

# The Millennium Challenge Account: A New Vision for Development



A Policy Paper from InterAction

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# Foreword

**T**hese recommendations on the creation and implementation of the Millennium Challenge Account are offered by InterAction, the largest alliance of U.S.-based international development and humanitarian nongovernmental organizations. With more than 160 members, both faith-based and secular, operating in virtually every developing nation, we work to overcome poverty, exclusion and suffering by advancing social justice and basic dignity for all.

This paper offers a set of recommended guidelines for the design and implementation of the Millennium Challenge Account for overseas development, announced by President Bush in March 2002. The paper was developed through consultations with our membership. We hope it will serve as an important resource for policymakers as they craft this new initiative. Our InterAction community looks forward to an open and constructive ongoing dialogue with the Administration and the Congress on the Millennium Challenge Account in the months ahead.

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# Executive Summary

The Millennium Challenge Account (MCA) presents a unique moment to fundamentally transform U.S. development policy and maximize its impact. Success of the MCA will have a critical effect on the way development is carried out in the years to come by the United States and other donor nations.

The purpose of the MCA should be to demonstrate how poverty can be reduced and the Millennium Development Goals (MDGs) can be met through the right mix of good policies, sufficient resources, measurable goals, coordination among donors, effective innovative delivery mechanisms, and the program ownership and participation of developing nations. Rich and poor countries alike must make a commitment to reform, and to hold themselves accountable for results.

Although the Millennium Challenge Account is a significant step forward, it is just one tool to stimulate broad-based economic growth and prosperity in developing countries. To leverage the Millennium Challenge Account, a comprehensive U.S. development strategy should be designed. It should have clear goals, realistic timetables, and sufficient resources for meeting the MDGs through programs of assistance, trade and economic policies, debt relief and private investment flows.

The debate over the Millennium Challenge Account has only begun, and the broader question, how it helps redefine U.S. development policy, will not be answered by a single paper any more than it will be answered by a single meeting. Rather, the solutions will be multi-layered and subject to alterations until the right fit is achieved. This paper, which includes key design and implementation guidelines, should be viewed in the same way, as an initial framework for policymakers designing the Millennium Challenge Account, and positioning it in the broader mosaic of an overarching foreign policy.

## **Summary of Key Guidelines for the Millennium Challenge Account**

### ***Focus***

- ◆ Funds from the new account should be used to advance the Millennium Development Goals.
- ◆ Funds from the new account should focus on the poorest countries.


### ***Eligibility***

- ◆ Eligibility criteria should serve as an incentive, rather than a reward, for good performance.
- ◆ The impact of the MCA will be closely related to the level of funding provided for a country, which is why there should be a limited number of nations that receive funding each year.

### ***Implementation and Administration***

- ◆ Developing countries should be partners in the development and implementation of the new account, and broad participation of the private sector and civil society should be evident throughout.
- ◆ Assistance under the new account should not be provided exclusively to national governments.
- ◆ Benchmarks for success should be built into the Millennium Challenge Account.
- ◆ Interagency coordination will be critical to the success of the MCA, and a lead agency should be designated to administer the distribution of funds.
- ◆ Improved donor coordination and policy coherence are crucial if the MCA is to succeed and the MDGs are to be met.

### ***The Broader Framework***

- ◆ Because only a limited number of countries will qualify for assistance under the Millennium Challenge Account, it is vital that the new account complement other development programs.
- ◆ Funds from the Millennium Challenge Account must be provided as an addition to, not a substitute for, other development and humanitarian programs.
- ◆ There must be strong linkage to humanitarian and refugee assistance efforts. 

# **The Millennium Challenge Account: A New Vision for Development**

**I**n March 2002, the International Conference on Financing for Development in Monterrey, Mexico, brought world leaders together to discuss ways of building a more prosperous world community. They sought commitments by both rich and poor nations to help reach a set of internationally-agreed targets for the halving of extreme poverty around the world and for substantial improvements in health and education in developing countries by 2015. Endorsed by 189 countries at the September 2000 U.N. Millennium General Assembly, collectively these are known as the Millennium Development Goals (MDGs).

