, headed by a CEO who is confirmed by the

Senate and reports to the Board of Directors. The Board consists of the Secretary of State (Chairman), the Secretary of the Treasury, the USAID Administrator, the U.S. Trade Representative, and the CEO. Four additional individuals will be on the Board that "should" be named by the President from lists of candidates supplied by the Majority and Minority leaders in the House and Senate. The enacted legislation, however, does not require Advisory Council as proposed by the House.

Issue: Role of MCC staff in managing and monitoring the MCA. One of the first concerns of aid managers is the ability of a 100-staff organization to maintain proper oversight and accountability standards over what will become a $5 billion program. By comparison, USAID maintains a staff of nearly 2,000 American direct-hires and several thousand more contractors and foreign nationals based overseas to implement a roughly $8 billion program. Few would argue that a similar work-force is needed — indeed, there would likely be minimal support for a bureaucracy even half that size. But with a central mandate of performance, results, and accountability, the MCA requires a strong monitoring capability. The Administration has mentioned the prospect of an outside, independent auditing system, but the issue appears to remain unresolved.

Even though USAID will not manage the MCA, it is likely that its staff, especially those located in MCA participant countries, will play a supporting role in various capacities. USAID Administrator Andrew Natsios has told his staff that the Agency's long record of best practices and experience will be required if the MCC is to be successful. But how this will operate in the field is an open question. There is concern among some USAID professionals that the time and attention of mission staff to support administrative, contracting, and procurement needs of MCA programs will diminish their ability to manage regular aid programs. And as mentioned above, how the current mission portfolio relates to MCA objectives is unclear.

Issue: Future of USAID. The creation of a new agency to manage the MCA is likely to be viewed by some as a vote of no confidence in USAID. This may stimulate renewed debate over whether the USAID mandate should be modified — perhaps limiting it to a strictly humanitarian aid agency — or folding it into the State Department or the MCC itself at some future date. USAID supporters are concerned that an MCA managed outside the principal U.S. development organization will establish a two-class aid system with USAID responsible for addressing the needs of the "weaker" performers while the main emphasis will transfer to the MCC. The potential impact on staff recruitment and morale, and eventually resources, they believe, could be serious. An argument could be made as well, however, that this provides an opportunity for USAID not only to demonstrate its expertise as an aid organization and serve the MCC as a valued "consultant," but also can serve as incentive to review its own operations and correct some of the persistent problems identified by critics.[31]

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[31] One analyst also notes a certain irony to locating the MCA outside of USAID and leaving the agency with just three core missions: humanitarian, immediate post-conflict, and basic health and education programs in poor performing nations. This would place USAID (continued...)

Congressional proposals to modify USAID's role. During legislative consideration of MCA authorizing bills, Congress attempted to clarify the relationship between the MCC and USAID in efforts to minimize overlap and inconsistency of aid policies and operations. As mentioned above, under both bills the USAID Administrator would become a voting member of the Board of Directors. S. 925, as amended, further directed Corporation staff posted overseas to coordinate the MCA program with the USAID mission director in that country. The legislation also directed USAID to ensure that agency programs would help prepare potential MCA participant countries to become eligible for assistance.

Similarly, H.R. 1950 gave USAID the lead role in assisting countries to become eligible in the future that had demonstrated a commitment to development but failed to qualify based on the performance indicators (the so-called "near-miss" countries). Up to 15% of the amount authorized annually for the MCA could be made available for such USAID programs. (The Senate measure also provided up to 10% of annual MCA funds be available to countries that failed to qualify because of unreliable data or lack of performance on only one indicator, although the Corporation, not USAID would provide the assistance.) H.R. 1950 also directed the MCC to consult with USAID officials regarding the contents of a contract — or Compact — between the U.S. and an MCA participant country, and required that the MCC and USAID coordinate their programs to the maximum extent possible. During House floor debate, Members adopted an amendment by Congressman Kolbe intended to further clarify USAID's role in providing U.S. economic assistance. The language stated that the USAID Administrator shall report to the President "through, and operate under the foreign policy authority and direction of the Secretary of State."[32] The Kolbe amendment also authorized USAID to extend assistance to countries ineligible for MCA aid so that they may become eligible, and permitted USAID to help in the evaluation, execution, and oversight of the MCA projects.

