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Making the Millennium Challenge Account Work for Africa

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President Bush has been rightly lauded for his visionary initiative to establish a Millennium Challenge Account (MCA) that would increase U.S. resources directed toward the most promising development investments. The administration's proposal to use a set of publicly available, quantitative indicators to direct assistance to those countries with sound policy environments is a good step towards addressing a longstanding political bias in U.S. foreign aid allocations. But the particulars of the chosen methodology yield results that in large part exclude the poorest countries of sub-Saharan Africa from eligibility—a troubling outcome, since sub-Saharan Africa has the highest concentration of extreme poverty of any region in the world.

Fortunately, it turns out there is a simple way to maintain the MCA's emphasis on a transparent, publicly accessible, and rigorous methodology rather than political discretion while also expanding eligibility for Africa. Why not grade the performance of African governments against their peers in the region rather than on a global basis? By simply applying the administration's own methodology on a regionally specific basis, the number of sub-Saharan African countries that qualify for the MCA with per capita incomes below $1,435 would triple and the population coverage would double.

Over the past decade, the percentage of the population of sub-Saharan Africa living on less than $1 dollar per day has actually increased from 47 percent in 1990 to 49 percent in 1999. There are 41 countries in the region with per capita incomes below $1,435 per year, and twenty-six of these are deemed to be "severely indebted." Yet under the administration's proposed methodology for determining eligibility, just three of the forty-one poorest African countries would qualify for the program in its second year.

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- *A Strategic Vision for Africa: The Kampala Movement*
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It is worth asking the question: is there no simple way to tailor the MCA selection screen to address both merit and need? This question is particularly important in light of the coming budget squeeze on foreign assistance. At a time when the calls on foreign assistance have grown to reflect a country at war and to combat the global HIV/AIDS pandemic, the House of Representatives plans to cut the allocation for foreign operations by $1.7 billion or nearly nine percent below the administration's request. The Senate's allocation falls short of the request by $800 million or 4 percent. These numbers simply do not leave room to address the large new needs for reconstruction in Iraq and Afghanistan, to reward allies, and to fulfill the $3 billion authorized for HIV/AIDS and the $1.3 billion promised for the MCA.

A simple way to maintain the MCA's rigor while also expanding African eligibility is to apply the administration's own methodology on a regional rather than global basis. By doing this, the number of sub-Saharan African countries that qualify for the MCA with per capita incomes below $1,435 would triple from three to nine. The population coverage would more than double from seven percent of the population of the poorest sub-Saharan African countries to sixteen percent. (When countries with higher per capita incomes in the range $1,435 to $2,975 are allowed to compete for MCA funds, South Africa and Namibia are also expected to qualify).

There are strong arguments for evaluating countries on a region-specific basis. The administration has designed its methodology to select countries almost entirely based on relative performance rather than on absolute performance targets. For all but one of the sixteen selection criteria, countries qualify by performing better than the median of the eligible pool. Strong arguments can be made that these relative rankings should be established on a regional basis. Economists highlight the importance for growth of key forces outside the immediate policy control of individual national governments that are common across regions, such as climate, disease, the prevalence of agricultural varieties and natural resources, transportation costs, and trade and currency shocks. Jeffrey Sachs of Columbia University's Earth Institute and David Bloom of Harvard's School of Public Health have made a compelling case that countries in sub-Saharan Africa confront a unique, shared set of challenges. A system of regional comparison would mesh well with the peer-review principles adopted by the New Partnership for African Development and endorsed by G-8 leaders. So why not evaluate individual African nations—or those from Asia, for that matter—against peers contending with similar challenges?

DETERMINING WHO QUALIFIES GLOBALLY

The administration has proposed using "a set of clear and concrete and objective criteria" to determine MCA eligibility. They have identified sixteen indicators in the areas of "Governing Justly," "Investing in People," and "Promoting Economic Freedom" associated with comprehensive and publicly available data series. Under the proposed methodology, countries would be measured relative to other countries in the same per capita income group; qualifying countries must score above the median on three of the six governance indicators, two of the four social investment indicators, and three of the six economic indicators. Countries also must score above the median on the indicator for "Control of Corruption" in order to be eligible.