At the time of the Monterrey conference, President Bush indicated America's support for these goals. He reaffirmed the commitment of the United States to bring hope and opportunity to the world's poorest people and pledged new resources to fight world poverty. The funds would be provided through a "Millennium Challenge Account," which would increase U.S. development assistance over three years, leading to a \$5 billion annual increase above current levels by 2006.

InterAction applauds President Bush's commitments and pledges to work in partnership to make the MCA a success. InterAction, the largest alliance of U.S.-based international development and humanitarian nongovernmental organizations, with 160 members operating in virtually every developing country with local partners, is uniquely positioned to offer guidance on maximizing the new account's effectiveness in the fight against poverty.

## **A New Vision for Development**

The Millennium Challenge Account (MCA) presents a unique moment to fundamentally transform U.S. development policy and maximize its impact. Success of the MCA will have a critical effect on the way development is carried out in the years to come by the United States and other donor nations.

The purpose of the MCA should be to demonstrate how poverty can be reduced and the Millennium Development Goals can be met, through the right mix of good policies, sufficient resources, measurable goals, coordination among donors, effective innovative delivery mechanisms, and the program ownership and participation of developing nations. Rich and poor countries alike must make a commitment to reform, and to hold themselves accountable for results.

Although the Millennium Challenge Account is a significant step forward, it is just one tool to stimulate broad-based economic growth and prosperity in developing countries. To leverage the Millennium Challenge Account, a comprehensive U.S. development strategy should be designed. It should have clear goals, realistic timetables, and sufficient resources for meeting the MDGs through programs of assistance, trade and economic policies, debt relief, and private investment flows. It should identify ways to reach people in the countries that will not be eligible to receive assistance under the new account, and address such complex issues as how the MDGs can be met by finding new ways to deal with trade barriers, debt reduction and tied aid. To be successful, the MCA must be placed within this larger strategy for development.

President Bush made another pledge at the Monterrey conference, to “jump-start” the Millennium Challenge Account by “working with Congress to make resources available over the next 12 months for qualifying countries.” Initiating the MCA in FY 2003 will illustrate on the part of President Bush and his administration an understanding that there is no time to waste on beginning the implementation of this initiative. But a down payment on the promise of the MCA should not come at the expense of other critical assistance programs, which is why funds to jumpstart the program should be added to — not deducted from — existing humanitarian and development accounts.

The debate over the Millennium Challenge Account has only begun, and the broader question, how it helps redefine U.S. development policy, will not be answered by a single paper any more than it will be answered by a single meeting. Rather, the solutions will be multi-layered and subject to alterations until the right fit is achieved. This paper, which includes key design and implementation guidelines, should be viewed in the same way, as an initial framework for policymakers designing the Millennium Challenge Account, and positioning it in the broader mosaic of an overarching foreign policy.

As the Millennium Challenge Account evolves, questions about specific aspects of legislation and implementation that are not addressed in these initial recommendations will undoubtedly arise. While InterAction plans to actively monitor the way in which the MCA is shaped, we feel our community being one of the trusted partners in the entire process will be a key ingredient to its ultimate success. We look forward to providing additional information and guidance as the process moves ahead. Some of the member organizations of InterAction also will be submitting their own policy papers in the coming weeks, with recommendations based on their particular areas of expertise.

## **Key Guidelines for the Millennium Challenge Account**

In defining and implementing the Millennium Challenge Account, decisionmakers should follow 12 key guidelines.

### **Focus**

#### **1. Funds from the new account should be used to advance the Millennium Development Goals.**

Development has worked where there has been a sharp focus on poverty reduction and on specific programs and policies that address the MDGs. Countries requesting assistance should develop their own strategies to address these goals.

#### **2. Funds from the new account should focus on the poorest countries.**

Although there are desperately poor people even in middle- and high-income countries, the Millennium Challenge Account should focus on the countries with the lowest per capita incomes — those eligible to borrow from the International Development Association.