The enacted legislation authorizing the MCA (Title VI of the Foreign Operations Appropriations Act, 2004, as included in Division D of P.L. 108-199), specifically addresses the issue of the MCA and USAID relationship. Section 615 of the measure requires the CEO to consult with the USAID Administrator, and that USAID must ensure that its programs play a primary role in preparing countries to become eligible for the MCA. As such, the legislation makes available up to 10% of the MCA appropriation ($99 million in FY2004) for assisting countries that demonstrate a "significant commitment" to the MCA requirements, but narrowly miss qualifying. USAID may provide this support. The statute further requires USAID to seek to ensure that agency programs play a primary role in helping prepare

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[31] (...continued)
programs much closer to broad U.S. foreign and strategic policy interests than the MCA. Yet, the State Department, by virtue of the Secretary being the MCC Board Chairman, would have greater influence over the MCA than the independent USAID. See Brainard, *Compassionate Conservatism Confronts Global Poverty*, p. 165.

[32] This is similar to current law (Sec. 1522 of P.L. 105-277) which states that the USAID Administrator shall "report to and be under the direct authority and foreign policy guidance of the Secretary of State."

a country that has failed to qualify previously to better compete in the next selection process.

Program Development and Selection

With broad agreement that development programs work best when they are designed and therefore "owned" by the host country and not imposed from outside, executive officials stress that MCA programs will be country-driven. Once a nation is identified as eligible, it will be invited to draft and submit program proposals for evaluation and selection through the MCC. Projects should directly support broad national development strategies already in place, preferably constructed with extensive input from civil society. Since several of the possible MCA countries have already designed such strategies as part of the Heavily Indebted Poor Country (HIPC) debt reduction initiative — the Poverty Reduction Strategy Papers — these PRSPs might serve as the guiding framework for program goals where appropriate.

The Administration has outlined numerous types of programs that might be supported by the MCA: budget support for various community, sector, or national initiatives; infrastructure development, commodity financing, training and technical assistance, and capitalization of enterprise funds or foundations. Selection would depend on country-specific circumstances and would not be appropriate in all cases. For example, budget support programs would only be suitable where governments maintain transparent budgeting, accounting, and control systems and have strong governance and anti-corruption records. Endowing enterprise funds or foundations might be appropriate where other alternatives are weak or where innovative ways of financing development proposals appear attractive.

An eligible country could submit multiple proposals annually, some of which might take several years to implement. The MCC would create a contractual relationship with selected countries and require the establishment of project performance goals so that progress could be closely monitored. Should performance fall behind or fail, the contract could be declared void and funding cut-off.

Issue: Detailing the types and targets of programs. One of the next steps for MCA planners will be to refine more precisely the nature of programs the MCA will support, who the beneficiaries will be, and what criteria will be used in making the selection. A number of groups, especially in the U.S. NGO community, have stressed the need to include programs that will directly support non-governmental and civil society activities that may operate independently of the government. Some advocate that the MCC solicit proposals directly from private, non-governmental groups.[33]

The Administration appears to be receptive to the principle that MCA funded activities need not support only government-run or sponsored initiatives, but also could include projects operated directly by the private sector or NGOs. The draft legislation submitted to Congress in February 2003 allowed the MCC to issue grants

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[33] See, for example, Palley, *The Millennium Challenge Accounts: Elevating the Significance of Democracy as a Qualifying Criterion,* p. 13.

to both private and public entities. What may be more problematic is the receipt of proposals straight from these non-governmental sources. This might result in an awkward competitive relationship between government and non-government submissions, a competition that might be best settled by the country itself prior to transferring recommendations to the MCC. USAID Administrator Natsios told the House Appropriations Foreign Operations Subcommittee on May 21, 2003. that while the MCA would likely include programs proposed by non-governmental entities, the contract would need to be signed by the host government and that the government would be responsible for managing and overseeing the project.

Another issue related to the types of programs eligible for MCA resources is the capacity of both the U.S. and participant countries to manage the projects. Budget support, infrastructure, and commodity assistance most likely would be large-scale activities where substantial amounts of resources could be invested, thereby reducing the total number of projects to be managed and monitored. Community-based or NGO projects, on the other hand, likely would be much smaller in size and funding requirements, but far more numerous in totality. While supporting the broadest array of development programs with MCA funds provides the maximum opportunities, U.S. policy makers will have to decide whether they are prepared to assume responsibility for a large number of projects in the MCA portfolio and the associated management, oversight, and accountability demands.

