



# Executive Memorandum

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## KEEPING THE MILLENNIUM CHALLENGE ACCOUNT FOCUSED ON PROMOTING GROWTH AND PROSPERITY

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While debating the authorizing legislation for the Millennium Challenge Account (MCA), the Bush Administration's new development assistance program, Congress should avoid overloading the bill with additional objectives that are at odds with the original intent of the program.

The Millennium Challenge Account is an experimental program developed to reverse the failures of traditional development assistance. Because of multiple and sometimes conflicting objectives, traditional development assistance has largely failed to promote growth and prosperity in poor countries. The MCA was thus designed to focus specifically on accelerating economic growth in countries committed to ruling justly, investing in health and education, and promoting economic freedom—three policy areas empirically related to growth and prosperity.

If the MCA is to have every opportunity to succeed, Congress must allow it to focus on these three policy areas and keep it relatively free from statutory restrictions placed on traditional development assistance. As an experimental program, the MCA must be given the freedom to develop alternative strategies and operate independently of existing domestic and international development assistance programs. Congress should also incorporate a sunset provision that would terminate the MCA if it does not prove more effective than traditional development assistance programs.

**Keeping the Experiment Pure.** The United States has spent trillions of dollars in foreign aid over the past half-century to achieve numerous objectives such as advancing national security interests, averting humanitarian crises, and promoting growth and prosperity in the developing world. While the United States accomplished some of these goals, it has largely failed to achieve the last one.

To reverse this disappointing record, President Bush proposed the \$5 billion Millennium Challenge Account to focus specifically on promoting growth and prosperity. Since numerous studies have shown that aid alone cannot stimulate growth, but can only accelerate it in countries with sound policies, the MCA will target nations that govern justly, invest in health and education, and promote economic freedom.

Ultimately, however, the MCA is an experiment to determine whether this method is superior to existing development strategies. Therefore, the MCA should be designed differently from tradi-

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tional development assistance programs in order to provide an alternative model for comparison. More specifically, Congress should allow the MCA to:

- **Maintain its limited scope.** The MCA focuses on good governance, health and education, and economic freedom because they are the primary drivers of growth and prosperity. Economic freedom underlies good governance and results in improvements in health and education. Any attempt to expand the MCA's goals beyond the original three policy areas would dilute the MCA with objectives unrelated to growth and prosperity. It would also blur the distinction between the MCA and traditional development, making it more difficult to conduct a comparative analysis.
- **Operate flexibly and independently.** To maintain the MCA's limited scope, Congress should subject it to fewer statutory restrictions, such as the earmarks for specific activities and geographic regions that constrain traditional aid. Subject to the same limitations as other aid programs, the MCA will likely yield the same disappointing results.

The Millennium Challenge Corporation (MCC), the new agency that will administer the MCA, should not be required to coordinate with existing domestic or international development assistance programs. The MCC can and should cooperate with other development assistance efforts to the maximum intent possible—without sacrificing its original mission and performance-based incentive structure. These programs often have other immediate objectives, such as environmental improvement, gender equality, and human rights reform—all noble and important goals but different from the MCA's goals. The United States can participate in these international efforts through its traditional development programs.

- **Focus resources on a few countries with sound policies.** A worthy innovation is the MCA's simple and transparent selection process to identify countries that govern justly, invest in health and education, and promote economic freedom. This selection process relies heavily on

16 performance indicators. While the MCA's indicators are imperfect, like any set of statistics, they are currently the most reliable ones available and should be given a chance to work. In its first year, fiscal year (FY) 2004, the MCC should adhere strictly to the indicators in order to ensure transparency. Indicators can be modified in subsequent years if they systematically exclude worthy recipients or include undeserving ones.

If the current selection process is applied to FY 2004, only about 15 countries will qualify. This should not be considered a flaw. As a new program, the MCA would benefit from early successes, and focusing on a few countries is the best way to achieve this goal. Country eligibility requirements can be relaxed once the MCA is a proven success. Furthermore, even if the MCA succeeds in uplifting only the initial 15 countries, this will be a better record than current traditional development assistance programs have amassed.

- **Be terminated if ineffective.** Ineffective programs, not insufficient funding, have caused U.S. development assistance to fail, so the MCA should not be used as a roundabout way to increase spending on development assistance. If the MCA proves equally ineffective, it should be terminated. Congress should incorporate a sunset provision in the authorizing legislation that places the onus on the MCC to prove its effectiveness rather than burden Congress with abolishing an established institution.

**Conclusion.** Because of its novel approach and bipartisan support, the Millennium Challenge Account already has become the subject of lofty expectations and intense scrutiny. If the MCA is ever to meet these expectations, it should be allowed to maintain its limited scope and operational flexibility so it can address the daunting task of fostering growth and prosperity in the developing world.

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