

# 1

## Setting the Scene: Big Differences, Big Challenges

In March 2002, President George W. Bush proposed establishing the Millennium Challenge Account (MCA), a foreign aid program designed to provide substantial new foreign assistance to low-income countries that are “ruling justly, investing in their people, and encouraging economic freedom.”<sup>1</sup> If implemented properly, the MCA could bring about the most fundamental changes to US foreign assistance policy since President John F. Kennedy introduced the Peace Corps, the US Agency for International Development (USAID), and the Alliance for Progress in the early 1960s. The significance of the initiative lies partly in its scale: the proposed \$5 billion annual budget represents a 50 percent increase over the \$10 billion annual US foreign aid budget in fiscal 2002, a near doubling in the amount of US aid that focuses strictly on development objectives, and a 9 percent expansion of global development assistance.

Perhaps even more important than its size, however, is that the MCA brings with it the opportunity to improve significantly the allocation and delivery of US foreign assistance programs. US bilateral assistance has been heavily criticized for its lack of focus and for achieving weak results in recipient countries. Critics see USAID as highly bureaucratic, undermined by competing special interests and extensive earmarking. Senator Jesse Helms, who for years led the criticism of foreign aid on Capitol Hill,

---

*Some sections of this chapter are drawn from Radelet (2003).*

1. See the president’s speech at [www.whitehouse.gov/news/releases/2002/03/20020314-7.html](http://www.whitehouse.gov/news/releases/2002/03/20020314-7.html).

charged that foreign aid had little impact on economic development and was only “lining the pockets of corrupt dictators, while funding the salaries of a growing, bloated bureaucracy.”<sup>2</sup>

These problems should not be overstated: it would be incorrect to conclude (as some have) that the entire US aid program has been a failure. There have been several important accomplishments, such as USAID’s contributions to the Green Revolution, role in developing oral rehydration therapy, involvement in the campaign to reduce river blindness, work on population and family planning, and more recent work in supporting innovative microfinance and HIV/AIDS programs. Nevertheless, there is little question that USAID’s performance could be improved dramatically. Much aid is wasted on countries with governments that are not serious about development, on projects that are poorly designed, and on heavy bureaucracy that prevents a large proportion of aid money from getting close to its intended recipients. While part of the problem lies with the internal structure and culture of the organization itself, much lies with the elaborate web of legislation and directives from Congress in which the agency labors. To get a sense of the complexity, consider the US Foreign Assistance Act of 1961, which, as amended, specifies a remarkable 33 goals, 75 priority areas, and 247 directives. These multiple goals are more than just an administrative burden; they make it very difficult for USAID to achieve clear results. In particular, when USAID is asked to provide funds to strategic and diplomatic partners to meet important national security objectives, the impact of its programs on economic development and poverty reduction can suffer as a result.

The MCA provides the United States with the opportunity to address some of these problems and, more broadly, to reassert global leadership on innovation and reform in foreign assistance. Donor programs from around the world have experienced some of the same difficulties that have bedeviled USAID, including heavy bureaucratic and reporting requirements, lack of coordination with recipient-country development strategies and other donor programs, and a focus on “planting flags” rather than achieving results (Easterly 2002). Several donor efforts under way since the mid-1990s are beginning to partially redress some of these problems. These efforts include a greater focus on recipient country ownership of programs, greater budget support in certain circumstances, and a greater emphasis on “results-based management” and on providing a larger share of aid to countries with a demonstrated commitment to policy reform (Birdsall and Williamson 2002). There is also growing support for donors financing “common pools” aimed at jointly supporting larger projects or broader development strategies (Kanbur and Sandler 1999). Through the MCA, the United States can lead by example in focusing aid

---

2. *The New York Times*, January 12, 2001.

on the right countries, designing programs that are more responsive to recipient needs, and reducing bureaucratic costs.

