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HOW TO PREVENT THE MILLENNIUM CHALLENGE ACCOUNT FROM BECOMING LIKE TRADITIONAL FOREIGN AID

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When President George W. Bush proposed the Millennium Challenge Account (MCA) in 2002, he envisioned a new, performance-based foreign aid program that would serve as a model to reform existing development assistance. Unlike traditional aid, burdened with multiple and sometimes conflicting objectives, the MCA would focus solely on economic development. And because foreign aid works best by accelerating economic development in countries with sound policies, MCA aid would be distributed only to those countries most committed to governing justly, investing in health and education, and promoting economic freedom—policy areas empirically related to economic development. By minimizing political considerations and creating an incentive for recipient countries to enact good policies, the Bush Administration hopes to create a situation in which poor countries benefit not only from development assistance programs, but also from the competition to qualify for them.

Sadly, the political compromises struck during the legislative process have diluted the President's original vision for the MCA into something that dangerously resembles traditional foreign aid. The MCA, as laid out in the Foreign Relations Authorization Act, Fiscal Year 2004 (S. 925), and the Millennium Challenge Account Authorization and Peace Corps Expansion Act of 2003 (H.R. 2441), is looking less like the intended experimental, potentially transformational program and more like just a

\$5 billion increase in foreign aid. To prevent this, Congress should mandate three things. First, qualification for the MCA should be based solely on a country's commitment to govern justly, invest in health and education, and promote economic freedom. Second, the MCA should be administered by an agency with leadership fully independent from the existing aid regime. Third, the MCA should be terminated after a period sufficient to determine its effectiveness vis-à-vis traditional development assistance.

Restoring the Original

Purpose. Many believe that America is not spending enough on foreign aid, but the United States is already the largest bilateral donor to the developing world, contributing \$12.9 billion in official development assistance in 2002—more than the annual economic output of the Ivory Coast. However, the money has been spent poorly. Most recipients of U.S. development assistance are poorer now than they were before first receiving U.S. aid.

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President Bush's Millennium Challenge Account proposal has received widespread bipartisan support because it offers a better way of helping the world's poor. Key to its success will be its focus on promoting economic development and its independence from the existing aid regime. Regrettably, certain parts of both the House and Senate bills establishing the MCA undermine the proposal's innovative aspects. To restore the MCA to its original state, Congress should do three things.

1. **Focus solely on economic development.** Lessons from the failures of traditional development assistance were the inspiration behind the MCA. Unlike existing aid programs, which often try to simultaneously eradicate poverty, save the environment, and protect U.S. national security, the MCA is intended to focus solely on proven means of promoting economic development. It would provide assistance to countries with, as specified in S. 925, "the demonstrated commitment of the government of the candidate country to just and democratic governance...economic freedom...and investments in the people of such country, including the availability of educational opportunities and health care for all citizens." Congress should avoid expanding the MCA's mission, as the House bill does, to promoting gender equality, saving the environment, developing trade unions, and supporting minority- and women-owned business in the United States—all noble objectives already addressed by existing programs.

Congress should incorporate the MCA's selection criteria (i.e., the performance indicators used to measure a recipient country's commitment to the MCA's three policy areas) and methodology (i.e., how the criteria are weighted) into the authorizing legislation. Both the House and Senate bills would leave it up to the Administration to develop and revise the criteria and methodology (though the House bill requires prior consultation). Without stricter guidelines, the MCA's criteria and methodology could change from administration to administration. The MCA will fail if it becomes an institution with moving goalposts—a criticism frequently leveled at the International Monetary Fund and the World Bank.

2. **Establish a fully independent agency.** The MCA must be fully independent from traditional development assistance for it to develop innovative programs and serve as a model for reform. Congress should therefore establish a new, independent agency to administer the MCA, such as the Millennium Challenge Corporation proposed in the House. If the MCA is established under the supervision of an existing government department or agency, the institutional objectives and operational paradigms of the lead department could supersede the MCA's. For example, if the State Department is given too much influence over the MCA, as is the case in the Senate bill which gives the State Department three of the five votes on the MCA's governing board, the MCA's country selection process could be affected by unrelated considerations, such as a recipient government's cooperation in the war on terrorism. Congress should also strike out any mandated cooperation between the MCA and any U.S. or international aid agency or program.
3. **Include a sunset provision.** Ultimately, the MCA is an experimental program that would administer a theoretically sound, if untested, method of delivering foreign aid. As such, it should be given enough time to succeed and then be terminated. If it succeeds, it should be used as a model to reform traditional development assistance. A sunset provision, as in H.R. 2441, would place the onus on the MCA to prove its effectiveness rather than burden Congress with the task of terminating an entrenched bureaucracy.

Conclusion. As originally proposed, the Millennium Challenge Account offers an opportunity to reform the U.S. aid regime as work requirements changed welfare. However, unless it is allowed to focus solely on economic development and operate independently from existing aid-giving institutions, the MCA will become just another redundant \$5 billion bureaucracy.

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