A key principal endorsed by numerous MCA proponents is that programs must be country-owned, designed by a broad spectrum of government and civil society. As noted above, some have suggested that PRSPs that have been developed by many potential MCA countries could be used as the guiding framework in devising program proposals.[34] Recognizing, however, that many MCA countries do not have sufficient capacity to design program proposals on their own, many suggest that USAID and others assist — but do not control — the development of program submissions.[35]

Congressional action on program issues. The enacted MCA authorizing legislation permits resources to be provided to a wide range of entities, including central governments, NGOs, regional and local governments, and private groups. Assistance may take the form of a grant, cooperative agreement, or contract with any of these eligible entities. The legislation requires that the United States enters into a "Compact" with a qualifying country that describes the program to be funded, how it will be monitored, and how the development goals will be achieved. The Compact cannot exceed a five year commitment. The measure specifically prohibits assistance for military purposes, for any project that would likely result in the loss of American jobs, for projects that would likely cause a significant environmental, health, or safety hazard, or for abortions or involuntary sterilizations. The legislation further sets out the process by which the CEO can suspend or terminate a Compact in cases where the country has engaged in activities contrary to

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[34] See, for example, *Millennium Challenge Account: A Proposed Conceptual Approach for Eligibility*. U.S. Conference of Catholic Bishops, August 13, 2002. Available at http://www.usccb.org/sdwp/international/mca.htm

[35] Brainard, *Compassionate Conservatism Confronts Global Poverty*, p. 161.

U.S. national security interests, has taken actions inconsistent with the criteria for determining MCA country eligibility, or has failed to meet the requirements of the Compact.

Legislative and Funding Matters

The Administration submitted in early February 2003 draft MCA authorizing legislation and separately proposed $1.3 billion for the first year funding level. Program flexibility, as expected, was one of the key themes integrated throughout the draft bill. Executive officials said that while the MCA should have its own statutory base separate from existing laws, including the Foreign Assistance Act of 1961, current restrictions that prohibit U.S. assistance to countries would remain. These include a lengthy list of potential infractions including those related to human rights, drug production, terrorism, nuclear weapons transfers and testing, military coups, debt payment arrears, and trafficking in women and children, just to name a few.

In keeping with the desire for flexibility the draft legislation would make available MCA resources "notwithstanding any provision of law," but with a notable exception. Countries that currently cannot qualify for U.S. assistance under part 1 of the Foreign Assistance Act of 1961 — that part of the Act authorizing programs for bilateral development aid, narcotics control, international disasters, the former Soviet Union, and Central Asia, among others — would remain ineligible for MCA funds. However, if the President waived any prohibition under Part 1 for a particular country, that nation would then be eligible for MCA resources.[36]

Another area of flexibility highlighted in the draft bill concerned personnel and administrative authorities. The CEO of the Corporation would be granted authority to establish and modify in the future a human resources management system without regard to existing laws governing Civil Service and Foreign Service activities, although certain provisions, including merit and fitness principles, cannot be waived. The draft submission further granted the CEO the authority to appoint and terminate personnel notwithstanding Civil Service and Foreign Service laws and regulations. The bill would also allow the MCC to transfer MCA resources to any U.S. agency, and would permit the Corporation to draw on the services and facilities of other federal agencies in carrying out the program.

On the funding question, the Administration expressed a commitment to a $5 billion MCA program by FY2006, although the pace at which resources approach that figure would be influenced by anticipated demand as well as larger budgetary considerations stemming from competing spending priorities, a growing deficit, and other possible policy initiatives. For FY2004, the President requested $1.3 billion, a figure less than one-third of the three year goal that some had expected. The Administration did not provide any projections for FY2005.

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[36] For example, the President may waive human rights restrictions for Part 1 programs if he determines that the aid will benefit the needy people of the country (section 116). Likewise, the President make exempt application of aid cutoffs, based on national interest requirements, for countries that do not cooperate on narcotics control matters.

The President further made a commitment that MCA resources would not be drawn from existing aid programs, but would be in addition to those appropriations, although of course final decisions on appropriations are made by Congress. The Administration sought a large — $2.6 billion, or 16% — increase in Foreign Operations Appropriations programs for FY2004, including the MCA funds, but some areas of the proposal, especially for bilateral development assistance programs, fell below current amounts for FY2003.