While the emphasis on objective, quantitative criteria is commendable, problems with the data series and methodology remain. Data for some potentially qualifying countries are incomplete, inaccurate, or outdated, with indicators not reflecting current political and economic events. Some of the indicators proposed are indexes with a high degree of error, which could unfairly disqualify well-performing countries. Most notably, the result of using a system of relative rankings based on medians is that, as country data are updated, the qualifying level for each indicator will be a constantly shifting target. A country that qualifies in one year may find itself disqualified the next, not because its performance has worsened, but rather because its peers have improved.

The administration's methodology groups potentially eligible countries into three income categories. Table 1 (see p. 4) shows the universe of countries eligible to compete for MCA funding based on 2000 income data. The countries are grouped according to income category and region. In the first year, MCA eligibility is limited to those countries that are eligible for assistance from the International Development Association (IDA), the World Bank's lending facility for the poorest countries, which effectively implies a per capita income ceiling of $875 per year (with a few exceptions made for small island economies). In the second year and thereafter, this pool expands to include all countries with per capita incomes up to $1,435 per year, the historical cut-off for IDA assistance, thus adding another thirteen countries. In the third year of the program, the administration proposes adding those countries with per capita incomes between $1,435 and $2,975, the recent upper limit for the World Bank's classification of "lower middle income" countries.

The administration's methodology ranks each country against its peers in the same income pool (as defined above) worldwide. Starting in the second year of the program, all countries with per capita incomes below $1,435, including the IDA-eligible countries, will be evaluated in the same pool. Ghana fails to qualify in the second year as a result of adding the slightly richer countries, even though it would qualify when judged only against its IDA-eligible peers in the first year. Starting with their addition in year three, countries with per capita incomes between $1,435 and $2,975 are not ranked against the lower income group, but instead undergo a separate qualification analysis.

Steven Radelet of the Center for Global Development has undertaken the most comprehensive analysis of the administration's proposed methodology and indicators to date and has derived a list of countries most likely to qualify (see table 2, p.5). (Thomas Palley of the Open Society Institute has proposed creative modifications to the methodology and criteria that would place greater emphasis on governance and democracy.)

"A country that qualifies [for MCA funding] in one year may find itself disqualified the next, not because its performance has worsened, but rather because its peers have improved."

Table 2 shows the countries likely to qualify for the MCA based on the current methodology. As evidenced by these tables, sub-Saharan Africa is vastly underrepresented in the list of countries likely to qualify relative to the number of countries in this region that are eligible to compete.

DETERMINING WHO QUALIFIES REGIONALLY

Determining MCA eligibility on a regional rather than global basis allows for better representation of the poorest nations without any sacrifice of rigor. Using this method, countries are judged only against others in their income group and region, recognizing that performance on the indicators is often influenced by region-specific factors outside the control of governments. African countries committed to reform and good governance may fall short of global medians due to these factors.

We divide eligible countries into regional groupings as defined by the World Bank. As is evident in table 1, sub-Saharan Africa accounts for nearly half of the poorest countries (with per capita incomes less than $1,435)—more than any other region. On the other extreme, the Middle East and North Africa (MENA) region, the Latin America and the Caribbean region, and the Europe and Central Asia region have only a handful of countries each in this income category, so we combine them into one regional grouping. While not wholly consistent, it seems unfair to penalize sub-Saharan Africa because other regions have too few of the poorest countries to conduct a strictly regional analysis. Combining the three smaller regions benefits countries in these regions as well. For example, analyzing Latin America on its own fails to generate any countries that qualify for MCA funds. By combining this region with MENA and Europe and Central Asia, three Latin American countries