Foreign assistance policy in the United States stands at an important crossroads. The MCA could be the first step toward a fundamental improvement in foreign aid. If its method of selecting countries based on their demonstrated commitment to sound policy and providing recipients with a greater role in designing programs leads to more effective results, it could be a model for assistance programs of other donors, especially if the United States is willing to work closely and cooperatively with these donors. The MCA's success could lead to stronger support from Congress for aid programs and more generally for initiatives supporting low-income countries.

However, as Lael Brainard (2003) and others have pointed out, more dire outcomes are possible. The administration has proposed placing the MCA in a new government corporation called the Millennium Challenge Corporation (MCC)—a strategy that, if not carefully implemented, could result in deeper fragmentation and confusion in US aid programs, with overlapping programs and duplicative efforts. The high profile given to the MCA could draw resources from and further weaken morale at USAID, which in turn could result in the agency slowly withering and possibly closing. USAID's job will be made tougher because the MCA will be working in the best-performing developing countries, leaving USAID with tougher challenges and presumably poorer results. If the United States takes a completely unilateral approach with respect to other donors, the potentially positive impacts of the MCA could be undermined through lack of coordination or a reduction in funding by other donors. Moreover, if the MCA fails to achieve strong results despite its selectivity and new delivery approach, support for foreign aid more broadly could quickly evaporate. Unfortunately, although the president said the MCA would be a high priority, the administration has been slow to design key aspects of the program that will be needed to give it a strong start. For the MCA to succeed, this will have to change, as much will depend on the details of how the new program is established during its first year.

### **Five Key Differences, and Therefore Five Key Challenges**

The MCA is an implicit recognition that at least part of the explanation for foreign aid's limited impact lies with the donors and the way they administer assistance programs (Easterly 2000). The MCA is intended to differ from and improve upon existing programs in at least five critical ways. In turn, actually implementing these differences will raise key challenges for the administration and Congress. The extent to which they meet these challenges will determine the MCA's ultimate success or failure.

## 1. Focused Objectives

The MCA is aimed at supporting economic growth and poverty reduction, and not other foreign policy objectives. US foreign aid serves many purposes, only one of which is supporting development. Carol Lancaster (2000) has classified six broad purposes of US foreign assistance:

- *Promoting security*, including containing communism, peacekeeping in the Middle East, and, more recently, supporting the war on terrorism.
- *Promoting development*, such as financing investments in health, education, infrastructure aimed at raising incomes, reducing poverty, and improving standards of living. The MCA is most closely aligned with this objective.
- *Providing humanitarian relief* in both natural disasters and civil conflicts.
- *Supporting political and economic transitions* toward free markets and democracies in former socialist economies.
- *Building democracies* both as an end in itself and as a means toward other ends, such as the protection of human rights or the cessation of civil conflict.
- *Addressing transnational problems* such as high population growth, food insecurity, and health problems such as HIV/AIDS and malaria.

These objectives are all important and legitimate goals for US foreign aid and foreign policy more broadly. Problems arise, however, when one program attempts to simultaneously meet multiple, sometimes conflicting, objectives, leading to a lack of coherence in everything from broad strategic planning to specific programs on the ground. The most obvious conflict arises between diplomatic and security goals, on the one hand, and long-term development goals on the other.

The tension between these goals is a prime reason that aid has had only a mixed impact on growth and poverty reduction. When legitimate security goals drive the allocation of resources (such as Cold War politics or current funding for Pakistan as part of the war on terrorism), much less should be expected in terms of achieving development. It should hardly be surprising that aid delivered during the Cold War or to support Middle East peace has achieved weak development results because that was not its chief goal. No one seriously believed that Zaire's Mobutu Sese Seko was using American largesse to vaccinate children and train teachers. And while Egypt has used some of the aid for development purposes, much has been wasted or diverted to other purposes.