Issue: Flexibility and congressional directives and oversight. An issue that has been heatedly argued between Congress and all Administrations for many years has been the practice of congressional legislative directives and earmarks in foreign aid authorization and spending laws. Executive officials argue that the excessive use of such directives, both formal and informal, seriously erodes their ability to manage foreign policy and operate a coherent foreign aid program.

Most in Congress view the use of directives and earmarks, however, as a legitimate tool for congressional participation in setting foreign aid policy and spending priorities. Some Members point to congressional emphasis in recent years on initiatives such as child health, basic education, and international HIV/AIDS, programs that both the Clinton and Bush Administrations subsequently came to embrace and support with higher budget requests. Without congressional pressure through earmarks, U.S. commitment and leadership on these policies would not exist to the extent they do today, many argue. Moreover, some contend that these broad, sector allocation directives represent priority-setting decisions by lawmakers and reflect the appropriate and constructive power of Congress to manage the federal "purse." It is the far more targeted earmarks, they contend, benefitting special interests or specific organizations and firms, that are problematic from the Executive's perspective.

The dispute over congressional foreign aid directives is unlikely to be resolved during any MCA debate. However, the distinctive nature of the MCA initiative provided the Administration with a different set of arguments against earmarks. Because of the demand-based, results-driven concept of the MCA, executive officials contended that the traditional pattern of congressional directives — specifying funding amounts for selected countries or activities, and placing restrictions on certain operations — would undermine the basic principles of the MCA concept. Legislative set-asides for a particular set of countries or for certain program activities would arguably undercut the transparent, objective process of selecting the best-performers.

In settling these differences, one model to examine might be how Congress authorizes and funds other demand-driven programs in the annual Foreign Operations appropriation bill. Since it is not known in advance who may request or require support under programs such as the Export-Import Bank, the Trade and Development Agency, or international disaster assistance, Congress generally appropriates amounts that are expected to be needed to meet the resource demands placed on these activities, with few or no set-asides for specific requirements. Authorizing laws for these programs include some restrictions, but are generally not nearly as extensive as those for regular bilateral economic and military aid programs. An important

difference, however, between such programs and the MCA is that their purpose is far more narrowly defined than that of the MCA.

Linking existing foreign aid eligibility requirements with the MCA drew broad support within Congress, since many of those requirements reflect fundamental social and political values and were congressionally initiated. But the prospect of applying to an MCA participant these overarching aid prohibitions, especially those that require an Administration discretionary determination to trigger the aid cut-off, raised a new set of issues. Would, for example, the extent to which the U.S. has a major financial investment in a successful MCA project influence a decision on whether to declare the government in violation of narcotics cooperation standards?

Congressional action on flexibility and oversight issues. For the most part, the enacted MCA authorizing act refrains from earmarking, providing authorities consistent with MCA principals set out by the Administration, and permitting the executive to implement the program with a degree of flexibility. The measure authorizes assistance "notwithstanding any other provision of law." However, countries which are ineligible for American economic aid due to restrictions contained in the Foreign Assistance Act of 1961 or any other provision of law cannot be selected for MCA support. This provision will likely eliminate consideration of a number of countries, although in most cases these countries would most likely be weak performers under the MCA selection criteria. Moreover, as noted above, assistance may not result in the loss of American jobs, displace U.S. production, pose a major environmental, health, or safety hazard, be used for military support, or finance abortions or involuntary sterilizations. The statute also adds several requirements aimed at strengthening congressional oversight of the MCA. The legislation requires the Secretary of State to post information about the MCA in the *Federal Register* and on the Internet, and to submit an annual report on MCA operations.

Issue: Funding and possible tradeoffs. Following submission of the FY2004 budget, MCA advocates closely examined two funding issues: the size of the MCA request and proposals for other U.S. economic aid programs. Many believed that MCA resources should and would grow in equal amounts of $1.67 billion per year to reach the $5 billion total in three years. Conflicting Administration statements gave credibility to the view that this was the intention, although officials have said more recently that this is not the case. For one reason, since the number of qualifiers the first year is still far from certain, the funding requirements may be quite different from $1.67 billion.

