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A NEW APPROACH TO FOREIGN AID: A CASE STUDY OF THE MILLENNIUM CHALLENGE ACCOUNT

MARGARET DENNIS
New York University School of Law

Faculty Director: Benedict Kingsbury
Co-Directors: Philip Alston, Robert Howse and J.H.H. Weiler
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"Financing Development" Project
Director: Kevin Davis
Institute for International Law and Justice
New York University School of Law
40 Washington Square South, VH 314
New York, NY 10012
Website: www.iilj.org

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A NEW APPROACH TO FOREIGN AID: A CASE STUDY OF THE MILLENNIUM CHALLENGE ACCOUNT

Margaret Dennis

Abstract

Established in 2002, the Millennium Challenge Account was created to address a distressing paradox in foreign aid – that despite 50 years and many trillions of dollars in support to developing countries, these efforts appear to have provided few or no benefits to the intended aid recipients, but have generously lined the pockets of corrupt government officials. To counteract these concerns, the Millennium Challenge Account has adopted an approach that emphasizes the careful selection of aid recipients, rather than the imposition of restrictive conditions on how the aid may be used; and that bases its selection criteria upon publicly accessible, objective criteria, rather than a subjective or secretive process. Although the use of either of these elements alone is not unique, their combination provides a hopeful and novel approach to foreign aid.

A NEW APPROACH TO FOREIGN AID: A CASE STUDY OF THE MILLENNIUM CHALLENGE ACCOUNT

On January 20th, 1949, Harry Truman's Point Four Program marked the inception of the modern foreign aid agenda.[1] Faced with the existence of shocking poverty throughout much of the world, the West has spent approximately $2.3 trillion dollars in the five decades since then in an attempt to alleviate conditions in many of these distressed countries.[2] Yet, in spite of funds, dedication, and the existence of many individuals with an ideological drive to eradicate destitution, the scene for the world's poor remains bleak. Currently, "almost three billion people live on less than two dollars a day, adjusted for purchasing power. Eight hundred and forty million people in the world don't have enough to eat. Ten million children die every year from easily preventable diseases."[3] Clearly, the goals of foreign aid remain unachieved.

In an attempt to improve upon the paltry returns from the traditional foreign assistance program, George W. Bush established the Millennium Challenge Account ("MCA") in March of 2002.[4] Relying heavily on a politically popular survey performed by Craig Burnside and David Dollar which found that aid is effective only in those countries that endorse "good" policies, the mechanics of the MCA are intended to screen out countries likely to waste foreign funds and to channel aid to those nations who will use the assistance for the benefit of their population.[5] The Bush administration has publicized the MCA as being "a new compact for global development"[6], and while many individual elements of the MCA's donation process are not

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[1] William Easterly, The White Man's Burden 24 (The Penguin Press 2006).
[2] *Id*. at 4.
[3] *Id.* at 8.
[4] Steve Radelet, Challenging Foreign Aid: A Policymaker's Guide to the Millennium Challenge Account 1 (Center for Global Development 2003).
[5] Craig Burnside & David Dollar, *Aid, Policies and Growth*, 90 Am. Econ. Rev. 847, 848 (Sept. 2000); William Easterly, *Can Foreign Aid Buy Growth?*, 17 J. Econ. Persp.[s] 23, 25 (Summer 2003).
[6] http://www.whitehouse.gov/infocus/developingnations/millennium.html

necessarily unique, their combination may prove to be. In this paper I will examine the manner in which the MCA's tactics differ from previous attempts at foreign aid – particularly in the MCA's shift from subjective conditionality to objective selectivity in choosing its aid recipients. Through this comparison I intend to provide a prediction about the MCA's probability for success, examine some of the key difficulties threatening to undermine effective implementation of the program, and offer suggestions about ways in which these difficulties might be avoided.

Discussion

I. Expectations for Foreign Aid – When Is Foreign Aid Effective?

Before discussing the MCA's potential for success relative to earlier attempts at foreign aid, it is necessary to clarify certain background information. Primarily: (1) what funds ought to be included in our analysis of "foreign aid"; (2) how do we know that earlier attempts were ineffective; and (3) what end result would we expect from the MCA in order to consider its implementation a success?

A. The Definition of Foreign Aid.

For purposes of this analysis I will limit the definition of "foreign aid" to include both grants and loans from either governmental or multilateral, non-private institutions. I do not include any form of private investment. Specifically, I intend to examine both loans and grants provided by institutions who claim development of these countries as a primary goal of their mission. This would include institutions such as the International Monetary Fund, the World Bank and other major development banks, USAID, and the United Nations Development

Program as well as other bilateral aid programs. Absent from this analysis are military aid, funds given explicitly for political or economic favors, or business transactions between countries.

B. Determining Whether Earlier Attempts at Foreign Aid were Ineffective.

Several methods exist to test the effectiveness of prior foreign aid regimes. One potential method requires only a simple examination of poverty-related statistics. The evidence is sobering and points decisively to the conclusion that foreign aid has not fulfilled its promise: nearly three billion people living on less than two dollars a day, the deaths of ten million children annually from preventable diseases, three million AIDs victims every year, one billion illiterate adults, one billion without access to clean water and two billion lacking sanitation.[7] These statistics reveal the staggering amount of poverty that remains despite copious quantities of foreign aid, however they do not address the problem of the counterfactual. It is certainly plausible that without the previous five decades of spending, these statistics would be still more alarming.

An alternative method for determining the effectiveness of foreign aid is simply to judge the aid agencies by their own goals. At the beginning of the millennium, the United Nations held a massive "gathering of heads of state", during which leaders from around the world committed to the Millennium Development Goals.[8] Eight benchmarks emerged from the discussion – all of which were to be completed by 2015.[9] Specifically, by 2015 the world had committed to: "(1) eradicate extreme poverty and hunger; (2) achieve universal primary-school enrollment; (3) promote gender equality and empower women; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDS, malaria and other diseases; (7) ensure environmental

[7] William Easterly, The White Man's Burden 8 (The Penguin Press 2006).
[8] *Id*. at 9.
[9] *Id.*

sustainability; and (8) develop a global partnership for development.[10]" Tellingly, many of these goals are simply recycled versions of earlier deadlines. The commitment to achieve universal primary-school enrollment by 2015 was originally set for the year 2000 in a 1990 UN Summit.[11] One 1977 UN Summit named 1990 as the target date to realize universal access to water and sanitation.[12] This goal as well remains unfulfilled.