## **Eligibility**

### **3. Eligibility criteria should serve as an incentive, rather than a reward, for good performance.**

President Bush said that for a nation to participate in the MCA it should show evidence of ruling justly, investing in the health and education of its people, and encouraging economic freedom.

While it makes sense to focus on countries that fully meet these criteria, setting the bar too high could further alienate those facing the greatest challenges. If only the best performers are eligible to receive assistance, then aid will go to those who least need it. Many countries, particularly those in Africa, will once again be left behind. At the same time, if eligibility criteria are not sufficiently rigorous, there is a danger that recipients will be chosen for political reasons.

Assuming that the selected countries truly meet these criteria, and assuming that funds are used only to advance the Millennium Development Goals, Congress should provide the kind of flexibility in programming that enables quick and effective obligation of funds. If additional earmarks, restrictions and conditions are imposed, important opportunities for cooperation will be missed, and the transforming effect of the Millennium Challenge Account will have been negated.

Elaborating on the president's eligibility criteria, recipient countries should have demonstrated a commitment to, and should be taking steps toward:

- ◆ Good governance for all of their people, including the poor, through expanding democratic participation, rooting out corruption, upholding human rights, encouraging a free press, protecting and treating displaced people, refugees and asylum seekers fairly, advancing opportunities for women, encouraging the development of civil society, and adhering to the rule of law;
- ◆ Investing in the health and education of their people, with careful attention to the needs of women and girls, through budgetary policies that seek to develop human capacity and build sustainable development;
- ◆ Economic policies that foster enterprise development, private investment, poverty reduction and prosperity, while taking into account differential impacts on women and men.

### **4. The impact of the MCA will be closely related to the level of funding provided for a country, which is why there should be a limited number of nations that receive funding each year.**

For the MCA to be successful, allocations from the new account must be large enough to make a real impact on the lives of large numbers of people by leveraging the kinds of policy changes and resource commitments that will make the impact significant.

## **Implementation and Administration**

### **5. Developing countries should be partners in the development and implementation of the new account, and broad participation of the private sector and civil society should be evident throughout.**

Once nations have been found eligible for funding, allocations from the Millennium Challenge Account should be made in response to comprehensive national plans or proposals from the developing countries.

Rather than asking a country to produce an entirely new strategy for assistance, a proposal should be based on a nation's own national development strategy, such as the World Bank and IMF-initiated Poverty Reduction Strategy Papers (PRSPs). To date, however, the PRSP process has not been consistently open or accountable and, in some cases, it has been conducted without the participation of women and civil society organizations. Yet, the benefits of executing the PRSP process as envisioned could produce such clear benefits as local ownership, donor coordination, and policy coherence.

A recipient's proposal should identify the programs and projects for which it is seeking assistance, describe specific development goals and targets to be achieved, and provide measurable indicators of success. These plans should detail the involvement and participation of other donors, host governments (local and national), private businesses, civil society groups and nongovernmental organizations. This will help ensure accountability, transparency and local ownership. In turn, the MCA would foster donor coordination and private-public partnerships, while ensuring that recipient countries assume responsibility for successful implementation of the programs.

## **6. Assistance under the new account should not be provided exclusively to national governments.**

In addition to governments, other channels should be used for the implementation of the MCA, including nongovernmental organizations, civil society groups, regional and local governments, international organizations, or multilateral development banks. In these cases, such entities should be eligible to receive funds directly from the new account, as appropriate.

While part of the purpose of the Millennium Challenge Account is to strengthen governments that are undertaking the right combination of policies, many of them are not yet able to provide adequate monitoring and controls over funds. Moreover, working through humanitarian, developmental and civic organizations, which have built relationships of trust and respect with intended beneficiaries in local communities, is essential to maximizing aid impact and ensuring it reaches people who need it.

It should be made clear, however, that funds from the MCA will not be used to meet ongoing U.S. commitments to international institutions. Further, since one of the greatest challenges to successful development has been the overhang of crippling debt, funds from the account should be provided only in the form of grants, not loans.

