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Congress Should Fund the Millennium Challenge Account

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President George W. Bush's 2006 budget proposal includes $3 billion for the Millennium Challenge Account (MCA), a new foreign assistance program designed to provide aid to countries that demonstrate a commitment to economic freedom, ruling justly, and investing in their people. While this would be the MCA's third appropriation, the program has existed for only a year and has yet to disburse funds.

- Development assistance is not sufficient to spur economic growth in poor countries.
- The MCA targets assistance toward poor countries committed to policies that improve prospects for development.
- This innovative approach to development deserves congressional support.

Congress should not yield to the temptation to cut the budget request because the MCA has unexpended funds. Although eligible countries have taken longer than expected to propose projects for the MCA, many countries are expected to finalize their proposals soon. These proposals require funds greatly exceeding the $2.5 billion appropriated in 2004 and 2005, making the 2006 budget request vitally important if the MCA is to meet its objectives. The President's request, originally projected to be $5 billion, already reflects the delayed schedule and merits support from Congress.

Why the MCA Is Necessary. America's national security and economic interests are served by helping poor countries to develop. Only by creating long-lasting opportunities for their people can countries experience economic growth and reduce terrorist and other security threats. Moreover, as the U.S. economy and per capita income have grown, trade has become a greater portion of gross domestic product (GDP). Helping to encourage economic growth in developing countries enhances trading opportunities and bolsters the U.S. economy.

For decades, the U.S. has tried to spur economic development through development assistance—with little success. Between 1980 and 2003, among countries for which per capita GDP data are available, over $116 billion (in constant 2002 dollars) in U.S. development assistance went to 89 countries classified as low-income (per capita income below $765) or lower-middle-income (per capita income between $766 and $3,035). Yet these recipients often experienced poor—even negative—per capita economic growth. Of these 89 countries, 37 experienced negative real annual compound growth in per capita GDP, 20 experienced minimal growth of 1 percent or less, and 32 experienced growth of over 1 percent. Half of these recipients in sub-Saharan Africa saw a real decline in GDP per capita.

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Clearly, providing development assistance is not sufficient to spur economic growth in recipient countries. This situation led the Bush Administration to propose a new development assistance program—the Millennium Challenge Account—that targets assistance toward low-income and lower-middle-income countries with a demonstrable record of investing in people and promoting policies that promote economic growth and bolster the rule of law.

This new approach is supported by economic studies indicating that aid is most effective in countries that embrace policies that create incentives for people to behave more productively, thus encouraging growth. As noted by President Bush in 2002:

> When nations close their markets and opportunity is hoarded by a privileged few, no amount of development aid is ever enough. When nations respect their people, open markets, invest in better health and education, every dollar of aid, every dollar of trade revenue and domestic capital is used more effectively.

The MCA is designed to show countries how to enhance their prospects for economic growth and development, with the overarching goal of helping countries graduate from the need for foreign assistance.

What Has the MCA Done? Some have questioned why the Millennium Challenge Corporation (MCC), which operates and oversees the MCA, has not yet disbursed the $2.5 billion appropriated in 2004 and 2005. The answer is that the MCA is a departure from traditional development assistance. The MCC does not just quickly disburse money to countries, nor does it dictate to recipients how they must spend the grants. Instead, a country must first propose a comprehensive development strategy that is to be funded by MCA grants and demonstrate how that strategy would improve economic growth and long-term poverty reduction.

Recipient countries possess an unusual degree of influence over the proposals and are primarily responsible for implementation. The MCC requires eligible countries to submit proposals because these countries know the weaknesses in their economies and their needs far better than do aid donors. While the MCC will monitor implementation, progress toward targets, and fiscal accountability measures, the hands-off approach requires careful analysis in the initial stages to ensure that the proposals are correctly implemented, are designed to facilitate economic development, and possess adequate oversight.

Since beginning operations in January 2004, the MCC has been racing to meet targets. It has hired experts and staff and has selected countries that meet the criteria established by Congress. On May 6, 2004, the board of directors announced 16 eligible countries for 2004 (Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, and Vanuatu) and dispatched teams to educate these countries about the MCA and the proposal process. On November 8, 2004, the MCC identified 16 eligible countries for 2005. (Morocco was added, and Cape Verde was dropped because its per capita income exceeded the legislated threshold.)

Over the past year, the MCC has received proposals from every eligible nation except Vanuatu and Morocco, which was selected in November 2004. MCC staff and the countries have spent months negotiating these compacts in preparation for review by the board of directors and Congress. Compacts with Georgia, Honduras, Madagascar, and Nicaragua are farthest along, and those countries should begin receiving grants in the near future. Other compacts are expected to be completed in the following months. In total, these compact proposals will require funds greatly exceeding the $2.5 billion appropriated in 2004 and 2005, making the 2006 budget request vital if the MCA is to meet its objectives.

Conclusion. The MCA is a new approach to development assistance. By focusing assistance on countries that are committed to policies conducive to economic growth and development, the MCA is an opportunity to demonstrate that assistance can encourage development under the right circumstances. The MCC has carefully negotiated compacts over the past year and is poised to disburse grants. Congress should praise the prudence demonstrated by the new aid program and support the President's $3 billion budget request.

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