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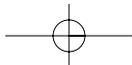
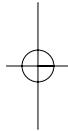
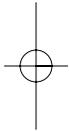
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*For Meghan
I hope you dance*



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Preface

No objective supporter of foreign aid can be satisfied with the existing program—actually a multiplicity of programs. Bureaucratically fragmented, awkward and slow, its administration is diffused over a haphazard and irrational structure . . . based on a series of legislative measures and administrative procedures conceived at different times and for different purposes, many of them now obsolete, inconsistent and unduly rigid and thus unsuited for our present needs and purposes. Its weaknesses have begun to undermine confidence in our effort both here and abroad.

The quote above is from John F. Kennedy proposing the creation of the US Agency for International Development in 1961. But it might well have been George W. Bush proposing the Millennium Challenge Account in 2003. Today, as in Kennedy's day, US foreign assistance is at a crossroads. This book explores the potential promise and possible pitfalls of the United States' most important foreign aid initiative in more than 40 years.

US foreign aid programs came under attack in the 1990s and have been gradually losing support and funding since the end of the Cold War. The combination of the events of September 11, 2001, the growing criticism of the impact of globalization on the poor, and the administration's need to project "soft power" as one tool in its fight against global terrorism all contributed to the decision of the Bush administration to launch a new aid program.

That program, the Millennium Challenge Account (MCA), is meant to be different from other aid programs. This book explains how and why. A small number of countries with sound policies and honest governments will receive large grants for programs they design themselves. The pro-

grams will build in mechanisms to hold grant recipients accountable for measurable development results. These features mark a radical change for US foreign assistance policy. If implemented effectively, the resulting program could fundamentally improve the quality and quantity of US aid and become a model for other donor countries.

The MCA's success, however, is far from assured. Here Steven Radelet scrutinizes the MCA proposal, asking what is required to make it work. He outlines the characteristics of the MCA that set it apart from existing programs, pinpointing the critical issues that will determine its success or failure. Taking an in-depth look at the country selection process, he provides a statistical analysis of which countries are likely to be eligible for the MCA, and recommends how the selection process can be improved. He suggests the delivery mechanisms most likely to reflect the priorities of recipient countries and ensure the MCA's success in supporting economic growth and fighting poverty. He makes recommendations about how the MCA should be managed and administered to balance its innovation and independence with much-needed coordination with other US aid programs.

Written at a practical level, this book will be an invaluable resource for those concerned with the MCA and US foreign assistance policy, for economists concerned with the effectiveness of aid in triggering growth, and for the broader development community. It brings rigorous analysis to the MCA's central challenge: making foreign aid an effective tool for growth in the world's poor countries.

This is one of two new books CGD is publishing on aid effectiveness and the MCA. A companion study, *The Other War: Global Poverty and The Millennium Challenge Account*, published jointly with the Brookings Institution in June 2003, includes an assessment of the MCA in the context of broad foreign policy objectives and the current domestic political and budgetary climate.

The Center for Global Development is a nonprofit, nonpartisan institution dedicated to reducing global poverty and inequality through policy-oriented research and active engagement on development issues with the policy community and the public. The Center's Board of Directors includes distinguished leaders of nongovernmental organizations, former officials, business executives and some of the world's leading scholars of development. The Board of Directors bears overall responsibility for the Center and provides general guidance on its research program, including the identification of topics that are likely to be crucial over the medium term, and which should be tackled by the Center. The Center also receives advice from an Advisory Committee that comprises respected development specialists and advocates. The Center's president works with the Board, the Advisory Committee and the Center's senior staff in setting the research and program priorities, and approves all formal publications. The Center is supported by an initial significant financial contribution

from Edward W. Scott, Jr., and by funding from philanthropic foundations and other organizations. George Soros provided partial funding for the Center's research on the MCA and for this book.

The Center's research assesses the impact on poor people of globalization and of the policies of industrial countries and multilateral institutions. A principal focus of the Center's work is policies of the United States and other industrialized countries, which affect development prospects in poor countries, and of the international institutions such as the World Bank and the IMF, which are so central to the world's development architecture. The Center seeks to identify policy alternatives that promote equitable growth and participatory development in low-income and transitional economies, and, in collaboration with civil society and private sector groups, seeks to translate policy ideas into policy reforms. We invite readers of our publications to let us know how they think we can best accomplish this objective.

NANCY BIRDSALL
President
April 2003

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