The conflict between development and security goals is hardly new. Economic aid (as embodied in the Marshall Plan) was scheduled to be

phased out in 1952 but was extended following the start of the Korean War and was used extensively in the 1950s to support political and diplomatic ends (Ruttan 1996). President Kennedy recognized the tension in 1961 when he remarked that “[m]oney spent to meet [international] crisis situations or short-term political objectives while helping to maintain national integrity and independence has rarely moved the recipient nation toward greater economic stability.”<sup>3</sup> Indeed, one of the purposes of establishing USAID as an independent agency was to separate development assistance from political and security-based aid. Over the years, however, USAID’s focus has blurred, as it was asked to provide assistance in post-conflict situations, support democracy building, and implement the kinds of political and security-based programs it was meant to avoid, such as its current programs in Egypt and Colombia. In the mid-1990s, under intense pressure from Senate Republicans, the circle was completed: USAID was formally brought under the authority of the State Department.

The MCA is designed to reverse this pattern and provide a sharper focus on economic growth and poverty reduction for at least one part of the US foreign assistance program. If this focus can be maintained, it will help reduce the tensions arising from multiple goals but will not fully eliminate them. The administration’s proposal to use publicly available, development-oriented criteria to choose the countries is a striking attempt to depoliticize the selection process. In effect, the administration is (loosely) tying its hands behind its back to ensure that MCA funds will not be diverted to solving immediate security problems. Other funds—primarily the State Department’s Economic Support Funds (ESF)—can be used for that purpose.

Of course, the MCA cannot be completely depoliticized, and tensions with other goals will arise at four junctures:

- ***Choosing the countries.*** In some situations, strategic goals are likely to influence decisions about countries on the margin of qualification, pulling some up and pushing others down. Whereas it will be difficult to use the program for countries that are far from meeting the qualification standards, favored countries closer to meeting the standards could be added to the list. Some other countries that qualify might be dropped (such as China). As discussed in chapter 2, this problem will become more acute in the third year of the program, when the administration proposes expanding the MCA to include countries with per capita incomes between \$1,435 and \$2,975. This group includes several politically important US strategic partners, including Egypt, Jordan, Colombia, Russia, and Turkey.

3. See President Kennedy’s special message to the Congress on foreign aid, March 22, 1961, [www.presidency.ucsb.edu/site/docs/pppus.php?admin=035&year=1961&id=90](http://www.presidency.ucsb.edu/site/docs/pppus.php?admin=035&year=1961&id=90).

- **Allocating funds.** Once countries are selected, strategic goals could influence decisions about the allocation of funds among those countries. The administration will be strongly tempted to provide more funds to closer friends and less to others, rather than allocating funds strictly based on performance and results.
- **Monitoring and evaluation.** Diplomatic pressure and strategic goals could affect the consequences for countries that miss performance benchmarks, with the United States perhaps going easier on favored countries and being tougher with other countries. Minimizing these pressures and keeping the focus on development objectives will be a formidable task for the MCA.
- **Total funding.** As Congress and the administration establish the total budget for the MCA, the program could receive less than the \$5 billion the president originally promised, with funds targeted at political and strategic partners instead.

Although the MCA is focused on growth and poverty reduction, it is not built on the premise that aid is a major driver of economic growth. The most important factors affecting growth are a country's economic policies and institutions and the quality of its leadership. The global economic environment is also critical, including market access, export and import prices, and intellectual property regimes. *Rather, the central idea of the MCA is that strong policies and institutions must be in place to foster growth and poverty reduction, and under those circumstances aid can play an important supporting role.*

## 2. Country Selectivity

The MCA will provide assistance to only a select group of low-income countries, building on the idea that aid is most effective in countries with governments that are implementing sound development policies. This view lies behind the president's call to provide aid to countries that are ruling justly, investing in their people, and establishing economic freedom. As noted in chapter 2, the empirical foundation for this idea is not particularly solid, but it is consistent with the experiences and beliefs of many development professionals.