An additional example, which addresses the effects of foreign aid loans as opposed to grants, are the efforts of the International Monetary Fund ("IMF"). Under Article I of the Fund Articles of Agreement, the IMF articulates two purposes: (1) "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members"; and (2) to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in balance of payments without resorting to measures disruptive of national or international prosperity.[13]" Thus, the IMF's stated goals include not only aiding countries to achieve a balance of payments, but also to assist in the development and growth of its members.[14]

These same Articles of Agreement characterize the Fund's assistance as being "temporary" and "revolving", expressing the intention that by following the IMF's program to achieve balance of payments and growth a country will eventually graduate from the need to access the Fund's resources.[15] Thus, the time a country spends under IMF programs should be

[10] *Id.*
[11] *Id.* at 9-10.
[12] *Id.* at 10.
[13] IMF Conditionality 48 (John Williamson ed., Institute for International Economics 1983).
[14] *Id.*
[15] Graham Bird, The IMF and the Future: Issues and Options Facing the Fund 73 (Routledge 2003).

short and ultimately infrequent.[16] An examination of countries that have been under Fund programs reveals this characterization to be often incorrect. One study conducted by Graham Bird in 2000 revealed that many countries have become "frequent users" of the IMF in terms of both recidivism and total time spent under Fund programs.[17] Certain countries, such as Jamaica, Malawi, Togo and Uganda had spent 15 or 16 years in IMF programs just during the period from 1980-1996.[18] In that same, fairly short, time span countries such as Senegal, Madagascar, Costa Rica and Jamaica had entered into at least 9 different IMF programs.[19] Although the IMF's involvement in a country is not always so at odds with its stated goals in the Articles of Agreement, studies have shown that recidivism tends to concentrate among low-income countries – evidencing that the Fund has been least able to help those countries which are most in need of its services.[20] Furthermore, many studies of the IMF have found either no correlation with growth or even a negative association between growth and the Fund's involvement in a country.[21]

Thus it appears that the current range of foreign aid options have been unable to accomplish the goals they have set for themselves in eradicating poverty and promoting development throughout the world. Although the IMF and the UN are but two examples of organizations that engage in some form of foreign aid, they evidence a common problem in foreign aid - that of setting goals that remain unfulfilled. As is clear from the barrage of statistics presented earlier, poverty has not been conquered in spite of the 50 years and $2.3 trillion spent fighting its onslaught.

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[16] *Id.*
[17] Graham Bird, The IMF and the Future: Issues and options facing the Fund 74 (Routledge 2003).
[18] *Id.*
[19] *Id.*
[20] *Id.*
[21] *Id.* at 70-71.

C. The Millennium Challenge Account and its Goals

The founding of the MCA in 2002 by George W. Bush was intended as a response to many of these concerns about the effectiveness of foreign aid. The MCA characterizes itself as, "a new compact for global development defined by new accountability for both rich and poor nations alike"[22] and sets as its two primary goals poverty reduction and the promotion of sustained economic growth[23]. Although the MCA is not entirely novel in its approach to foreign aid, it does distinguish itself in two key ways: it requires countries to meet certain criteria before they are even eligible to receive funds, and it bases its selection process on objective, publicly available criteria[24]. Essentially, the creation of the MCA was designed to address the aid paradox: that despite 50 years and many trillions of dollars spent on developing countries, the general perception is that, "foreign aid [has] had little impact on economic development…[and is only]…lining the pockets of corrupt dictators, while funding the salaries of a growing, bloated bureaucracy.[25]"

This perception, coupled with a study by Craig Burnside and David Dollar which concluded that foreign aid is effective only in those countries that adopt "good policies", provided the ideological underpinnings for a more selective approach to foreign aid[26]. In keeping with this theory, the MCA established three categories of selection criteria: "investing in people", "establishing economic freedom", and "ruling justly[27]." Each category contains

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[22] http://www.whitehouse.gov/infocus/developingnations/millennium.html
[23] Sheila Herrling & Steve Radelet, Should the MCC Provide Financing Through Recipient Country's Budgets? An Issues and Options Paper 1 (uncertain writing date) *at* http://www.cgdev.org/doc/MCA/MCCrecipientbudgs.pdf.
[24] Steve Radelet, Challenging Foreign Aid: A Policymaker's Guide to the Millennium Challenge Account 2 (Center for Global Development 2003); Steve Radelet, From Pushing Reforms to Pulling Reforms: The Role of Challenge Programs in Foreign Aid Policy 4 (February 2005) (working paper, Center for Global Development).
[25] Challenging Foreign Aid at 2.
[26] *Aid, Policies and Growth* at 848.; *Can Foreign Aid Buy Growth?* at 23-24.
[27] Challenging Foreign Aid at 32-44.

between four and six measurements.[28] In order to be eligible for the funds a country must score above the median on at least half of the measurements for each of the three categories, maintain an inflation rate below 15% and be above the median on the "corruption measurement[29]. Although a full discussion of the implications of the MCA's selection criteria will follow later, by glancing at the MCA's stated goals and basic selection criteria it is possible to gain a clearer understanding of what goals the administration hopes to accomplish through the MCA. Beyond the MCA's goals of reducing poverty and promoting sustained economic growth, the MCA clearly favors those regimes which adhere to its selection criteria – thus hopefully promoting those governments which favor democratic and free-market values. In evaluating the MCA's success, we should hope to see, not only increased growth rates and reduced rates of poverty within participant countries but also a movement among countries to conform their regimes and economies to score better on the MCA's rubric.

II. Conditionality and Selectivity in Foreign Aid: Potential Strategies to Improve the Efficiency of Foreign Aid.

A. Potential Rationales for the Failure of Development Agencies to Meet Their Goals

Given that prior attempts at foreign aid have failed to achieve their promised goals, several key rationales have been presented to explain past difficulties and to present a path for future aid to follow. One possible theory is simply that insufficient funds are being granted to solve the developing world's problems. The traditional theory under development economics was that because exceptionally poor countries consume their entire income just to survive as opposed to saving and reinvesting in their economy and infrastructure, the logical solution to the

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[28] *Id.*
[29] http://www.mcc.gov/selection/reports/FY07_Criteria_Methodology.pdf

problem called for sufficient aid to tip a country towards the point where it could start saving and reinvesting itself[30]. However, evidence insinuates that the answer is likely not so simple as insufficient aid. In addition to the sheer volume of aid invested since the 1950s, certain studies have shown an inverse relationship between the total aid given and growth rates within a country.[31] Through the 1990s, a typical African country received over 15% of its GDP from foreign donors.[32] In spite of the fact that aid levels throughout African accelerated from around 5% of GDP in the 1970s to over 15% in the mid-1990s, African growth rates plummeted in an inverse relationship to the aid[33]. In the 1970s, growth measured around 2%, followed by a major contraction and negative growth throughout the 1980s and only recently approaches positive growth[34]. Although this is merely one example and is certainly not intended to show that increased aid *caused* the decline in growth, the scenario helps illustrate that increased aid does not automatically correspond to an increased rate of growth. The relationship between aid and growth appears much more complicated than simple availability of funds.

