

Millennium Challenge Account

A Radical Shift in American Foreign Aid?

Bush Administration Development Aid Policy

Key Initiatives

- Increased resources to fight HIV/AIDS
- Largest contributor to the Global Fund
- Increased (18%) World Bank & African Development Bank contributions
- More World Bank grants for HIPC countries
- Millennium Challenge Account

Millennium Challenge Account

How it Differs from Past Aid Initiatives

- Large (\$5 billion) permanent increase in resources
- Competitive process rewarding countries that have already implemented reforms
- Not influenced by U.S. strategic foreign policy interests
- Country ownership

Millennium Challenge Account

Reasons for the Initiative

- Past development aid failures
- Pressure from Europe, developing nations, and development activists
- September 11 and war on terrorism

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Key Criteria

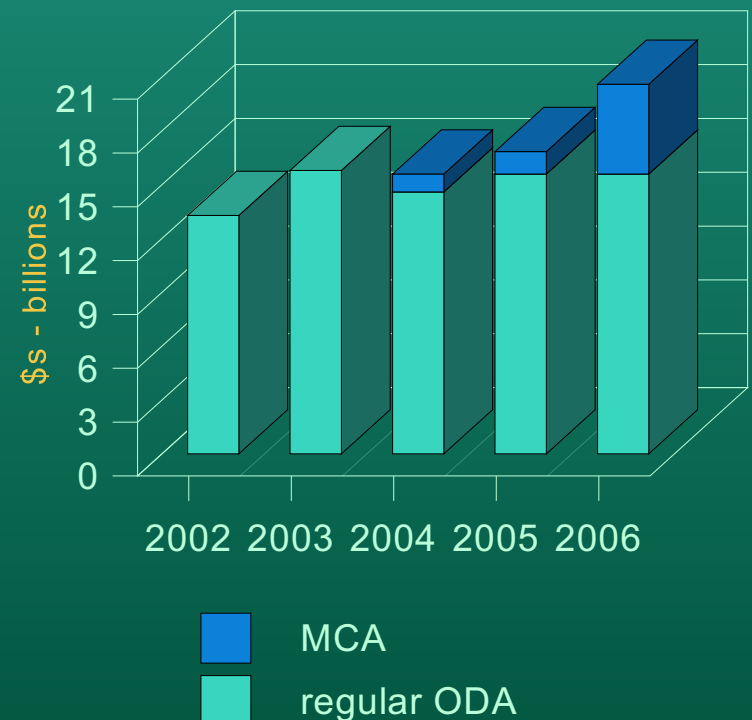
- Ruling Justly
- Economic Freedom
- Investing in People

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Estimated Resources

- \$5 billion increase over 3 years
- In addition to, not substitute for existing ODA
- ODA as % of GDP 0.16% by 2006
- At least maintain level after 2006

Official Development Assistance

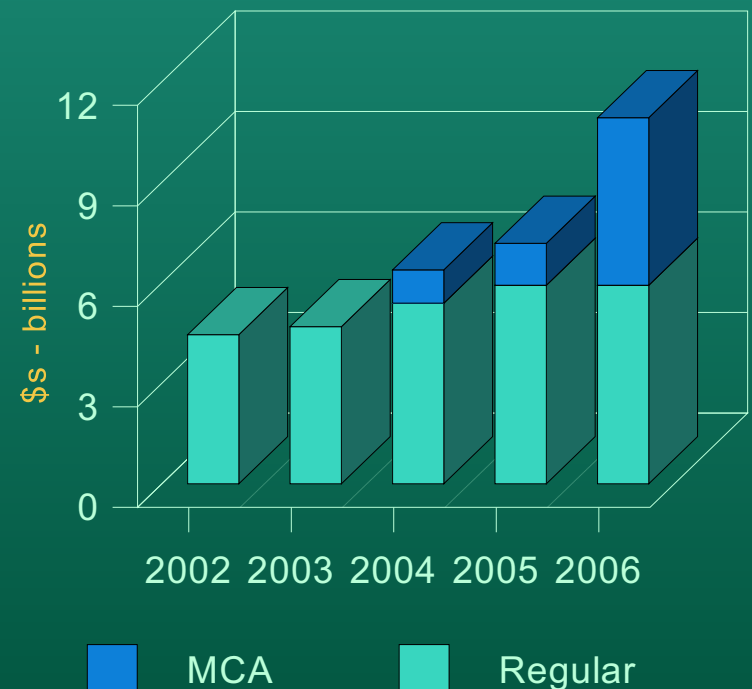


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Estimated Resources (continued)

