

THE OTHER WAR

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*Global Poverty and the
Millennium Challenge Account*

CENTER FOR GLOBAL DEVELOPMENT

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Foreword

The plight of the poorest around the world has been pushed to the forefront of America's international agenda for the first time in many years. The debate triggered by the war on terrorism and its extension to Iraq has focused attention on third-world poverty—even though the links between poverty and terrorism are far from clear—and the HIV/AIDS pandemic is making the challenge of development even more formidable.

In March 2002, in the context of the UN Conference on Financing for Development, President Bush announced his intention to request an increase of \$5 billion a year over current foreign assistance levels (ramped up over three years) through the creation of a new bilateral development program, the Millennium Challenge Account (MCA). To implement the program, the administration subsequently recommended the creation of an independent agency, the Millennium Challenge Corporation (MCC), to allocate the new funding on the basis of objective selection criteria, measuring a nation's commitment to sound economic policy, social investment, and good governance. Not surprisingly, this proposal has sparked a broader debate about U.S. foreign assistance policy.

The proposed MCA represents the largest single-year increase in U.S. bilateral development aid in decades. The increase in

resources for foreign assistance is an important departure from a flagging U.S. commitment to foreign aid, which has been welcomed by the development community, other donors, and officials from poor countries around the world. It presents a rare opportunity to not only create from scratch a new blueprint for distributing and delivering aid effectively but also to strengthen U.S. development policy more generally. The MCA offers a critical opportunity to deliberately shape the face that the United States presents to people in poor nations around the world. Recognizing this as a rare and important opportunity, Brookings and the Center for Global Development jointly assembled a multidisciplinary team of scholars to study how best to fashion the MCA to make it an effective tool in its own right and also for transforming U.S. development policy and reinforcing international aid cooperation.

Not surprisingly, a number of unanswered questions remain as the MCA moves from idea to blueprint to reality. First and foremost is the tension between development and foreign policy objectives. The intent to create a new blueprint for delivering foreign assistance and to depart from an aid track record that is checkered with multiple, often conflicting objectives and myriad actors and directives coincides with renewed interest in foreign assistance as a foreign policy tool in the war on terrorism. Tensions between those two objectives are already evident. The MCA resources are meant to go to the poorest countries—a development objective. But the administration is also proposing that in its third year the MCA provide assistance to somewhat richer countries, such as Colombia and Egypt, where America has particularly important foreign policy objectives. The MCC, which has been given a “pure” development mandate, is to be established independently of the U.S. Agency for International Development (USAID), the federal agency that has international development as its core mandate. The administration proposes that the MCC board be chaired by the secretary of the State Department, which has foreign policy as its primary objective, and not include the head of USAID.

Tension between development and foreign policy objectives is not the only outstanding question. How will the MCA coordinate its efforts with those of other donors, and in particular with new mechanisms for donor coordination established in recent years by the Bretton Woods institutions? What countries will qualify for the MCA, and what criteria will be used to evaluate them? What kinds of programs and policies will be supported? How will the MCC, with its proposed small staff of 100 people, select countries and proposals and manage, monitor, and evaluate annual aid flows of \$5 billion? How will the MCC coordinate with the myriad of existing pro-

grams for developing countries, and particularly with USAID? Will funds and attention going to the MCA be at the expense of bilateral assistance to weaker-performing poor countries? What role will Congress play? More broadly, will the MCC continue operating according to strict development criteria if both budgetary constraints and foreign policy objectives become more pressing in the coming years?

This book—a joint project of the Brookings Institution and the Center for Global Development (CGD)—addresses these questions from a vantage point that bridges the oft-observed divide between policy and operational considerations, between foreign policy and development economics, and between Congress and executive branch. The project was directed by Lael Brainard and authored by Brainard, Carol Graham, Nigel Purvis, and Gayle E. Smith of Brookings, and Steven Radelet of CGD. This book is a companion to *Challenging Foreign Aid: A Policymaker's Guide to the Millennium Challenge Account*, published by CGD and authored by Steven Radelet, which provides an economic analysis of the MCA in the light of lessons regarding the effectiveness of foreign aid in supporting economic growth in poor countries.

The authors of this joint study propose a number of operating principles for the MCC. These include strategies for guiding its coordination with other donors, methods for improving the qualifying criteria for applicant countries, and suggestions for the structure of its board and for the oversight role played by Congress. They also explore the broader questions that the existence of a major new player poses for U.S. assistance policy. The study is intended to inform the public and congressional debates, to provide concrete recommendations for the architects of the MCC, and to engage students and scholars of foreign assistance and global poverty. The authors bring to bear on the topic a range of experience and expertise—from government, academia, the international financial institutions, and the developing world.

The book could not come at a better time, as the public, Congress, the administration, and the wide community of development and foreign policy experts are beginning to engage in an important debate on the future of foreign assistance. For this major new effort in U.S. foreign aid to go forward successfully, the debate must address the tensions and identify the complementarities between development and foreign policy objectives. The authors hope that the book will further the debate in a constructive manner and result in the development of concrete policies for more effective aid.

The authors benefited from the collaboration and expertise of many colleagues throughout the course of the project. At Brookings, Ann Florini

made an important contribution to the manuscript on the appropriate balance between government and civil society, and James Lindsay, Thomas Mann, Susan Rice, Ivo Daalder, and Jim Steinberg were generous with their time and expertise and provided helpful feedback on early drafts. Robert Cavey of the Carnegie Endowment for International Peace was a member of the core group of project advisors and contributed importantly to consideration of the appropriate role for the private sector. The authors are also grateful to Janet Ballantyne, Marc Schneider, George Ingram, Jennifer Windsor, Phyllis Forbes, Paul Oostburg, Mary Locke, Jim Greene, Tony Blinken, Heather Flynn, Dani Kaufmann, Michael Clemens, Carol Lancaster, Tom Carothers, and many others who provided thoughtful suggestions and reflections on what works and what does not in foreign aid. We are grateful to Lant Pritchett, Anne C. Richard, Colin Bradford, and George Ingram for providing thoughtful and constructive comments on the manuscript, which we hope are done justice by the book. Andrew Eggers, Maggie Kozak, Margaret MacLeod, and Shannon Leahy from Brookings and Sabeen Hassanali and Prarthna Dayal from CGD provided excellent research and administrative assistance. We also thank Sheila Herrling from CGD for helpful input and guidance. The project could not have succeeded without Allison Driscoll, who was the invaluable project coordinator and facilitator throughout the entire process. The authors also wish to thank Holly Hammond for excellent (and rapid) editing, Gary Harding for help with the web version, and Janet Walker and Larry Converse of the Brookings Institution Press. The authors collectively remain responsible for the manuscript and its content and any errors or omissions. Not all the authors necessarily agree with all the recommendations.

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