An alternative theory which has grown significantly in popularity and forms the ideological basis for the MCA is that aid is being used ineffectively or is being given to the wrong countries and leaders. Countries frequently accept aid without adhering to the conditions of its use – conditions which are designed to ensure the funds are used properly. As an example, IMF programs generally condition disbursement of each *tranche* of their loans on completion of certain conditions intended to bring about greater economic growth.[35] One study by Mussa and Savastano found that only 35% of IMF loans for the period of 1973 – 1997 were fully

[30] The White Man's Burden at 25, 37-38.
[31] The White Man's Burden at 45.
[32] *Id.*
[33] *Id.* at 46.
[34] *Id.*
[35] The IMF and the Future at 77.

disbursed.[36] Even after factoring in those countries whose loans were not fully disbursed because the full amount of aid was no longer required, this study illustrates that non-compliance is widespread.[37]

Corrupt leaders may squander aid on political favors and personal luxuries rather than investing in their own population.[38] Wasted aid money may reflect the fact that many grants and loans are given to such corrupt leaders without regard for how they will spend the funds. In particular, political alliances and interests may divert aid from countries where the funds would be used appropriately to more strategic venues with less incentive or inclination to use such grants and loans constructively.[39] Lastly, the broad goals of many aid organizations may result in an incentive structure that rewards employees for disbursing loans rather than for selectively determining where aid will be most useful and then monitoring its implementation.[40]

B. Conditionality and Selectivity as Tools to Counteract These Pitfalls.

Historically, conditionality and selectivity are two strategies development agencies have employed in an attempt to counter the potential for misuse of foreign aid. Conditionality is best defined as a set of requirements, determined in the grant or loan agreement, which must be implemented prior to further disbursement of the loan or grant.[41] Although the initial screening process is not selective, countries generally bind themselves (at least nominally) to an agreement with the organization disbursing the loan. The loan will then be disbursed in stages, with each new disbursement contractually conditioned upon fulfillment of the agreed-upon obligations.

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[36] *Id.*
[37] The IMF and the Future at 77.
[38] The White Man's Burden at 43.
[39] David Dollar & Victoria Levin, Increasing the Selectivity of Foreign Aid: 1984 – 2002 5 (May 2004) (World Bank Policy Research Working Paper Series number 3299).
[40] The White Man's Burden at 10.
[41] Doug Johnson & Tristan Zajonc, *Can Foreign Aid Create an Incentive for Good Governance? Evidence from the Millennium Challenge Corporation* 2 (April 2006) (Working Paper Series John F. Kennedy School of Government).

This is a method which has long been used for IMF loans.[42] In contrast, selectivity entails a more rigorous *ex ante* determination process about which countries will receive an initial allocation of funds; making funds available to countries based solely on their past performance according to certain criteria.[43] Selective aid theoretically provides much greater freedom to the recipient once they have been given the aid, as there are no *ex poste* obligations to be met. The donor has conditioned aid upon that country's track record for good governance, rather than specific policies which must be implemented. Although certain donors, particularly the Nordic countries, and World and African Development Banks have previously employed some selective tactics in disbursing their aid, the MCA appears to be the first organization offering funds only for those countries whose past performance meets certain objective criteria.[44]

It is worth mentioning that these two methods of preventing the misuse of foreign aid may overlap in certain scenarios. Providing several consecutive, short-term, selectivity-based grants may in practice be functionally equivalent to a single, larger conditional commitment. In this case however, MCA grants are not especially short and have traditionally lasted 5 years, with a current trend to allow for longer compacts.[45] IMF loans vary in length, from an average repayment period of two and a half years for Stand-by Arrangements, to ten years for Poverty Reduction and Growth Strategy Facility loans.[46] Thus, although in certain arrangements selectivity and conditionality could appear to be equivalent tactics, the MCA's programs are of sufficient duration that they should not overlap with conditionality's tactics in this regard.

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[42] *Id.*
[43] *Id.*
[44] *Id.*; *Increasing the Selectivity of Foreign Aid* at 8.
[45] Curt Tarnoff, CRS Report for Congress: Millennium Challenge Account 4 (August 1, 2006) (Order Code RL 32427).
[46] http://www.imf.org/external/np/exr/facts/howlend.htm

Although the move towards objective selection criteria will be examined in greater detail later in the paper, it is worth noting that this trend marks the MCA's second major departure point from traditional foreign aid. Previously, the rationale behind the decisions of most development organizations to fund particular projects was entirely subjective and largely secretive. In particular, the MCA marks a dramatic departure from US aid which has traditionally been given very subjectively and was tied to political goals.[47] Below, I will examine the tactics of conditionality and selectivity, exploring how both policies are intended to address the principal-agent problem in that the goals of the aid recipient may differ significantly from the donor.[48]

1. Conditionality

The IMF has been one of the most influential organizations to employ conditionality in its funding. Because the IMF disburses loans, not grants, they have an incentive that would not be present with grants - to ensure that their shareholders are repaid. The IMF also makes the claim that by adhering to the conditions they propose, a country will achieve greater economic growth and poverty reduction.[49] These elements render the IMF a good case study to examine the effects of conditionality on aid-recipients. This is an organization that clearly intends its conditions to be implemented and also claims that following their conditions will result in an improved economic condition for the countries following their directives – two qualities that are shared by many other development agencies such as the World Bank.

Several justifications are given for the IMF's use of conditionality in loan disbursement. These include: (i) "inducement (encouraging governments to do things differently than they otherwise would have) (ii) selectivity (ensuring that assistance is provided only to countries with

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[47] *Increasing the Selectivity of Foreign Aid* at 5.
[48] The IMF and the Future at 100.
[49] IMF Conditionality at 48.

a good policy environment); (iii) paternalism (ensuring that it is used in a good policy environment); (iv) restraint (locking governments into approved policy reform) and (v) signaling (providing information that would be expensive for private agents to collect and interpret.[50] These justifications assume both that the IMF is the best party to determine what steps a country should take to achieve economic growth and that a country will implement those conditions fully. Neither assumption has proven to be true. A review of literature regarding the IMF's programs reveals positive effects on balance of payments but either little connection or even a negative effect on economic growth.[51]

Aside from the possibility that the conditions the IMF seeks to implement are misguided, one rationale for the lack of economic growth resulting from IMF programs is the fact that countries rarely fully implement the IMF conditions of their loan – thus greatly weakening the proposition that conditionality effectively address the principal-agent divide.[52]. As conditionality is, "the mechanism through which the Fund seeks to strengthen economic performance it might be assumed that programs have to be implemented and carried through to completion."[53] Recent studies of why IMF programs have not been fully implemented have concluded that, at least in many cases, reforms are not undertaken as an express choice of the government in power.[54] In some sense this finding points to the conclusion that what is needed are more stringent conditions and penalties for not following them. However, the situation necessitates a deeper investigation as to why the governments in question would choose not to implement these reforms, and thus weaken Fund control over the method in which their aid dollars are used.

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[50] The IMF and the Future at 114.
[51] *Id.* 70-73.
[52] *Id.* 77.
[53] *Id.* 73.
[54] *Id.* 101.