However, this view takes us only so far. How, exactly, should the US government select countries that meet this test? Chapters 2 and 3 provide a detailed explanation of the administration's proposed selection process, a list of countries that might qualify based on the most recent available data, and some recommendations for improving the process. This process results in a narrow focus for the MCA: perhaps a dozen low-income countries would qualify in the first year, with approximately 19 meeting the

standards in the first three years of the MCA's operations. A dozen other countries are close to qualifying but do not quite make the grade.

The MCA is hardly the first aid program to promise greater selectivity. President Kennedy called for greater aid selectivity in 1961 when he established USAID, envisioning that an independent aid agency could allocate aid based on development needs and not the political criteria that had been used extensively in the 1950s. Similarly, World Bank structural adjustment programs supposedly were focused on countries that introduced appropriate policy reforms, although in practice funds were allocated to countries that simply promised reforms as much as to those that actually implemented them.

The MCA is meant to differ in two important ways. First, it proposes using a public, transparent process to select countries to receive aid. It remains to be seen how closely the administration actually sticks to these criteria, but the MCA is the first program that uses publicly available quantitative indicators to select recipient countries. Second, recipient countries must meet all the criteria *before* they qualify. In most programs in which aid is contingent on policy conditions, recipients introduce only some of the reforms *ex ante* and promise to introduce discrete reforms in the future in return for disbursements of aid. All too often, the promised changes never happen and the aid is disbursed regardless. By contrast, in the MCA qualification will depend on a country having already introduced relatively good development policies.

The MCA's selection process has sparked tremendous debate. One concern is that the selection process is too narrow, leaving out many developing countries with large numbers of people living in poverty. This selectivity has led to calls either to expand the number of qualifying countries or to have a complementary program focusing on the so-called "tier II" countries that just miss qualifying (see Sperling and Hart 2003). The solution to this problem probably lies outside the MCA but nevertheless is critical to improving overall US foreign aid. To date the administration has been silent on how it will improve aid delivery to non-MCA countries. Another concern is that flaws in the selection process may lead to inclusion of some countries that will not use aid effectively and omission of others that can. As discussed in chapters 2 and 3, several steps can be taken to strengthen the selection process over time. In recognizing these potential flaws, the administration has proposed including some discretion that would allow it to modify the list of qualifying countries in some circumstances. Of course, while discretion has its virtues when used appropriately, if misused it could undermine the effectiveness of the program.

### 3. Greater Recipient Involvement

The administration is proposing a new approach in which governments and nongovernment groups in eligible countries must take the lead in de-

veloping and defending their own ideas for using aid. As discussed in chapters 4 and 5, this approach will put the responsibility for program design and implementation where it belongs—with the recipient countries. This so-called foundation approach calls for groups in qualifying countries to write proposals for activities, with only the best ideas actually receiving funding. Proposals would be expected to spell out actions the recipient would take and the benchmarks by which success would be measured, pushing recipients to establish concrete goals. This process would allow recipient governments and other agencies within MCA-recipient countries to set their own priorities and develop their own strategies. It would increase recipient-nation ownership of and commitment to development programs, which in turn should lead to better results. It also provides an opportunity to enhance donor harmonization: proposals of recipient countries would provide a blueprint, allowing several donors to cofund the same or related programs.

Giving recipient countries more flexibility and responsibility makes particular sense in countries with a demonstrated commitment to sound development policies but would not be effective in countries with less capable governments. Thus, the selectivity of the MCA and the change in delivery mechanism go hand in hand. If the MCA funds were available to a larger number of countries with weaker governments, it would be much harder to implement a foundation approach. Even among the MCA countries, many countries initially may lack the capacity to develop strong proposals and programs, but the only way they will develop these capacities is if they are given the responsibility to do so, along with some funding for technical assistance in the early years.

Making this process work will not be easy, as it represents a sea change in how the United States delivers aid on the ground. The administration should establish a process to receive proposals from a wide variety of actors in qualifying countries, including the national government, subnational government, and nongovernmental organizations in order to encourage innovative ideas and strengthen results. These proposals should build on the processes established in many countries to design Poverty Reduction Strategy Papers and should provide a framework to harmonize assistance from multiple donors. In some cases, potential recipients might require limited technical assistance (local or international) to improve their capacity to design programs and prepare proposals.