Table 1: Countries eligible to compete for MCA funding

Latin America and the Caribbean	Middle East and North Africa	Sub-Saharan Africa		South Asia, East Asia, and Pacific	Europe and Central Asia
COUNTRIES WITH PER CAPITA INCOMES OF LESS THAN $875; IDA-ELIGIBLE					
Bolivia	Djibouti	Angola	Liberia	Afghanistan	Albania
Guyana	Yemen, Rep.	Benin	Madagascar	Bangladesh	Armenia
Haiti		Burkina Faso	Malawi	Bhutan	Azerbaijan
Honduras		Burundi	Mali	Cambodia	Bosnia and Herzegovina
Nicaragua		Cameroon	Mauritania	India	Georgia
		Cape Verde	Mozambique	Indonesia	Kyrgyz Republic
		Central African Republic	Niger	Kiribati	Moldova
		Chad	Nigeria	Lao PDR	Tajikistan
		Comoros	Rwanda	Mongolia	Uzbekistan
		Congo, Dem. Rep.	Sao Tome & Principe	Myanmar	Yugoslavia
		Congo, Rep.	Senegal	Nepal	
		Cote d'Ivoire	Sierra Leone	Pakistan	
		Eritrea	Somalia	Papua New Guinea	
		Ethiopia	Sudan	Solomon Islands	
		Gambia	Tanzania	Sri Lanka	
		Ghana	Togo	Timor Leste	
		Guinea	Uganda	Vanuatu	
		Guinea-Bissau	Zambia	Vietnam	
		Kenya	Zimbabwe		
		Lesotho			
COUNTRIES WITH PER CAPITA INCOMES BETWEEN $875 AND $1,435					
Ecuador	Morocco	Equatorial Guinea		China	Belarus
Paraguay	Syrian Arab Rep.	Swaziland		Philippines	Kazakhstan
	West Bank				Turkmenistan
					Ukraine
COUNTRIES WITH PER CAPITA INCOMES BETWEEN $1,435 AND $2,975					
Belize	Algeria	Namibia		Fiji	Bulgaria
Colombia	Egypt, Arab Rep.	South Africa		Maldives	Macedonia, FYR
Dominican Republic	Iran, Islamic Rep.			Marshall Islands	Romania
El Salvador	Jordan			Micronesia, Fed. Sts.	Russian Federation
Guatemala	Tunisia			Samoa	Turkey
Jamaica				Thailand	
Peru				Tonga	
St. Vincent & Grenadines					
Suriname					

Source: World Bank, "World Development Indicators," 2002. Data are for 2000.

would become eligible. Similarly, countries with incomes between $1,435 and $2,975 are not numerous enough to merit a regional analysis.

Table 2: Eligibility outcomes under the administration's methodology			
	Countries with per capita incomes of less that $875 Year One	**Countries with per capita incomes of less than $1,435 Year Two**	**Countries with per capita incomes from $1,435-$2,975 Year Three**
Eligible Countries[a]	Armenia, Bhutan, Bolivia, Ghana Honduras, Lesotho Mongolia, Nicaragua, Senegal, Sri Lanka, Vietnam	Armenia, Bhutan Bolivia, Honduras Lesotho, Mongolia Nicaragua, Philippines Senegal, Sri Lanka Swaziland, Vietnam	Belize, Bulgaria, Jordan Namibia, South Africa, St. Vincent and the Grenadines
Percent of population of sub-Saharan African countries in income group covered[b]	10.2	7.0	100.0
Percent of population of all sub-Saharan Africa covered[b]	9.4	6.5	6.7

a. Source: Steven Radelet, *Challenging Foreign Aid: A Policymaker's Guide to the Millennium Challenge Account* (Center for Global Development, 2003); Lael Brainard, Carol Graham, Nigel Purvis, Steven Radelet, and Gayle E. Smith, *The Other War: Global Poverty and the Millennium Challenge Account* (Brookings/Center for Global Development, 2003)
b. Source: World Development Indicators 2003 population data.

Table 3 shows outcomes when the MCA eligibility analysis is conducted on a regional basis. In comparing these results to those generated by a global analysis, we use the outcomes shown for the entire group of countries with incomes below $1,435. A different group of countries qualifies in the global analysis when only IDA-eligible countries are considered, but these represent a one-year selection, and it is unclear how qualifying countries that are subsequently displaced by the slightly higher income countries in the second year are to be handled.

While outcomes for all other regions are broadly consistent with the global analysis, with a few exceptions discussed below, outcomes for sub-Saharan Africa are significantly improved, with three times as many of the poorest countries qualifying. It should be noted that the inclusion of Cote D'Ivoire in the qualifying group demonstrates that the data do not yet reflect recent political instability there. In such cases, the MCA Board would likely override the strictly quantitative qualification analysis and exclude the country based on political instability. On the other hand, it would also make sense for the Board to use its discretion to qualify countries such as Togo or Cape Verde, which fail the quantitative analysis solely because their scores on civil liberties and trade policy respectively fall at, rather than above, the median. Alternatively, given that several of the indicators are updated frequently, it is also possible that countries such as Togo and Cape Verde, which narrowly fail to qualify in the current analysis, will become eligible by the time the MCA is up and running. Therefore, the outcomes for sub-Saharan Africa's country and population coverage are likely to remain relatively robust, even as adjustments are made to account for recent economic and political events in the region.