Essentially, if we accept as given that these countries' governments are capable of shaping economic policy and that their primary goal is to retain power, it seems logical to conclude that governments will be hesitant to follow economic policies that lead to anger on the part of their electorate with regard to economic conditions.[55] Hence, the leaders of these particular countries are faced with real difficulties in adhering to the IMF's conditions. Austerity measures are likely to anger the electorate.[56] Augmenting this anger is the possible perceived loss of sovereignty the population will see in the IMF placing restrictions on the economic policy of their government.[57] Furthermore, as financial assistance from the IMF and most other international financial institutions is heavily front-loaded, countries have a huge incentive to subscribe to IMF policy suggestions they have no intention of actually implementing.[58] Several studies have confirmed the fact that failure to implement the IMF's conditions, "does not have any significant effect on future access, and, with this knowledge, the costs of non-compliance, as perceived by governments, will be lowered." [59]

Thus, the control lenders would hope to gain though traditional IMF conditionality suffers from the fact that countries have little incentive to comply with their conditions. Even assuming that the IMF's proposed requirements for its programs are likely to bring about economic growth, governments are not penalized for non-compliance and likely wish to avoid the austerity and loss of flexibility demanded of them in undertaking policy reforms[60]. One example of how far a country can go in flaunting conditions from an international financial institution is Kenya.[61] In the 1980s and 90s the World Bank provided four agricultural

[55] The IMF and the Future at 101-02.
[56] *Id.* at 104-05.
[57] *Id.* at 105.
[58] *Id.*
[59] *Id.*
[60] *Id.* 106.
[61] *Pushing and Pulling* at 13.

adjustment loans conditioned on government promises to implement particular reforms.[62] Four times the Kenyan government implemented the reforms, appropriated the aid, and then promptly reversed the reform.[63] The lack of incentives to comply, coupled with the likely unpopularity of austerity measures and loss of political flexibility to form coalitions and support provide ample rationale for countries to choose not to implement reforms.

Additionally, these conditions are generally imposed from the outside – by the IMF or an equivalent international financial institution[64]. The countries frequently either do not believe in the reforms they are being asked to implement or may believe in them, but find it politically difficult to do so[65]. The IMF and World Bank have taken steps to try to create greater recipient "ownership" of the policy reforms but thus far it is uncertain how much countries are subscribing to the reforms as opposed to making a calculated attempt to say what the World Bank and IMF want to hear[66]. Thus conditionality, although a logical method of attempting to constrain the agent's behavior, has frequently disappointed in its ability to provide sufficient safeguards for the principal's funds. Although in principle conditionality should limit morally hazardous behavior on the part of the agent, in practice the IMF and other aid agencies are extremely unwilling to cut off funding for a project midway through completion. This allows for significant manipulation on the part of the agents and insecurity as to determining how the principal's funds will be used.

2. Selectivity

Selectivity has been used previously in two contexts: (1) selecting for the most needy governments and (2) selecting for good governance and policies. Although the U.S. government

[62] *Id.*
[63] *Pushing and Pulling* at 13.
[64] The IMF and the Future at 105
[65] *Id.* 104-05.
[66] *Good Practice Principles for the Application of Conditionality: A Progress Report* 6 (Operations Policy and Country Services World Bank) (Nov. 6, 2006).

is notorious for giving aid for political reasons rather than due to need or merit, multilateral institutions and Scandinavian donors tend to concentrate their aid donations among more needy countries.[67] Recent studies however, did not find any connection between economic growth and the effects of bilateral versus multilateral aid, thus casting doubt upon any assertion that aid given to the neediest countries is used most effectively.[68] In terms of selecting for good policies and institutions, this approach is somewhat more experimental, although it has been undertaken to some degree by the World and African Development Banks.[69] It is this approach which the Millennium Challenge Account has embraced and upon which the success of the MCA will turn.

III. The Millennium Challenge Account – A Break from Traditional Approaches to Foreign Aid.

In turning away from the traditional condition-based approach to foreign aid the Millennium Challenge Account represents a new tactic in developing some of the world's poorest nations. The key factors which differentiate the MCA from its development agency-siblings are: (1) The Millennium Challenge Corporation's ("MCC") move to selectivity as opposed to conditionality in foreign aid, and (2) the MCC's use of public, objective criteria in making its selections, as opposed to a subjective or secretive selection process. Both of these tactics, although not absolutely novel, represent a solid move away from previous tactics in foreign aid and, particularly when used in combination, seem especially promising in the continuing quest to find a more satisfactory resolution to the principal-agent problem in foreign aid.

[67] The White Man's Burden at 49.
[68] *Id.*
[69] *Pushing and Pulling* at 14.

A. A Brief Overview of the Millennium Challenge Account Process

As stated previously, countries must pass a selection process before they are eligible to receive aid from the Millennium Challenge Corporation (the US government corporation created to administer the MCA funds)[70]. Two preliminary considerations are the country's per capita GNI and whether or not that country is restricted from receiving US funds by congressional statute.[71] Currently, the MCC recognizes two categories of country incomes: lower middle income (with a per capita income between $3,255 and $1,575) and lower income (below $1,575). These two categories do not compete with one another on the good governance indicators[72]. The more involved test is whether or not a country meets the 16 selection criteria. The three overarching categories are: Ruling Justly, Investing in People, and Economic Freedom[73]. In each of these categories, a country must score above (or in select cases *at*) the median on at least half of the smaller indicators[74]. Ruling Justly contains measurements for "control of corruption", "voice and accountability", "government effectiveness", "rule of law", "civil liberties", and "political freedom"[75]. The "Investing in People" category includes measures for, "primary public education spending as a percent of GDP", "primary girls' education completion rate", "public expenditure on health as a percent of GDP", and "immunization rates: DPT and measles".[76] Lastly, the "Economic Freedom" calculus encompasses benchmarks for, "inflation", "fiscal policy", "trade policy", "regulatory policy", "days to start a business", and "cost of

[70] CRS Report for Congress at 2
[71] *Incentive for Good Governance* at 5.
[72] Lael Brainard & Allison Driscoll, *Making the MCA Work for Africa* 2 (The Brookings Institution Policy Brief # 123) (September 2003).
[73] CRS Report for Congress at 37.
[74] *Id.* at 6.
[75] *Id.* at 37.
[76] *Id.*

starting a business."[77] Two of the indicators are "hard" hurdles; a country must have an inflation rate below 15% and must score above the median on the corruption indicator.[78]

Once countries are named as "eligible" by the MCC they must then consult with civil society and government groups in order to submit a proposal to the MCC for funding.[79] Successful proposals which demonstrate input from a wide-ranging consultative process and that meet the goals of economic growth and poverty reduction become MCA "Compacts" – essentially contracts between the Millennium Challenge Corporation and the government of the implementing country.[80] These compacts include detailed requirements for implementation, monitoring and evaluation of the program being implemented; and the MCC will presumably cut off funding to projects that do not adhere to the compact terms (an assertion which looks strikingly similar to previous use of conditionality in foreign aid).[81] Thus far, the MCA has signed Compacts with nine countries – Madagascar, Honduras, Cape Verde, Nicaragua, Georgia, Benin, Vanuatu, Armenia and Ghana[82] - for a total disbursement of $2.6 billion dollars[83]. Additionally, the MCA has approved eight "threshold" programs with Albania, Burkina Faso, Malawi, Paraguay, Tanzania, Zambia, the Philippines, and Ukraine.[84] "Threshold programs" disburse smaller amounts of money for countries that barely missed MCA qualification in order to bring them up to MCA standard.[85] Tellingly, seven of the eight threshold programs make efforts to curb corruption.[86]

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[77] *Id.*
[78] *Id.* at 6.
[79] CRS Report for Congress at 20.
[80] *Id.*
[81] *Should the MCC Provide Financing Through Recipient Country's Budgets?* at 1.
[82] CRS Report for Congress at 20.
[83] *Id.* at 23-25.
[84] *Id.* at 29.
[85] *Id.* at 26
[86] *Id.* at 29.