## **7. Benchmarks for success should be built into the Millennium Challenge Account.**

To determine effectiveness and ensure accountability, clear indicators of success need to be established for programs at the country level and for the overall MCA. The assistance targets should be part of the conditions for the grant, and they should be agreed upon by all parties. A certain amount of flexibility should be factored into the measurements of success for any program, but not so that it compromises accountability.

Because broad-based economic growth and social development take time, the selection of indicators and measures should be realistic and thought of as intermediate steps. For example, investments in the health and education of a population may take a generation or more to "pay off" in terms of productivity and earnings.

Technical assistance should be available to help countries devise indicators of success and measure results. The MCA should make a special effort to help strengthen local capacity in evaluation and monitoring skills and tools, both among governmental personnel and within civil society.

Just as recipients will be held accountable for meeting their goals under the MCA, industrialized nations should be held accountable for meeting their commitments to broader development targets embodied in the Millennium Development Goals. To that end, a system should be devised for measuring how the success of the MCA and other U.S. development programs contribute broadly to the MDGs.

## **8. Interagency coordination will be critical to the success of the MCA, and a lead agency should be designated to administer the distribution of funds.**

Ensuring that the funds are spent accountably and that the goals or benchmarks are met will require expertise in all aspects of political, social and economic development, reflected in the involvement of several federal agencies or offices.

Once decisions on criteria and country eligibility are made at the interagency level, an agency with a commitment to poverty reduction, experience in conducting successful development projects, and personnel based in recipient countries will be needed to actually administer the account. Given the mission of the MCA, the current structure of the U.S. government, and the bureaucratic difficulties of building a new entity to manage development, the U.S. Agency for International Development (USAID) is well positioned to administer the program. Since a large infusion of aid could overwhelm USAID's current system, it would likely need to establish a separate implementing office.

If the intention of the Millennium Challenge Account is to reshape the way in which the U.S. government views, and conducts, development assistance, then the tools and methods employed for these tasks must also change. The agency should also have procedures and practices that support creativity, innovation, flexibility and quick response to ensure that funds from the account are programmed effectively and expeditiously.

Further, additional funds should be made available to cover administrative expenses of the administering agency. Costs such as salaries, operating expenses, evaluation and monitoring, and technical assistance to meet and measure criteria can constitute a sizeable percentage of the grant value.

## **9. Improved donor coordination and policy coherence are crucial if the MCA is to succeed and the MDGs are to be met.**

One of the reasons that assistance programs have not been more effective in the past is that donor countries fail to agree on common goals and objectives, standards, and requirements. Each donor, bilateral and multilateral, requests different types of information and documentation from the recipient government, while recommending different policies and imposing different types of conditionality. There are gaps and contradictions as well as duplication and overlap, leaving even the most dedicated reformers without viable options. These shortcomings could be alleviated by using the Millennium Development Goals as a common set of objectives and a country's national development strategy as the agreed blueprint.

At the Monterrey conference, nations recognized that aid alone, no matter how well designed, will not solve the problem of global poverty. Real progress requires a combination of efforts in both donor and recipient countries. Developing countries must adopt policies to mobilize domestic resources, reduce corruption, and attract private investment. Industrialized nations must broaden access to their markets, help resolve debt crises and improve stability of global and regional financial structures. Broad-based economic growth, which can only take root in a conducive policy environment, ultimately is the most effective means of reducing poverty and increasing standards of living.

## **The Broader Framework**

### **10. Because only a limited number of countries will qualify for assistance under the Millennium Challenge Account, it is vital that the new account complement other development programs.**

Unfortunately, many of the countries in which poverty is most deeply entrenched and which pose the greatest potential threats to U.S. security will not qualify for assistance under the new account. People will be overlooked in failed states that are unable to provide basic human services, the pariah nations that provide haven for international outlaws, and the authoritarian regimes that engender civil unrest and unleash aggression against their neighbors.