In addition, the budget environment was much different than it was in March 2002 when the President issued his policy statement. Budget deficits had risen, creating greater pressure to hold spending down in nearly all areas. Such pressures are likely to continue throughout future budget debates, making the task of accommodating a new and large funding initiative more difficult.

One way to manage MCA increases would be to rearrange overall foreign aid spending priorities and reduce amounts elsewhere. But the President said the Administration would not take that path. While the FY2004 budget request largely maintained funding for other foreign aid programs at existing levels — although with

a few important exceptions — congressional appropriators faced limitations in their ability to fully provide for both the MCA and other aid accounts. The effects of a war in Iraq and unanticipated foreign policy contingencies arising later in 2003 created new resource demands. When Congress decided on different appropriation priorities than the President and allocated a smaller amount to the Foreign Operations funding bill, it set the stage for direct trade-offs between the MCA and competing security, economic, and humanitarian activities. In addition, the MCA was not the only Foreign Operations program that was vying for increased spending for FY2004. The President's budget included several other new initiatives, including those for additional HIV/AIDS resources, "topping up" the HIPC debt reduction initiative, a contingency funds addressing famine and conflict needs. While the overall request for Foreign Operations was well above FY2003 enacted levels — up 16% — these new initiatives accounted for most of the increase, leaving continuing programs with a more modest 3.6% rise.

Some foreign aid proponents were especially concerned about reductions in the President's FY2004 budget for development assistance and global health programs. Compared with the Administration's request for FY2003, the FY2004 budget blueprint was the same — a combined $2.96 billion total for these "core" bilateral development aid activities. But due to Congressional additions, the FY2003 levels had increased to $3.23 billion, making the FY2004 request 8% less than enacted amounts for FY2003. Some argued that these, and similar reductions below FY2003 appropriations for refugees, disaster, and food aid, broke the President's pledge to make the MCA an additional source of funding. In order to reach a conclusion, however, one would have to know whether funds proposed for the MCA would be made available for accounts supporting similar activities if this new initiative was not submitted. It is unclear that in the absence of the MCA or any of the other new initiatives, that an equivalent amount of resources would have been made available for other bilateral economic aid programs.

Congressional proposals to modify MCA funding levels. Throughout the 2003 debate over MCA authorization and appropriation funding amounts, Congress struggled with the challenge of fully funding the President's $1.3 billion MCA request and addressing other foreign aid priorities. Senate bills (S. 1160 and S. 1426) authorized and appropriated $1 billion for the MCA in FY2004. The authorization further provided for $2.3 billion in FY2005 and $5 billion for FY2006. In the House, H.R. 1950 authorized $1.3 billion, while H.R. 2800 appropriated $800 million.

As enacted in Title VI of the Foreign Operations Appropriations Act, 2004 (included in Division D of P.L. 108-199), authorizations for MCA appropriations for FY2004 and FY2005 are set as "such sums as may be necessary." Elsewhere in the same Act, Congress provides $1 billion for MCA appropriations in FY2004, $300 million less than requested.[37] This appropriation reduction may affect the number of countries and program proposals selected for FY2004, and the pace at which the initiative would move forward towards the $5 billion goal by FY2006.

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[37] This amount was subsequently decreased to $994 million under a provision in P.L. 108-199 requiring a 0.59% rescission of all accounts in the bill.

Appendix A — Comparison of Administration Proposal and Key Congressional Modifications

Throughout this report, Congressional recommendations to alter key elements of the President's MCA initiative are discussed. The table below summarizes these changes.

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (P.L. 108-199)
MCA oversight	Board of Directors, chaired by Sec. of State, with Treasury and OMB	Board of Directors, chaired by the Sec. of State, with Treasury, USAID, USTR, and the MCA's Chief Executive Officer (CEO)	Board of Directors, chaired by Sec. of State, with Treasury, USTR, USAID, MCC CEO, and 4 others nominated by the President from a Congressional list. Non-voting members include OPIC, OMB, Peace Corps, and TDA.	Board of Directors, chaired by Sec. of State, with Treasury, USTR, USAID, MCC CEO, and 4 others nominated by the President that may come from list submitted by Congressional leaders.
MCA organization	Independent Millennium Challenge Corporation	Independent Millennium Challenge Corporation whose CEO reports to and be under the direct authority and foreign policy guidance of the Sec. of State	Independent Millennium Challenge Corporation	Independent Millennium Challenge Corporation
MCA coordinator	CEO of Corporation	CEO "manages" the Corporation, reporting to and under the direct authority and foreign policy guidance of the Sec. of State	CEO "heads" the Corporation, reporting to the President	CEO "manages" the Corporation, reporting to and under the direct authority and foreign policy guidance of the Board of Directors.