The MCA's process includes some interesting attempts to cope with the traditional problems of foreign aid. Below I will explore these tactics, address their critics, and determine their potential for success.

B. Factors Which Differentiate the MCA from Traditional Foreign Aid Programs.

1. Focusing on Selectivity as Opposed to Conditionality.

Perhaps the MCA's most obvious break from tradition is the corporation's emphasis on selectively choosing recipient counties based on their past policy performance as opposed to using promises of further aid disbursements to cajole uninterested governments into adopting particular policies.[87] As noted previously in the paper, one of the most pressing concerns about the ineffectiveness of foreign aid is less that insufficient sums of money are available to donate, and more that the recipients of those funds are using them improperly. Conditionality was one major strategy to control the use of funds and constrain the recipient government in its policy decisions. Unfortunately, conditionality has proved to be a less than ideal tactic for managing these risks. Under the worst circumstances, a government might ostensibly agree to numerous conditions without any intention of ever actually undertaking the required policies, as was the case with Zaire under the rule of Mobuto Sese Seko.[88] Alternatively, the requested reforms might ultimately prove to exact too great a cost on a country's government in light of a changing situation.[89]

In either of these scenarios, due to the understandable reluctance to cut off funding for a half-completed project, governments are arguably free to perform their own cost/benefit analysis before determining whether or not to comply with a particular organization's policy directives –

[87] *Pushing and Pulling* at 5.
[88] Steve Radelet, *The Millennium Challenge Account: Transforming US Foreign Assistance Policy?* 4 (Center for Global Development) (uncertain writing date – post Jan. 1, 2003).
[89] The IMF and the Future at 101-02.

an analysis which frequently concludes that the cost does not merit the pain of implementing the conditions.[90] Selectivity attempts to address both of these issues with conditionality – that it was so rarely enforced, and that the reforms might be too politically difficult to undertake. Particularly because international financial institutions ("IFIs") were disbursing such large amounts of funds for infrastructure or legal projects within a particular country, the incentive to continue disbursing the loan, rather than adhere to the terms of the contract and let the entire project languish, was overwhelming. Certainly these IFIs had no desire to see all the funds they had disbursed wasted and useless because the project could not be completed. Selectivity attempts to address this concern by eliminating (or at least reducing) the chance that a country will need to be disciplined because it has chosen not to implement those policy reforms. Selectivity also attempts to remove the cost/benefit calculus many countries' leaders engaged in by ensuring that those countries who receive funds have *already* and presumably of their own free will, implemented the reforms favored by the administration.[91]

a. Addressing the Critiques of MCA Selectivity

The benefits of selectivity are not necessarily a panacea for all the ills suffered by foreign aid. Below, I will examine in further detail the intricacies of the selectivity process posed by the MCA, as well as the major critiques of its potential for successful implementation.

One major factor which heavily influences the success of the selection process is the criteria used to choose recipient countries. Several critiques address the criteria upon which the program is based. Initially, the wisdom of the three categories chosen by the Bush Administration to select countries is difficult to question. In particular, "ruling justly" and "investing in people" both seem like irreproachable attempts to funnel aid to governments that

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[90] *Id.*
[91] *Pushing and Pulling* at 5.

intend to spend aid dollars wisely. The third category, "economic freedom", is conceivably open to more criticism. One particularly virulent critique by Jamie Hodari states that, "the particular assumption upon which the plan is based – that the faster poor countries open their economic borders and deregulate their markets, the faster they'll experience the benefits of economic growth – is open to legitimate and compelling criticism from several angles. Its tenets are neither supported by history, nor by the contours of most modern economies."[92] This criticism addresses one of the overlaps between conditionality and selectivity; getting countries to implement the preferred policies is useless if the urgently-needed legislation is wrong. Thus, despite selectivity's potential to be more effective than conditionality in enacting regulations, whether or not that efficacy translates into higher growth rates and reduced poverty remains to be seen. However, this criticism of the MCA is somewhat limited, as the policies actually being pushed by the administration in the "economic freedom" category are not especially controversial. More importantly, as will be discussed later in the paper, the litmus test to pass on all six indicators is a country's score on particular databases independent from the United States government.[93] Thus, although the MCA's scorecard may be open to criticism of ideological bias towards a free market as opposed to a more socialist or protectionist regime, the countries at least are not required to curry favor with a particular government.

In addition, one potential benefit to this selectivity-based donation system is that MCA-recipient countries experience less of an overt loss of sovereignty in receiving MCA funds. Thus, one answer to Hodari's criticism about the MCA's selection process, is that countries are not *required* to take the policy steps preferred by the MCA. Although the MCA dramatically increases the amount of US funding available for foreign aid, it is a separate entity from USAID

[92] Jamie Hodari, *Poverty and Control: George Bush and the Millennium Challenge Account* J. Pol & Soc'y 110.
[93] CRS Report for Congress at 5.

and not meeting the MCA's selection process does not affect a country's funding from USAID or other US sources.[94] A country may not be entitled to the maximum amount of funding without making efforts to become MCA eligible but here the difference in the form of coercion seems relevant. Psychologically at least, there seem to be some valid differences between a country choosing to comply with certain specifications to order to receive funding versus entering into a contract, the conditions of which include their taking particular actions. Thus, not only is it possible that selectivity will be a more effective means of disbursing aid, increasing the use of selectivity in foreign aid may help blunt some of the paternalism critiques of Western aid which are so vehement in their distaste for requiring developing countries to implement reforms piece by piece in order to receive more funds. Selectivity as a tactic could also inspire greater respect for the disbursing institution, as recipient countries who know that they can break the terms of their contracts with impunity can hardly be expected to make a real effort towards reform, even if the recommended reform is excellent advice.

An additional concern with the MCA's selective approach is that it threatens to divide the world into, "aid darlings and aid orphans."[95] Large quantities of aid will flow to countries that espouse good policies while many other countries whose inhabitants are doubly burdened by poor governance and poverty will go without.[96] This is in contrast to the traditional conditionality-based approach which would be less particular about aid recipients as long as they pledged to enact particular reforms. In particular, some commentators have expressed concern that sub-Saharan Africa will be disproportionately unrepresented among MCA-eligible countries.[97] Because sub-Saharan Africa has the highest concentration of extreme poverty

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[94] *The Millennium Challenge Account: Transforming US Foreign Aid Assistance?* at 11.
[95] *Economics Focus: A Choosier Approach to Aid*, 950 The Economist 30, 2 (April 23, 2005).
[96] *Id.*
[97] *Making the Millennium Challenge Account Work for Africa*

anywhere in the world, and also must contend with the especially difficult burdens of disease and government corruption, initially it appeared likely that few sub-Saharan African countries would be MCA eligible.[98] For this reason, several commentators suggested that countries should only be compared within their own region.[99] Countries within the same region after all, would share the same difficulties, making their comparison a more just method to determine eligibility.[100] Ultimately, the administration seems to have countered such criticism by signing four of nine compacts with countries in sub-Saharan Africa – Madagascar, Cape Verde, Benin and Ghana.[101] Thus, although there is some real danger of "aid orphans" being doubly burdened by poor government and lack of aid, to some extent at least the administration appears to be aware of the dangers of leaving some of the most needy areas of the world without aid.