Table 3 also makes clear that corruption is a key factor is disqualifying many of the more populous sub-Saharan African countries. Kenya, Malawi, Nigeria, Tanzania, and Uganda all fail to qualify in the regional analysis based solely on their scores on the corruption indicator, which range from nearly missing the median to

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downright grim. Together, these five countries account for 37 percent of the population of the poorest sub-Saharan African nations. Interestingly, many of these countries perform very well in all other classes of indicators, suggesting a role for targeted assistance in tackling corruption. For example, Kenya's score on corruption, at 0.11, is well below the regional median of 0.23, placing it in the company of troubled states like Sudan. The nation's current planning minister has estimated that Kenya's economy lost as much as $1 billion per year under the twenty-four-year rule of former President Daniel Arap Moi. Despite this huge drain on the economy, the country still performs well in all other MCA areas, passing three of the six governance criteria, three of four social investment categories, and four of six economic indicators. Kenya's new president, Mwai Kibaki, was elected on an anti-corruption platform, vowing sweeping governmental reforms, including the passage of new anti-corruption laws. Only time will tell if Kibaki makes good on these promises. Malawi, Uganda, and Tanzania similarly perform well in most areas except corruption, exceeding the requirements for each of the three sectors but missing the corruption mark with scores of 0.20, 0.19, and 0.15, respectively. Malawi, whose score is close to the median, has recently undertaken efforts, with assistance from Britain, to strengthen the country's Anti-Corruption Bureau. In a country where democratic institutions are weak and political opposition fragmented, prospects for advancement of anti-corruption efforts could hinge on the outcome of presidential elections in 2004. Nigeria's overall performance is weaker, but the country would still qualify for MCA funds if not for its dismal score on corruption, which

Table 3: Eligibility outcomes for regional peer ranking methodology

Countries that...	Global Ranking[a]	Regional Ranking: Sub-Saharan Africa[b]	Regional Ranking: South Asia, East Asia, and Pacific	Regional Ranking: MENA, Latin America, Europe and Central Asia	Global Ranking
	Per capita income below $1,435	Per capita income below $1,435	Per capita income below $1,435	Per capita income below $1,435	Per capita income $1,435 to $2,975
Qualify Outright	Armenia Bhutan Bolivia Honduras Lesotho Mongolia Nicaragua Philippines Senegal Sri Lanka Swaziland Vietnam	Benin Burkina Faso Cote D'Ivoire Gambia Ghana Lesotho Mauritania Senegal Swaziland	Mongolia Philippines Sri Lanka	Armenia Bolivia Honduras Nicaragua	Bulgaria Jordan Namibia South Africa St. Vincent & Grenadines
Qualify if Median Counted	Cape Verde Gambia Ghana Guyana	Cape Verde Togo	Bhutan	Djibouti Guyana Yugoslavia	Peru
Fail due to Corruption	Bangladesh Ecuador Malawi Moldova Paraguay Ukraine	Kenya Malawi Nigeria Tanzania Uganda	Vietnam	Albania Ecuador Ukraine	
Disqualified by Statute	China Syria		China	Syria	

a. Source for global results: Radelet (2003); Brainard et al (2003).
b. Source for regional results are authors' calculations based on same data series, some of which have been updated as new data has become available.

places it in the bottom three percent of the 195 countries ranked by the World Bank.

Mozambique and Zambia, which also fail the corruption hurdle, would otherwise qualify but for being at, rather than above, the median on a single indicator each. Targeted efforts by international donors and local partnerships to strengthen democratic institutions, improve mechanisms for monitoring elections, and control corruption could help bring these countries into the fold of the MCA, dramatically extending the reach of the program in Africa.