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (P.L. 108-199)
Interim CEO	—	—	—	Board of Directors may appoint a confirmed U.S. Government official to serve as interim CEO until a CEO has been confirmed by the Senate.
Selection of participating countries	Board of Directors	Board of Directors	CEO of Corporation	Board of Directors
MCC Advisory Council	None	None	Nine members named by the CEO to advise on MCA policy, review eligibility criteria, evaluate the MCC, assess MCC capabilities, and make recommendations to the CEO.	None
Country income eligibility	FY2004 - IDA eligible FY2005 - per cap GNP less than $1,415 FY2006 - per capita GNP less than $2,935	FY2004 - IDA eligible FY2005 - per cap GNP less than $1,415 FY2006 - per capita GNP less than $2,935 only if funds exceed $5 billion; low-middle income countries capped at 20%	FY2004 - IDA eligible FY2005 - per cap GNP less than $1,415 FY2006 - per capita GNP less than $2,935; low-middle income countries capped at 20%	FY2004 - IDA eligible FY2005 - per cap GNP less than $1,415 FY2006 - per capita GNP less than $2,935; low-middle income countries capped at 25%
Eligible entity	None stated	A government, including a local or regional government, or an NGO or private entity.	A national government, regional or local government, an NGO, an international organization and trust funds.	A national government, regional or local government, or an NGO or private entity.

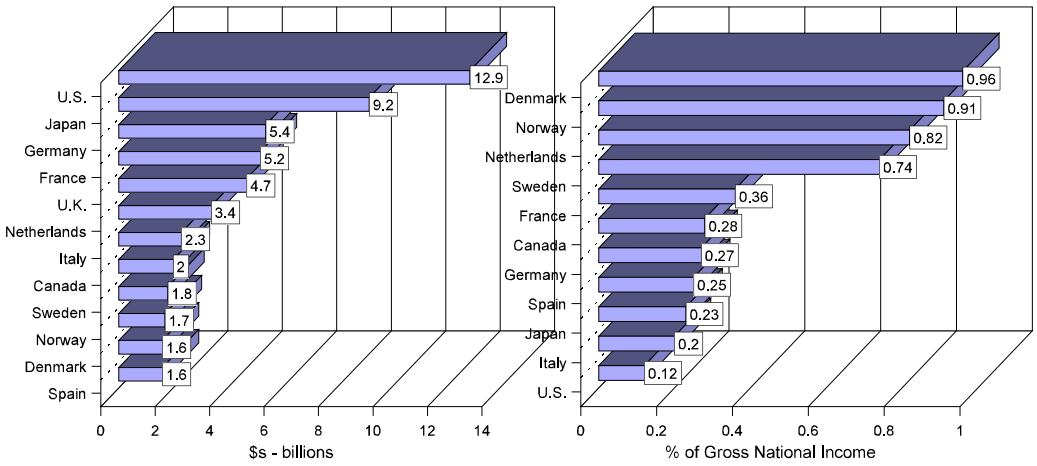
Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (P.L. 108-199)
Aid to "near-miss" countries	General support	10% of MCA funds available for countries failing to qualify because of inadequate data or missing one indicator	15% of MCA funds available for countries demonstrating a development commitment but fail to meet a sufficient number of performance indicators	10% of MCA funds available for countries showing a commitment to MCA criteria but fail to qualify
Oversight and reports	MCA contracts and performance posted on the Internet.	Disclosure in Federal Register and on the Internet of eligible countries, programs supported, and performance; proposed performance indicators open to public comment; annual report to Congress	CEO consultation with Congress on eligibility criteria; notification 15 days in advance on grants exceeding $5 million; "Compacts" with countries published in Federal Register and on the Internet; advance notification of aid termination; annual reports to Congress from the CEO and Advisory Council	Establishes a period of at least 95 days during which Congress will receive the list of "Candidate countries," the eligibility criteria and methodology for making a final selection, and the list of "eligible" countries (those that will receive MCA assistance). Consultation with congressional committees will occur during this period and the information will be published in the Federal Register. "Compacts" with countries will be notified to Congress and published in Federal Register. Annual report by March 31.
Funding	FY2004 - $1.3 billion FY2005 - no decision FY2006 - $5 billion	FY2004 - $1 billion FY2005 - $2.3 billion FY2006 - $5 billion	FY2004 - $1.3 billion FY2005 - $3 billion FY2006 - $5 billion	Such sums as may be necessary for FY2004 and FY2005.