One very positive potential benefit of the selection process is the hope that the promise of MCA funds will prod recalcitrant governments to reform with the goal of becoming MCA eligible. Anecdotally, there has been promising evidence of such a trend.[102] Doug Johnson and Tristan Zajonc note in their work, "Can Foreign Aid Create an Incentive for Good Governance? Evidence from the Millennium Challenge Corporation" that, "in Armenia, presidential contender Vartan Oksanjan referred to MCA funds when calling for increased openness in the upcoming election stating, "We are now in a situation where any step away from democratization and a repeat of electoral fraud will have an economic cost. And I can name that cost: 235 million dollars."[103] Similarly, the minister of finance for Bangladesh, "Saifur Rahman, pointed to his country's exclusion from the list of MCC eligible countries as one of the heavy consequences for

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[98] *Id.* at 1
[99] *Id.* at 2
[100] *Id.*
[101] CRS Report for Congress at 37.
[102] *Incentives for Good Governance* at 8.
[103] *Id.*

its high level of corruption."[104] Beyond these encouraging quotes a recent study by Doug Johnson and Tristan Zajonc also found "substantial" evidence of an "MCA effect."[105] According to their analysis candidate countries improve "25 percent more indicators after the MCC was created than before it – a result that is both economically and statistically significant."[106] Thus, although there is a valid concern that the MCA may potentially only focus on the easiest cases of the foreign aid world, there is also substantial hope that countries will adapt to the selection process in order to capitalize on the possibility of a large return.

b. Country Ownership of Proposals as Part of Selectivity

One other issue that strongly differentiates the MCA from previous attempts at foreign aid appears to be the MCA's tactics to ensure greater country "ownership" of the proposal before allowing that country to receive aid.[107] This is one area in particular that the World Bank, as well as many other foreign aid assistance organizations, has noted as being critical to a project's success.[108] As part of its selection process, before the MCA accepts a country's proposal, they first require countries to undertake a consultative process with their civil society and NGOs to determine what projects are most urgently needed.[109] This seems to be an excellent requirement although practically, it is impossible to determine the extent of the government's actual discussion with civil society.[110] Mostly, the MCA's requirement that countries present them with a proposal based on a society-wide consultation – rather than the MCC dictating what projects will be funded represents a fundamental shift in aid donation.

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[104] *Id.*
[105] *Id.* at 22
[106] *Id.*
[107] James W. Fox & Lex Rieffel, *The Millennium Challenge Account: Moving Toward Smarter Aid* 17 (The Brookings Institution 2005).
[108] *Good Practice Principles for the Application of Conditionality: A Progress Report* at 6.
[109] *The Millennium Challenge Account: Moving Toward Smarter Aid* at 14.
[110] *Id.*

Under the old "country programming" approach utilized by most aid agencies including USAID, agencies conducted their own assessment of what a particular country needed, performed whatever sustainability surveys were required and then implemented the project.[111] Donor-tailored programs have some benefits. They allow the donor to control priorities in funding, determine how funds are spent and track expenditures, and enable to donor to fit specific pieces of the program into a coherent whole.[112] However, the past has shown the costs often outweigh the benefits of such programs. In particular, weaker host government commitment lessens the chances of success for the project.[113] As mentioned previously, this was one of the major weaknesses of conditionality in dealing with the principal-agent problem. Countries would rationally undertake a cost-benefit analysis to determine whether to implement particular parts of the loan agreement, instead of determining what reforms they wanted to undertake before they were granted the loan. The program tailored by the donor may not fit into the host government's overall development plan, thus lessening their desire to cooperate with the project or maintain it after its initial implementation.[114] Giving the task of proposing projects to the donor agency also raises bureaucracy costs for that entity while simultaneously preventing the host government from ever having to build its own capacity to plan and implement projects.[115]

In contrast, the MCA's approach to aid requires donors to plan their own projects – an approach that not only should lead to greater success in implementation but also is more in keeping with the MCA's mission. Due to the MCA's discretion in choosing country compacts, this new emphasis on country ownership should help ensure that the funds provided will be used

[111] Challenging Foreign Aid at 79.
[112] Challenging Foreign Aid at 78.
[113] Challenging Foreign Aid at 78.
[114] *Id.*
[115] *Id.*

appropriately. The MCA will only choose the best projects – those that seem the most likely to generate economic success, to reflect an informed decision-making process with civil society, and to be genuinely supported by the host government. The projects also seem more likely to be completed, as the recipient government has a real incentive to use the grants as intended after they have already been forced to demonstrate a substantial investigation into the best projects for their country.

In spite of this hopeful concept, thus far countries have seemed reluctant to present projects that are either experimental or even outside of particular sectors. The Compacts thus far have dealt overwhelmingly with projects either in the agricultural or infrastructure sectors.[116] Even such very solid sectors such as education and health care have thus far been very underrepresented by Compacts.[117] Certain critics have taken this outcome as proof of the MCA's intent to support private business over truly providing aid to the needy.[118] In particular, they claim that Madagascar originally requested funding for hospitals and schools but was especially encouraged by the MCA to request funding for more business oriented projects like land title reform and infrastructure.[119]

It is difficult to determine thus far whether countries are being prompted by the MCA to choose particular programs or whether these countries are simply proffering options they believe the MCC most wants to hear. Theoretically, there is nothing inherently wrong with recipients trying to tailor programs to make them more attractive to donors – particularly if the result is that they are given more funds. The concern seems to be that the MCA's ideological bent (coming from a strongly pro-business administration) will influence their funding to such an extent that

[116] *Moving Toward Smarter Aid* at 3.
[117] *Id.*
[118] Joshua Kurlantzick, *Bush's Fake Aid* 2 (Rolling Stone March 10, 2006).
[119] *Id.*

private sector and commercial projects will get funded before potentially more pressing health and education issues.[120]

Ultimately it seems that the MCA's new selective approach may be the cure of this problem. By inducing a level of competition into the donation process, countries are essentially competing with one another for funds by composing projects. Considering the amount of criticism that the MCA has endured for providing funding for relatively mundane projects in narrow sectors, the time may be ripe for a country to submit a novel proposal. Furthermore, because the MCA has placed such a strong emphasis on accountability and results in the compacts, the outcome of the projects will be more readily accessible, providing positive or negative feedback as needed about what works. The MCA will be eager to prove the benefits of its new approach to foreign aid and would likely be interested in backing innovative projects with a strong probability of success to garner further support for the Corporation. Thus, even assuming that the MCA has an ideological bent their primary concern is success. If countries present attractive proposals in other sectors, it would seem difficult for the MCA to refuse them funding.