Table 4: Median scores for potentially eligible countries

	Per capita incomes below $1,435						Per capita incomes between $1,435 and $2,975
	Global	Sub-Saharan Africa	South Asia, East Asia, Pacific	Middle East, North Africa	Latin America, Caribbean	Europe, Central Asia	Global
Number of Countries in Group	87	41	20	5	7	14	28
Corruption							
Control of Corruption (0 to 1, 1=best)	0.24	0.23	0.35	0.32	0.25	0.20	0.49
Rule of Law							
Rule of Law (0 to 1, 1=best)	0.25	0.27	0.34	0.44	0.32	0.18	0.47
Voice and Accountability (0 to 1, 1=best)	0.31	0.24	0.34	0.22	0.47	0.24	0.54
Government Effectiveness (0 to 1, 1=best)	0.24	0.22	0.36	0.17	0.18	0.21	0.49
Civil Liberties (1 to 7, 1=best)	4.00	5.00	4.00	5.00	3.00	4.50	3.00
Political Rights (1 to 7, 1=best)	4.00	5.00	3.50	5.00	3.00	5.00	2.00
Social Investment							
Immunization Rate: DPT and Measles	72.50	57.75	72.00	85.00	85.00	96.00	89.00
Primary Education Completion Rate	59.30	42.27	70.00	56.80	71.99	88.14	91.88
Public Primary Education Spending, % of GDP	1.20	1.45	1.10	2.30	2.00	1.30	1.50
Public Health Spending, % of GDP	1.86	2.24	1.36	1.85	3.03	2.78	2.99
Economic Management							
Country Credit Rating	18.20	17.70	25.00	35.65	24.55	17.45	38.05
Inflation*	4.40	3.75	4.86	1.60	7.70	5.56	6.08
Regulatory Quality (0 to 1, 1=best)	0.26	0.27	0.26	0.23	0.40	0.23	0.53
Budget Deficit, 3-Year Average	-4.60	-4.80	-5.00	-0.98	-4.13	-1.24	-2.30
Trade Policy (1 to 5, 1=best)	4.00	4.00	5.00	4.00	3.00	4.00	4.00
Days to Start a Business	63.00	57.00	65.00	62.00	97.00	62.00	48.50

*Inflation is the single indicator for which the administration has proposed an absolute rather than relative ranking.
Source: Radelet (2003); Brainard et al (2003) and authors' calculations.

The differences between the global and regional country rankings is illuminated by examining variations in the median scores at the regional level. Table 4 compares the median score for each of the indicators for the global analysis with each of the regional groupings. As shown in table 4, the Asian regional median for corruption is substantially higher than the global median and is the highest of all regional medians for this indicator. This explains why Vietnam, for example, which qualifies in the global analysis, fails to qualify in the Asian regional grouping, due to its relatively poor performance on combating corruption. Sub-Saharan Africa performs far worse than Asia on corruption but better than Europe and Central Asia and comparably to Latin America.

Interestingly, while sub-Saharan Africa performs poorly on most of the indicators of governance and economic management when compared to the best performing region for each indicator, its performance is not noticeably poor in relation to all

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other regions. Social investment is the one category where the performance of sub-Saharan Africa is noticeably weak: while the medians on public health and education spending in sub-Saharan Africa are actually higher than the global medians, the medians for health and education outcomes (immunization and primary school completion rates) are substantially below all other regions. One possible explanation for these results is the high burden of infectious disease in sub-Saharan Africa, particularly HIV/AIDS and malaria, which consume huge chunks of public health budgets and also take a heavy toll on the primary education system.

CONCLUSION

In announcing the Millennium Challenge Account, President Bush heralded the program as a revolutionary new way to provide assistance to the most deserving and neediest countries and specified Africa as a region where this new type of funding could generate positive results. Yet the administration's proposed methodology for selecting MCA recipients excludes all but a handful of the countries of sub-Saharan Africa, home to many of the neediest countries in the world. While critics of aid are quick to point out the millions of dollars that have been squandered on the continent's corrupt regimes in the past, it is time to recognize and reward the often painful political and economic reforms many nations throughout the region have undertaken. By bringing more sub-Saharan African countries into the fold of the MCA, the United States can show other countries in the region that these efforts are not in vain, thereby providing concrete incentives for reform. The qualification process for the MCA should be adjusted to account for the unique challenges faced by this and other regions. By judging countries against their regional peers, the MCA can better meet the goal of helping the neediest without sacrificing its core focus on rewarding performance.

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