While good governance is essential for sustained economic growth, discrete development programs to build self-sufficiency can be successful in almost any environment. In states where the governments are not effective development partners, assistance can be provided through local civil society groups and international nongovernmental organizations. Incipient democratic movements and economic reformers can be strengthened with technical and material assistance. Small businesses and microenterprises can be encouraged through access to credit. By building human capital, such programs empower individuals to meet their own basic needs and lay the groundwork for future growth.

### **11. Funds from the Millennium Challenge Account must be provided as an addition to, not a substitute for, other development and humanitarian programs.**

Increased support should also be directed to existing accounts, including Development Assistance, Child Survival and Health, International Disaster Assistance, Transition Initiatives, Migration and Refugee Assistance, Emergency Refugee and Migration Assistance, and International Organizations and Programs.

Only a small proportion of overall U.S. foreign assistance currently goes to the poorest people and the poorest countries. If the Millennium Development Goals are to be met, then all U.S. development assistance must be increased and sharpen its focus on building prosperity from the bottom up. This means expanding access to education, health care, jobs, technology and credit, as well as broadening democratic participation, combating corruption and promoting equality before the law.

### **12. There must be strong linkage to humanitarian and refugee assistance efforts.**

There is a continuing need to mitigate the number and effects of natural and human-caused disasters, as well as to strengthen the protection of civilians in complex emergencies. A priority must be placed on creating an environment in which refugees and displaced persons return voluntarily to their homes in safety and dignity.

Development does not occur in a vacuum. It cannot be sustained when people are forced to flee their homes due to war, famine or natural disaster. Even in countries where development is on track, extended droughts, floods, earthquakes, and conflicts that spill over from neighboring states can arrest progress. Development assistance cannot replace refugee and disaster aid, nor can it succeed without them.


Americans are a caring and giving people, who consistently support giving life-saving assistance and protection to refugees and displaced people, wherever they may be, and helping them be resettled. Development and humanitarian assistance need to be more closely aligned. In that way, humanitarian interventions provide a foundation for development and prevent disasters from destroying development gains.

## **Conclusion**

Announcing the initiative for a Millennium Challenge Account was a significant first step that has helped to galvanize support for global poverty reduction and focus attention on the Millennium Development Goals. The real test now, however, is designing a program that will meet these goals and ensure that the promised resources materialize. Reaching the MDGs will require the combined efforts of the U.S. and other donor governments, international financial institutions, private businesses and nongovernmental organizations, in developing as well as developed countries.

Over the many years in which InterAction members have carried out humanitarian and development projects around the world, they have learned valuable lessons about what works and why. Although there have been some critiques of development assistance, there have been major successes and breakthroughs already achieved.

With the help of foreign assistance, adult illiteracy in developing countries fell from 47 percent in 1970 to 26 percent in 1998; smallpox was eliminated from the world in 1977; life expectancy in poor countries has risen from 45 to 64; the number of people living below the poverty line has fallen by about 200 million, while the world's population has grown by 1.6 billion; malnutrition has declined by 17 percent over the last decade; maternal deaths were reduced by 12 percent between 1990 and 1995; 55 more democratic governments have been elected over the past 14 years; and just last year, catastrophic famines were averted in Ethiopia and Afghanistan.

Americans can be proud of what their tax dollars have achieved around the world. The Millennium Challenge Account offers a valuable opportunity to put our knowledge and values into action. It can serve to leverage more effective and coherent development overall. 