It is necessary to note that in spite of the MCA's move to a selective, country-ownership based approach to foreign aid, these compacts do contain vestiges of conditionality. Specifically, the compacts contain termination provisions for failure to maintain performance on a number of objective criteria. Additionally, the MCA's commitment to country ownership (and to objective criteria, although this will be discussed later) is somewhat undermined by the MCA's ability to use its discretion to choose to fund the country projects it approves of, and refuse those it finds less appealing. Certainly there is a danger that the MCA's emphasis on countries reaching particular objective benchmarks with regard to their Compacts will undermine the organization's

[120] *Id.*

mission to emphasize a new selective form of aid. The benchmarks may be overly ambitious, unfairly subjecting that country to uncertainty about further disbursement of aid. Furthermore, the MCA's emphasis on discretion in choosing which countries' proposals it prefers to grant funding runs similar risks to conditionality. Recipient governments may attempt to guess what the MCA wants to hear in submitting their proposals. Both of these concerns may very well undermine the MCA's emphasis on selectivity. However, for the moment the MCA's approach is sufficiently novel, albeit with vestiges of conditionality, to warrant investigation. Potentially, this blend of conditionality and selectivity will yield good results, with selectivity providing the broader insurance that a country's policies will be sound and the conditions in the compact guaranteeing dutiful implementation of the project.

2. The Selection Indicators and the MCC – an Attempt to Depoliticize Aid

This second aspect of the MCA's break with traditional foreign aid is its attempt to separate the decision to give foreign aid from politics by making the selection criteria objective and public. As William Easterly notes in his work, "The White Man's Burden" many other foreign aid organizations' hands are tied with regard to choosing the recipients of their aid.[121] Indeed, USAID even states that their purpose is to "further the foreign policy goals of the United States."[122] Given that such an approach can easily result in aid funds going to governments who are not necessarily the best candidates to implement development work, the MCA has attempted to break from tradition in two ways: (1) by utilizing transparent, public data to make their selection decisions; and (2) by choosing a separate government entity – the Millennium Challenge Corporation ("MCC") to govern MCA funds.[123]

[121] The White Man's Burden at 201.
[122] *Id.*
[123] *The Millennium Challenge Account: Transforming US Foreign Aid Assistance?* at 7, 10 – 11.

The data the MCA has chosen to make their decisions dependent upon are public rankings primarily provided by the World Bank and Freedom House.[124] Each of the rankings has been well-received as authoritative and unbiased, yet several issues remain with their implementation. For at least half of the indicators in question, the available data does not equate with the current situation, having a lag time of anywhere from 1- 4 years.[125] This can have a significant effect on whether or not a country should be eligible for aid, as is illustrated by Bolivia.[126] When Bolivia was declared eligible to receive MCA funds in November, 2004, the country was deep in a political crisis that "manifested in roadblocks and other forms of civil disobedience in various parts of the country."[127] Clearly the indicators were operating on outdated information at this point. Additionally, required data is not available for all candidate countries. Missing data automatically counts as a failing grade on that selection criteria, thus specially burdening countries for whom particular data is not available.[128]

Another potential criticism of the MCA's indicator system is that it requires countries to score above the median to qualify as opposed to reaching an absolute score.[129] The result of this tactic is that the median will continually rise, making it more and more difficult for under-performing countries to become eligible.[130] In some ways this is both a criticism and an endorsement. After all, if the administration's goals are not only to end poverty but also to provide an incentive for corrupt governments to implement good policies, then inducing competition as to which government can provide the best environment for aid to be effective

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[124] CRS Report for Congress at 37.
[125] *The Millennium Challenge Account: Moving Towards Smarter Aid?* at 31.
[126] *Id.*
[127] *Id.*
[128] CRS Report for Congress at 37.
[129] *Id.* at 6.
[130] *Making the Millennium Challenge Account Work for Africa* at 6.

makes sense. Ultimately, as will be discussed later, this may not be the best tactic for the administration to pursue

Although the indicators clearly are not perfect, they do serve an important purpose – to prevent funds from being given to strategic allies or pet projects where funds will not be best used.[131] USAID in particular has fallen prey to political pressure for aid, which is what the MCA was specifically trying to avoid.[132] In fact, USAID attempted to experiment with quantitative measurements of country performance in the 1980s but was prevented from fully implementing its policy due to congressional interference.[133] These previous experiences with attempts to depoliticize aid provided the impetus to house the MCA in a separate governmental corporation – the MCC – as opposed to making the MCA an offshoot of USAID or under the jurisdiction of the State Department.[134]

The justifications for the creation of the MCC all further the goal of preventing subjectivity from creeping into what will hopefully be a more objective selection process. The foundation of the MCC will also: promote greater efficiency in hiring and firing personnel, unbind the MCA from the constrains of the US Foreign Assistance Act of 1961 like USAID, and hopefully result in the presentation of a fresh face to the world that will gain greater legitimacy for the program and make it easier to attract talented professionals to the job.[135] Many of these rationales seem well thought out. In particular, unburdening the MCC from the constraints of the US Foreign Assistance Act may result in significant returns in efficiency.[136] Among some of the more cumbersome restrictions inflicted on USAID by this legislation include: requirements to

[131] *The Millennium Challenge Account: Moving Towards Smarter Aid* at 29.
[132] *Id.*
[133] *Id.*
[134] *Id.* at 20.
[135] *Id.*
[136] *Id.* at 34.

use US provided goods and services in procurement for the projects, extensive country and sector fund allocations specified by Congress, the inclusion of US federal procurement provisions, prohibitions on countries to whom aid may be delivered and a moratorium on funds used for the purpose of abortions or sterilizations.[137] Although the MCC is still subject to the prohibitions on aid to certain countries and on the use of funds for abortion or sterilizations, the MCC is liberated from the federal procurement guidelines, the requirement to use US provided goods or services and the country and sector congressional earmarks.[138] Thus the MCC should experience gains not only in efficiency but also an improvement in the selection of recipients due to the fact that their selection process will no longer be so hampered by political considerations.

Thus far, evidence has shown that the MCC has experienced significant gains in efficiency over USAID or other donor agencies. In particular, the MCC has taken only 6 months on average to sign compacts with countries that submitted approved programs as opposed to an average of 18 – 24 months for traditional foreign aid institutions.[139] Overhead and monitoring costs have also been reduced to between 9 and 17% of the total cost of the project – another significant gain in efficiency.[140] Both of these gains relate to the MCC's newfound reliance on objectivity and selectivity in its selection process. By being more selective in their process for choosing grant recipients, the MCC is able to choose countries that are best able to handle the funds being given and to present quality proposals for compacts. Additionally, by making the process more objective and removing the country eligibility determination from political bias, the MCC is also able to cut some of the less efficient countries from the proposal process.

[137] *The Millennium Challenge Account: Moving Towards Smarter Aid?* at 34.
[138] *Id.*
[139] *Id.* at 12.
[140] *Id.* at 15.