#### **4. Focus on Results**

The administration claims that the MCA will be driven by results. It plans to provide more generous funding for successful programs, reduce funding for weaker programs, and withdraw funding for programs that fail. Ensuring strong results will require high-quality proposals, carefully vetted by the corporation, and a strong monitoring and evaluation system. As

discussed in chapter 5, effective monitoring and evaluation will be critical for keeping funded programs on track, guiding the allocation of resources toward successful activities and away from failures, and ensuring that the lessons learned from ongoing activities—both successes and failures—inform the design of new projects and programs. But this will not happen automatically, and to date the administration has not laid out its plans for creating an honest, independent, and thorough evaluation system.

Grant recipients will be expected to spell out measurable performance benchmarks in their proposals for each activity. These benchmarks should focus on substantive goals (such as increasing test scores or raising immunization rates by a specified amount) and institutional goals (such as training a certain number of teachers, improving auditing systems, or strengthening legal codes). Monitoring and evaluation must be incorporated into projects and programs from the outset, not added on as an afterthought halfway through the process. Both internal (carried out by the grantees) and external (carried out directly by the MCC or a contractor for the MCC) evaluations will be needed to ensure monitoring compliance and high standards.

Achieving strong results will depend to a large extent on the capacity of the qualifying countries to absorb large new aid flows, as discussed in chapter 7. Some likely candidates that currently receive smaller amounts of aid will be able to absorb MCA funds with little difficulty, while other countries can plausibly absorb much less additional aid. Absorptive capacity in any recipient country will depend on what the funds are used for, how they are delivered, the strength of institutions on the ground, and the bureaucratic burden imposed on recipients by the US government. The key to avoiding absorptive capacity problems will be a strong monitoring and evaluation system.

The focus on results will be central to determining how and when countries exit from the MCA. As discussed in chapter 8, there are three basic ways in which countries can exit the MCA: they can fall below the country qualification standards, miss performance benchmarks during a program, or successfully “graduate” through sustained economic growth and poverty reduction. In each case, careful monitoring of ongoing programs and evaluation of results will play a critical role in deciding when to cease MCA programs.

While most observers applaud the focus on results, there is a danger that the administration may be overzealous in its search for measurable results, since some achievements and failures are hard to measure. The challenge will be to establish clear, measurable, and realistic goals, both short- and long-term. Moreover, development inherently is a risky long-term process in which even the best-designed interventions may not succeed. While demanding results, the administration must encourage innovation and emphasize improvements over time, which will require accepting failures made with good faith efforts.

## 5. Lower Bureaucratic Costs

The administration's proposal that a new government corporation administer the MCA is designed to reduce administrative costs and increase effectiveness. As discussed in more detail in chapter 6, the administration has proposed that the MCC be governed by a cabinet-level board of directors chaired by the secretary of state and managed by a CEO appointed by the president. The biggest advantage of establishing a new organization is that it could avoid the political pressures, bureaucratic procedures, and multiple congressional mandates that weaken current aid programs. Its status as an independent body could make it more flexible and responsive as well as allow it to attract some top-notch talent. Since the MCA is supposed to do business differently than other aid programs, with a narrower focus, higher standards, and more flexibility, it follows that there are good reasons for situating the MCA in a new institution.

