

## **The Millennium Challenge Account**

President Bush called for “a new compact for global development, defined by new accountability for both rich and poor nations alike. Greater contributions from developed nations must be linked to greater responsibility from developing nations.” The President pledged that the United States would lead by example and increase its core development assistance by 50 percent over the next three years, resulting in an annual increase of \$5 billion by FY 2006.

### **Background**

At the Inter-American Development Bank on March 14, 2002 President Bush called for “a new compact for global development, defined by new accountability for both rich and poor nations alike. Greater contributions from developed nations must be linked to greater responsibility from developing nations.” The President pledged that the United States would lead by example and increase its core development assistance by 50 percent over the next three years, resulting in an annual increase of \$5 billion by FY 2006. These funds will go into a new Millennium Challenge Account (MCA). Because sound policies are an essential condition of development, the President announced that the Millennium Challenge Account will be “devoted to projects in nations that govern justly, invest in their people and encourage economic freedom.”

### **Administration**

The MCA will be administered by a new government corporation designed to support innovative strategies and to ensure accountability for measurable results.

- The Corporation will be supervised by a Board of Directors composed of Cabinet level officials. The Secretary of State will be the Chairman of the Board.
- The CEO of the Millennium Challenge Corporation will be nominated by the President and confirmed by the Senate.
- Personnel will be drawn from a variety of government and non-government agencies and would serve limited-term appointments.
- The Corporation will be designed to make maximum use of flexible authorities to optimize efficiency in contracting, program implementation, and personnel.

## Country Eligibility

Funding for the MCA will increase over three years to \$5 billion per year in FY 2006. The number of countries eligible to compete for funding will also increase over this period. Specifically:

- In FY'04, the first year of MCA operation, countries eligible to borrow from the International Development Association (IDA), and which have per capita incomes below \$1,435, (the historical IDA cutoff) will be considered.
- In FY'05, all countries with incomes below \$1,435 will be considered.
- In FY'06, all countries with incomes up to \$2,975 (the current World Bank cutoff for lower middle income countries) will be eligible.
- Country eligibility will be reviewed by the Board.
- Countries prohibited from receiving assistance by current statutory restrictions will not be eligible.

*"We must tie greater aid to political and legal and economic reforms. And by insisting on reform, we do the work of compassion. The United States will lead by example. I have proposed a 50-percent increase in our core development assistance over the next three budget years. Eventually, this will mean a \$5 billion annual increase over current levels.*

*These new funds will go into a new Millennium Challenge Account, devoted to projects in nations that govern justly, invest in their people, and encourage economic freedom."*

-- President George W. Bush, Monterrey, Mexico, March 22, 2002

## Performance Indicators

In his March 14 speech President Bush directed that countries be identified based on "a set of clear and concrete and objective criteria" that would be applied "rigorously and fairly." The President stated that the Millennium Challenge Account will "reward nations that root out corruption, respect human rights, and adhere to the rule of law... invest in better health care, better schools and broader immunization... [and] have more open markets and sustainable budget policies, nations where people can start and operate a small business without running the gauntlets of bureaucracy and bribery."

The following 16 indicators (with sources), chosen because of the relative quality and objectivity of their data, country coverage, public availability, and correlation with growth and poverty reduction, will be used to assess national performance relative to governing justly, investing in people, and encouraging economic freedom.

### Governing Justly:

- Civil Liberties (Freedom House)
- Political Rights (Freedom House)
- Voice and Accountability (World Bank Institute)
- Government Effectiveness (World Bank Institute)
- Rule of Law (World Bank Institute)
- Control of Corruption (World Bank Institute)

### Investing in People:

- Public Primary Education Spending as Percent of GDP (World Bank/national sources)
- Primary Education Completion Rate (World Bank/national sources)

- Public Expenditures on Health as Percent of GDP (World Bank/national sources)
- Immunization Rates: DPT and Measles (World Bank/UN/national sources)

Promoting Economic Freedom:

- Country Credit Rating (Institutional Investor Magazine)
- Inflation (IMF)
- 3-Year Budget Deficit (IMF/national sources)
- Trade Policy (Heritage Foundation)
- Regulatory Quality (World Bank Institute)
- Days to Start a Business (World Bank)

### **Performance Assessment**

The indicators will be used to identify better performing countries. Because a straight ranking determined by adding together the scores for all sixteen indicators might allow exceptional performance in some areas to outweigh dismal performance in others, countries will qualify as better performers only if they demonstrate commitment in all three policy areas. Accordingly:

- To qualify as a better performer a country would have to score above the median on half of the indicators in each of the three policy areas.
- Because scores correlate with income, separate competitions will be run for countries with incomes below \$1,435 and those with incomes between \$1,435 and \$2,975.
- This methodology:
  - Assures that countries are committed in all three policy areas;
  - Allows countries to precisely identify areas needing improvement; and
  - Limits bias against low income countries.
- The MCA is intended to make substantial new financial resources available to countries. Given this commitment, and the link between financial accountability and success, countries failing to perform above the median on the corruption indicator will be ineligible, absent material change in their circumstances.

### **Final Selection**

Qualifying as a better performer will not guarantee MCA support. There may be gaps or lags in the data, or trends not reflected in the data, which may be material for assessing performance. The MCA Board of Directors will make a final recommendation to the President. In so doing, the Board will be:

- Guided by country performance on the indicators;
- Empowered to take account of data gaps, lags, trends, or other material information, including leadership, related to economic growth and poverty reduction; and
- Encouraged to identify for special transition support a small number of countries that barely miss the list of better performers. Regular development assistance can be made available to improve their chances in future competitions.