a. The status of the Senate bill is based on S. 925, the Foreign Affairs Act, Fiscal Year 2004, as amended during debate on July 9 and 10. S. 925 remains pending in the Senate. Previously, the Senate Foreign Relations Committee had approved legislation authorizing the Millennium Challenge Account in S. 1160. A modified text of S. 1160 was subsequently incorporated into S. 925 as Division C on July 9. The House bill, H.R. 1950, is also a combined foreign policy authorization measure to which earlier MCA authorizing text was added. The House International Relations Committee had reported H.R. 2441, which was incorporated, with modifications, to H.R. 1950, and passed by the House on July 16.

Appendix B — U.S. Aid Compared to Other Major Donors and the Impact of the MCA

For many years, the United States has been criticized by other nations and international development organizations for not contributing enough to fight global poverty and promote economic growth. Although the United States was the largest provider of Official Development Assistance (ODA)[38] until the early 1990s and was second to Japan in most years since until 2001, its contribution has been at or near the bottom of the list of international donors when measured as a proportion of national wealth.

Figure 1. ODA Performance 2002



In 1972, the United Nations adopted a resolution calling on developed countries to allocate 0.7% of GNP for foreign economic assistance. This target, which continues to be cited by many nations and international organizations, was never endorsed by the United States and has been achieved by only a few, mainly Nordic countries.

The United States defends its record as a development aid provider, arguing that contributions to global poverty reduction should not be measured simply in terms of

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[38] ODA is a category used by the Organization for Economic Cooperation and Development (OECD) to measure and compare the efforts of 22 member countries in supporting global economic development. ODA includes all concessional and grant economic and food assistance, excluding export promotion programs and military support. It also excludes assistance to certain countries that are more economically advanced, such as Israel, Russia, Ukraine, Poland, and Hungary. Consequently, ODA measures a large part, but not the total amount of U.S. economic assistance. In FY2003, for example, the United States provided about $1.2 billion to nations that are not included in ODA figures. Moreover, ODA is usually reported on a "net" basis — that is, aid disbursements minus loan repayments. Because of these factors, ODA amounts for the United States are somewhat smaller than actual economic aid appropriations annually approved by Congress.

aid transfers as a percent of GNP.[39] U.S. officials note that in dollar terms, American ODA has remained substantial, and is programmed on more favorable terms than that of other donors. The United States, they emphasize, was a leading voice over the past several years in the Heavily Indebted Poor Country (HIPC) debt initiative, being the first government to advocate 100% cancellation of bilateral debt owed by the world's poorest nations. American charitable organizations and businesses provide a significant proportion of annual aid transfers and private investment to the developing world. Given the large amount spent by the United States on defense and the security it provides to allies and friends around the world, American contributions to global stability and a stable environment in which economic development can take shape is much larger than ODA expenditures suggest, they contend.

In the coming years, if Congress continues to appropriate funds for the MCA initiative that are in addition to other ODA resources, the dollar value of U.S. ODA will increase — perhaps significantly — especially if other new foreign aid programs, like the Global HIV/AIDS Initiative, proceed as planned. The Administration says that the MCA would add 50% to U.S. ODA contributions, and while that figure may not be reached by FY2006, it is likely to be in the 25-40% range. But on the other point of measurement — ODA as a percent of GDP — the impact will not be so dramatic, largely because MCA appropriations are likely to be very small relative to the size of the U.S. economy and because of projected GDP growth estimates over the next several years. According to current projections, assistance would rise from the 2002 level of 0.12% of GDP to 0.15%.