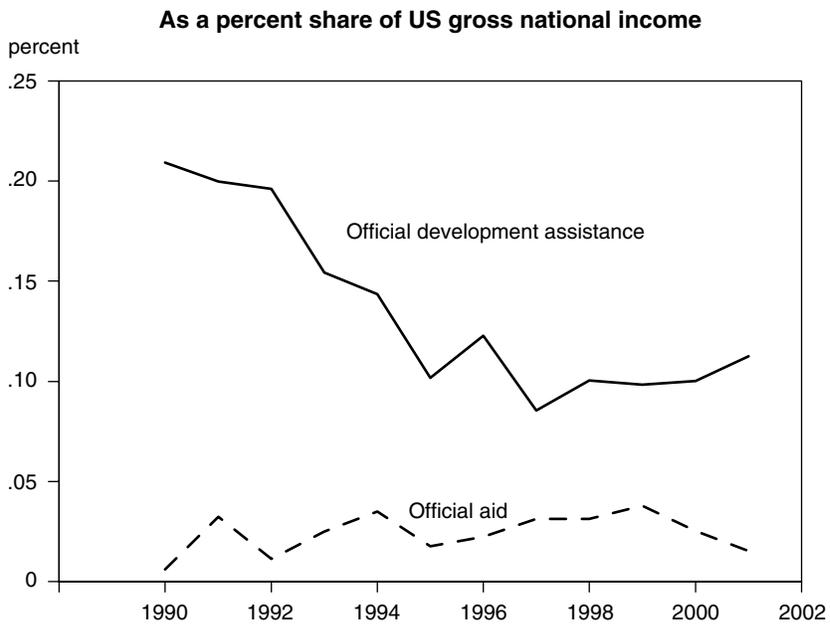
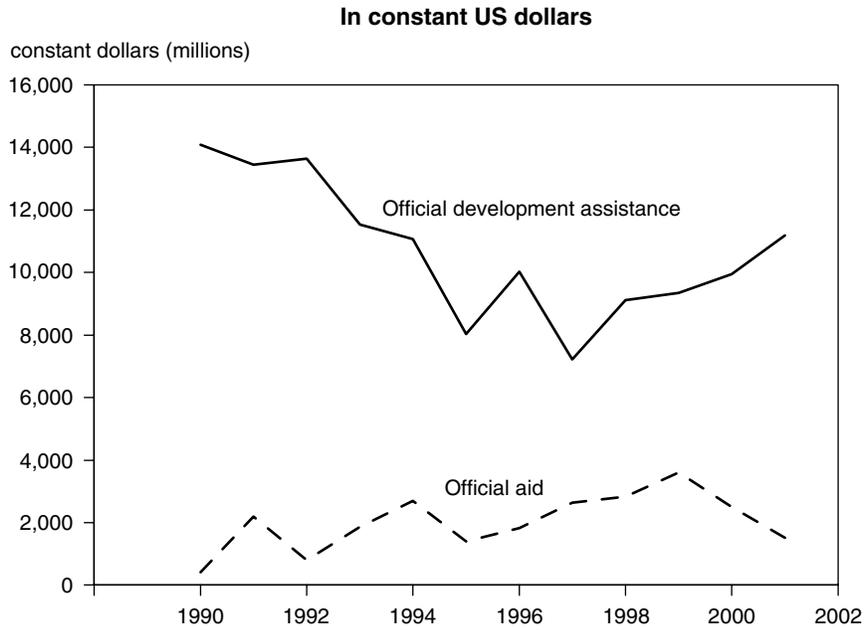
Establishing a corporation, however, entails significant risks, the most important being the possibility of further fragmenting foreign assistance programs across the executive branch. Major foreign assistance programs currently reside at USAID, the State Department, Treasury, and the Peace Corps, with other programs at the Department of Health and Human Services, the Department of Agriculture, the African Development Foundation, the Inter-American Foundation, and several other agencies. Adding yet another agency could impede coordination and increase redundancy.

As discussed in chapter 9, one of the biggest concerns is the impact of the MCC on USAID and the relationship between the two organizations. The administration's decision to place the MCC outside USAID was perceived by many as a vote of no confidence in the agency and reflected a reluctance to take on the task of either restructuring or strengthening it. The MCC is likely to draw staff and resources from USAID, further weakening the agency, possibly engendering some resentment, and making cooperation more difficult. Having both agencies operate simultaneously in recipient countries could be very confusing for recipient countries, thus creating coordination problems and unnecessarily duplicating services. The next few years will be critical for USAID. The MCA, while creating some strains, creates opportunities as well. USAID needs to develop clear strategies for its programs in countries that do not qualify for the MCA and for working on transnational problems such as fighting HIV/AIDS.