It should be mentioned that although the MCC has placed a special emphasis on weeding political bias out of the selection process, this outcome is not beyond dispute. In particular, the acceptance of Georgia as an MCA eligible country has caused significant cynicism about the corporation's commitment to remaining apolitical.[141] For fiscal year 2004, the MCC chose to add three countries to the eligibility list in spite of their deviation from the strict criteria – Bolivia, Mozambique and Georgia.[142] Although Bolivia and Mozambique were relatively borderline choices: Bolivia scored *at* the median on the corruption indicator instead of above and Mozambique's inclusion was based on supplemental data which rendered the initial score invalid; Georgia's eligibility remains somewhat mysterious.[143] By all accounts, Georgia's score on the "ruling justly" criteria were well below passing with a score below the median on the corruption indicator and three other "ruling justly" categories.[144] Thus, in spite of the fact that Georgia had recently elected a new government on an anti-corruption platform, many commentators have speculated that Georgia's inclusion was a result of political pressure.[145] This criticism seems particularly well-founded considering that the MCC excluded four counties who actually did meet all of the technical criteria for eligibility in FY 2004 – Bhutan, Mauritania, Vietnam and Guyana, and 10 countries in FY 2005.[146]

An additional critique questioning the MCC's true ability to be apolitical and objective is the make-up of the corporation's board. Currently the board consists of nine individuals: the Secretary of State, the Secretary of the Treasury, the USAID administrator, the US trade representative, the CEO of the MCC (currently John Danilovich) and four non-government

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[141] *A Choosier Approach to Aid* at 2.
[142] CRS Report for Congress at 12.
[143] *Id.*
[144] *Id.*
[145] *Id.*
[146] *Id.*

directors nominated by the President and confirmed by the Senate.[147] One can question whether or not the MCC can remain apolitical when the Secretary of State is chairman of the board.

Lastly, there is some real concern about admittance of the lower middle income countries ("LMICs") to the MCA, particularly in that they may provide a strong incentive for the MCA not to be objective in approving compacts and thus will take away funding from better qualified countries. Considering that many of the LMICs have some access to world financial markets, there is a valid concern that the LMICs may not be the most pressing recipients of the MCA's money.[148] Additionally, the LMICs include countries such as Columbia, Egypt, Jordan, Turkey and Russia, countries whose political clout weighs heavily in Washington, particularly with the State Department.[149] These countries may strain the MCA's use of objective criteria to the breaking point. Indeed, for FY 2007, the MCA has deemed Jordan to be a compact-eligible country in spite of the fact that Jordan may not be the most appropriate country to be given further aid. Jordan is already one of the largest recipients of US foreign aid, receiving $380 million from the US in 2005 alone.[150] Thus, even though Jordan is not a technically inappropriate candidate for the MCA, there is a strong possibility that the funds would have been more needed elsewhere and that this represents only the beginning of the MCC's slide away from a purely objective process to one tinged with political bias.

In spite of these major concerns for the MCA's ability to shield itself from the political pressure so endemic to foreign aid, there remain strong reasons to believe that the MCA's objective indicators and separate corporate status will result in better decision-making. The

[147] *The Millennium Challenge Account: Moving Toward Smarter Aid* at 6.
[148] Lael Brainard, et al., The Other War: Global Poverty and the Millennium Challenge Account 35-36 (Brookings Institution Press 2003).
[149] *Id.*
[150] Sheila Herrling, Steve Radelet, and Sarah Rose, Will Politics Encroach in the MCA FY 2007 Selection Round? The Cases of Jordan and Indonesia; October 30, 2006; pg. 3.

MCA has generally been very cautious about exercising its discretionary powers to render eligible countries that do not meet the standards on their own. In subsequent years the corporation has adhered to the selection criteria more strictly. Perhaps even more telling is the criticism that the decision to include Georgia engendered. The use of objective and readily accessible criteria permitted observers to comment on the MCA's decision and hold them accountable for deviating from the standards. Thus, even though the MCA may not be able to cull political bias entirely from its selection process, at least it must explain its choices and answer for deviating from the intended purpose of the program.

C. Suggestions to Improve the MCA's Methodology

Although there are a number of valid criticisms about the MCA's selectivity methodology, in general the benefits of this new technique seem to outweigh the drawbacks. Several changes could improve on the current situation even further. Specifically, the MCA should consider cutting the LMIC countries and Threshold programs, and contemplate setting hard targets for its selection indicators instead of using the median. Each of these changes would help further focus the MCA's selection criteria, allowing the corporation to get the maximum benefit out of its innovative new tactic and hopefully prompting reform in various countries around the world.

The MCA's original intent was to provide grants of such a large size that they would provoke a real transformation within the donor country. The rationale for this decision seems to have been two-fold: (1) to provide sufficient funds for innovative programs that would have a broad impact; and (2) to create a carrot of sufficient size to prompt reform in governments throughout the world. With the MCA's much-depleted budget its ability to meet either of these rationales is being threatened. In particular because so many of the LMICs already have access to other sources of funding, not to mention private investment, there seems to be little need to create additional scarcity for donations.[151] The threshold program as well, although it is an admirable idea to help countries meet the MCA criteria, only takes away from the ultimate reward. The MCA needs some real foreign aid victories to advertise the benefits of its approach and get greater budgetary support in Congress. Such transformational stories will be easier to come by if the MCA limits its expenditures to low income countries who have already met the criteria – the best candidates for the MCA process.

The MCA should also consider setting particular scores that countries must meet to be eligible instead of relying on the median. As more and more countries improve their scores to meet the MCA's criteria the median will drift further and further up, making it very different for certain countries to ever catch up. The result will be that the same countries are routinely eligible for MCA funds whereas others go without. A better tactic would be to set the requirement of a certain score, giving those countries far below eligibility a better possibility and a better incentive to become eligible for the funds.

Following these suggestions would be in keeping with the MCA's general tactic of using selectivity not only to ensure that aid dollars are used well but also to provide a real incentive for countries to institute reforms.

IV. Conclusion

The MCA has provided an innovative approach to a crucial and frustrating question – why the profusion of dollars spent on foreign aid has not come close to reaching its goal. Although the MCA is not the first organization to try and use selectivity in its approach to foreign aid, it appears to be the most stringent in enforcing its criteria. This coupled with several

[151] CRS Report for Congress at 19.

other aspects of the program – its lessening of political bias through emphasizing objective criteria and the focus on country ownership to aid in the selection process – have made the MCC a unique organization with great potential to be a better method of delivering foreign aid than the previous condition-based method. Possibly the most promising evidence of the benefits of this new approach is in the recent evidence of an "MCA effect" as countries compete for MCA funds. Although it is currently uncertain how strong that effect will be, intuitively, it makes sense that countries will only reform if it is in their best interests. The MCA finally provides an impetus for such a reform. Thus, although the ultimate success of the program will likely hinge on the corporation's ability to diffuse political bias and in the strength of the compact programs the MCC ultimately chooses, the concept of the MCA shows promise. Considering the many failures of the past 50 years, a new approach is badly needed.