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[39] In recent years, the World Bank, the OECD, and other institutions have substituted the term gross national income, or GNI, for GNP in order to conform to revised 1993 System of National Accounts guidelines. The U.S. government in most cases uses the calculation of gross domestic product, or GDP. GNI includes GDP plus net receipts of primary income (compensation of employees and property income) from nonresident sources. For the United States, GNI is slightly larger than GDP — in 2000, for example GNI was less than one-tenth of one percent larger than GDP. The calculations in Table 2 and the ensuing discussion are made based on OMB reported and projected U.S. GDP figures.

Appendix C — Potential MCA Participants: Country Categories

IDA-eligible, per capita income $1,415 and below
MCA eligible FY2004 and beyond

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Angola	$660	Burma	**	Bolivia	$940
Benin	$390	Cambodia	$280	Guyana	$840
Burkina Faso	$220	East Timor	$430	Haiti	$440
Burundi	$100	Indonesia	$680	Honduras	$920
Cape Verde	$1,290	Kiribati	$810	Nicaragua	**
Cameroon	$560	Laos	$310		
C.A.R.	$260	Mongolia	$440		
Chad	$220	Papua New Guinea	$580		
Comoros	$390	Solomon Islands	$570		$430
Congo, Dem Rep of	$90	Tonga	$1,410		
Congo, Rep of	$700	Vanuatu	$1,080		
Cote d'Ivoire	$610	Vietnam	$430		
Eritrea	$160			**Mid-East**	**Income***
Ethiopia	$100	**South Asia**	**Income***	Djibouti	$900
Gambia	$280	Afghanistan	**	Yemen	$490
Ghana	$270	Bangladesh	$360		
Guinea	$410	Bhutan	$590		
Guinea-Bissau	$150	India	$460		
Kenya	$360	Nepal	$230		
Lesotho	$470	Pakistan	$420		
Liberia	$140	Sri Lanka	$840		
Madagascar	$240			**Europe**	**Income***
Malawi	$160	**Eurasia**	**Income***	Albania	$1,380
Mali	$240	Armenia	$790	Bosnia	$1,270
Mauritania	$340	Azerbaijan	$650	Serbia	$1,400
Mozambique	$210	Georgia	$720		
Niger	$170	Kyrgyz Rep.	$290		
Nigeria	$290	Moldova	$460		
Rwanda	$230	Tajikistan	$180		
Sao Tome&Principe	$290	Uzbekistan	$550		
Senegal	$470				
Somalia	**				
Sierra Leone	$140				
Sudan	$350				
Tanzania	$280				
Togo	$270				
Uganda	$240				
Zambia	$330				
Zimbabwe	$480				

* Gross National Income, dollars per capita, 2002. *World Bank Annual Report, 2003.*
** Precise data unavailable.

Per capita income $1,415 and below
MCA eligible FY2005 and beyond

Africa	Income*	East Asia	Income*	Latin America	Income*
Equatorial Guinea	—	China	$940	Paraguay	$1,170
Swaziland	$1,180	Philippines	$1,020		
		Eurasia	**Income***	**Mid-East/N Africa**	**Income***
		Belarus	$1,360	Morocco	$1,190
		Turkmenistan	$1,200	Syria	$1,130
		Ukraine	$770	West Bank/Gaza	$1,350

Per capita income $1,416 - $2,935
MCA eligible FY2006 and beyond

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Namibia	$1,900	Fiji	$2,160	Brazil	$2,850
South Africa	$2,600	Marshall Islands	$2,350	Colombia	$1,830
		Micronesia	$2,160	Dominican Rep.	$2,320
		Samoa	$1,420	Ecuador	$1,450
		Thailand	$1,980	El Salvador	$2,080
		Tonga	$1,530	Guatemala	$1,750
				Jamaica	$2,820
				Peru	$2,050
				St. Vincent/Grenadines	$2,820
				Suriname	$1,960
		South Asia	**Income***	**Mid East/N Africa**	**Income***
		Maldives	$2,090	Algeria	$1,720
				Egypt	$1,470
				Iran	$1,710
				Jordan	$1,760
				Tunisia	$2,000
		Eurasia	**Income***	**Europe**	**Income***
		Russia	$2,140	Bulgaria	$1,790
		Kazakstan	$1,510	Macedonia, FRY	$1,510
				Romania	$1,850
				Turkey	$2,500

* Gross National Income, dollars per capita, 2002. *World Bank Annual Report, 2003.*