# InterAction Member Organizations

Academy for Educational Development  
ACCION International  
ACDI/VOCA  
Action Against Hunger/USA  
Adventist Development and Relief Agency International (ADRA)  
The Advocacy Institute  
African Medical Research Foundation  
AME-SADA  
Africare  
Aga Khan Foundation USA  
Aid to Artisans  
Air Serv International  
Amazon Conservation Team  
American Friends Service Committee  
American Jewish Joint Distribution Committee  
American Jewish World Service  
American Near East Refugee Aid  
American ORT  
American Red Cross /Int'l  
American Refugee Committee  
AmeriCares  
America's Development Foundation (ADF)  
Amigos de las Americas  
Ananda Marga Universal Relief Team  
Baptist World Alliance  
B'nai B'rith International  
Bread for the World  
Bread for the World Institute  
Brother's Brother Foundation  
Campaign for Tobacco-Free Kids  
CARE  
Catholic Medical Mission Board  
Catholic Relief Services  
Center for International Health and Cooperation (CIHC)  
Center of Concern  
Centre for Development and Population Activities (CEDPA)  
Child Health Foundation  
Childreach/Plan International  
Children International  
Christian Children's Fund (CCF)  
Christian Reformed World Relief Committee (CRWRC)  
Church World Service  
Citizens Democracy Corps  
Citizens Network for Foreign Affairs  
Concern America  
CONCERN Worldwide U.S., Inc.  
Congressional Hunger Center  
Counterpart International  
Cross-Cultural Solutions  
Direct Relief International  
Doctors of the World  
Doctors Without Borders (MSF)  
The End Hunger Network  
Enersol Associates  
ENTERPRISE Development Int'l  
Episcopal Relief & Development  
Ethiopian Community Development Council  
FINCA International  
Foresta  
Food For The Hungry, Inc.  
Freedom From Hunger  
Friends of Liberia  
Gifts In Kind International  
Global Health Council  
GOAL USA Fund  
Global Links  
HALO, USA  
Health Volunteers Overseas  
Heart to Heart International  
Hebrew Immigrant Aid Society  
Heifer Project International  
Helen Keller Worldwide  
Holt International Children's Services  
The Hunger Project  
Immigration and Refugee Service  
Institute of Cultural Affairs  
Interchurch Medical Assistance  
International Aid, Inc.  
International Catholic Migration Commission (ICMC)  
International Center for Research on Women (ICRW)  
International Executive Service Corps  
International Eye Foundation  
International Institute of Rural Reconstruction  
International Medical Corps  
International Medical Services for Health (INMED)  
International Orthodox Christian Charities (IOCC)  
International Reading Association  
International Relief & Development  
International Relief Teams  
International Rescue Committee  
International Voluntary Service, Inc.  
International Women's Health Coalition  
International Youth Foundation  
Islamic American Relief Agency USA  
Jesuit Refugee Services/USA  
Katalysis Partnership, Inc.  
Latter-Day Saint Charities  
Laubach Literacy International  
Lutheran World Relief  
MAP International  
Margaret Sanger Center International  
Medical Care Development  
Mercy Corps International  
Mercy USA for Aid and Development  
Minnesota International Health Volunteers  
Mobility International USA  
National Council of Negro Women  
National Peace Corps Association  
Near East Foundation  
Northwest Medical Teams  
OIC International  
Operation USA  
Opportunity International  
Oxfam America  
Pact  
Partners for Development  
Partners in Health  
Partners of the Americas  
Pathfinder International  
Pearl S. Buck International Inc.  
Physicians for Human Rights  
Physicians For Peace  
Planning Assistance  
Points of Light Foundation  
Population Action International  
Population Communication  
Presbyterian Disaster Assistance and Hunger Program  
Project Concern International  
Project HOPE  
Quest for Peace/Quixote Center  
Refugees International  
Relief International  
RESULTS, Inc.  
Salvation Army World Service Office  
Save the Children  
SHARE Foundation  
Sierra Club  
Solar Cookers International  
Stop Hunger Now  
The Synergos Institute  
Trickle Up Program  
Unitarian Universalist Service Committee  
United Jewish Communities  
United Methodist Committee on Relief  
United Way International  
USA For UNHCR  
U.S. Fund for UNICEF  
Volunteers in Technical Assistance (VITA)  
Winrock International  
Women's EDGE  
Women's Environment and Development Organization  
World Concern  
World Hope International  
World Education  
World Emergency Relief  
World Learning  
World Relief  
World Rehabilitation Fund  
World Resources Institute (WRI)  
World Vision  
YMCA of the USA  
Zero Population Growth



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