- Double “core” development aid over 3 years
- About one-half for Africa
- Country aid levels will range widely, equal to the largest donor

“Core” Development Aid

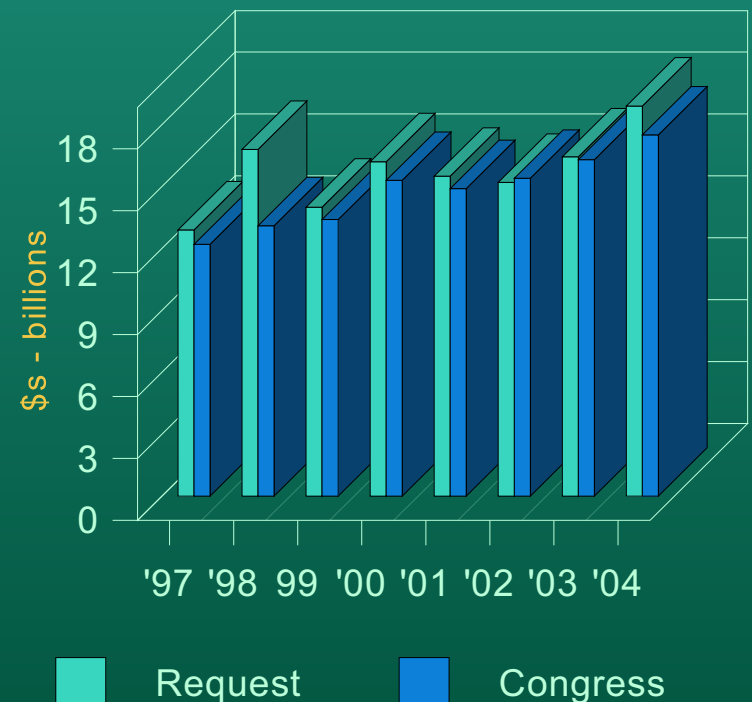


MCA a Turning Point?

Other Trends

- New research demonstrates that good policy with resources achieve results
- Attitudes in Congress changed
 - ▶ Strong support for global HIV/AIDS
 - ▶ Willing to fund increases for defense AND foreign aid
- September 11 terrorist attacks

Foreign Aid Budget



MCA Eligibility Criteria

Income Level

- Year 1 (2004) – Low income & “IDA-only”
- Year 2 (2005) – Low income (under \$1,465)
- Year 3 and beyond (2006-) – Low-middle income (under \$3,035)

MCA Eligibility Criteria

Performance Indicators

- Countries evaluated at three levels
 - ▶ Ruling justly
 - ▶ Economic freedom
 - ▶ Investing in people
- Apply respected, non-US Government measurements from a variety of sources
- Countries compete with one another

MCA Eligibility Criteria

“Other” Criteria

- Supplemental data, especially where time-lags or gaps appear
- Expressions of reform commitment
- Lagging far below the median on an indicator

MCA Management

- Millennium Challenge Corporation created
- CEO heads the Corporation
- Board of Directors oversees the Board and makes country selections

MCA Country Selection 2004

Armenia

Honduras

Mozambique

Benin

Lesotho

Nicaragua

Bolivia

Madagascar

Senegal

Cape Verde

Mali

Sri Lanka

Georgia

Mongolia

Vanuatu

Ghana

Country Selection 2005/2006 and East Asia/Pacific Region

- 2005 – Philippines and Tuvalu eligible
- Tonga moved to low-middle income group for consideration in 2006
- 2006 – Fiji, Marshall Islands, Micronesia, Tonga, Samoa, Thailand become eligible

Implementation Issues

- Incorporating other performance criteria
- Program proposals and funding – MCA selection does not guarantee funding
- “Threshold” country support
- Adjusting existing aid programs the role of USAID
- Funding cuts

Broader Issues

- Coordination and compatibility with other international development strategies: MDGs
- Creation of a two-tier aid program
- Promoting growth and reducing poverty?
- Squeezing resources from other aid programs
- Consistency and coherency with a U.S. foreign aid “vision”