### How Big Is the MCA?

Relative to current levels of US development assistance, the proposed size of the MCA is quite large. As shown in figure 1.1, US official development assistance (ODA) totaled \$11.4 billion in 2001, up from the 1998–2000 average of \$9.3 billion (the bulk of the increase is accounted for by back

**Figure 1.1 US official development assistance and official aid, 1990–2001**



Source: OECD, Development Assistance Committee, *International Development Statistics*.

payments to UN organizations and an increase in aid to Pakistan of over \$600 million in late 2001).<sup>4</sup> In addition, the United States provided \$1.5 billion in aid to higher-income countries, which the Development Assistance Committee (DAC) of the OECD classifies as “aid” but not “official development assistance.”<sup>5</sup> Of the ODA funds, only about half is aimed primarily at development assistance, with the rest comprising humanitarian aid, assistance to strategic and diplomatic partners, and other activities.<sup>6</sup> Thus, if fully funded at \$5 billion annually starting in 2006 (which remains very uncertain), the MCA will represent almost a 50 percent increase in US ODA levels and close to a doubling of US aid provided primarily as development assistance to poor countries. Note that the addition of another \$2 billion per year in new funding for the new HIV/AIDS initiative—proposed by President Bush in his 2003 State of the Union address—would raise these figures.

The MCA is also significant on a global level. Total ODA from all donors reached \$58 billion in 2001, so \$5 billion in new funds from the MCA would represent a global increase of about 9 percent. Including the proposed HIV/AIDS initiative (\$7 billion in additional US funding) would increase global ODA by about 12 percent.

But from the perspective of the US economy, the increases are much smaller. US ODA levels in 2001 were about 0.11 percent of US gross national income (GNI), about half the level of 1990 (figure 1.1). The United States ranks dead last among the 22 OECD members in ODA measured as a share of GNI and is far below the 0.7-percent-of-GNI target adopted by the UN General Assembly in October 1970. With the two new proposed initiatives fully funded, US ODA would climb to about 0.17 percent of GNI, moving the United States up one rank to number 21. However, the United States provides significant amounts in private charity to development causes totaling close to \$15 billion, according to a recent estimate by USAID (2003). Adding in these figures, total public and private development funding from the United States is the largest in the world at \$25 billion, but the United States still ranks second-to-last among the donor countries in terms of public and private aid as a share of GNI.

---

4. See International Development Statistics online, Development Assistance Committee of the OECD, [www.oecd.org/htm/M00005000/M00005347.htm](http://www.oecd.org/htm/M00005000/M00005347.htm).

5. The DAC defines ODA as grants or loans to developing countries (listed in part I of the DAC list of aid recipients) that are undertaken by the official sector with promotion of economic development and welfare as the main objective (e.g., excluding military aid) and having a grant element of at least 25 percent. It defines official aid in the same way except the recipients have higher per capita incomes (listed in part II of the aid recipients list). See [www1.oecd.org/dac/htm/dacdir.htm#32,33](http://www1.oecd.org/dac/htm/dacdir.htm#32,33) for the precise OECD definitions and lists of countries.

6. Lancaster (2000) shows that US aid aimed primarily at development is about half of total ODA.

However, full funding for the MCA in addition to the HIV/AIDS initiative and current programs is far from assured. The administration's budget request of \$1.3 billion for the MCA for fiscal 2004 is about \$400 million lower than it initially implied it would request. Moreover, the federal budget deficit is ballooning and will become even larger as a result of the administration's proposed additional tax cuts, costs of the war with Iraq, and subsequent rebuilding costs after the conflict.

As a result, pressures are growing on the administration and Congress to cut nondiscretionary spending, especially in advance of the presidential and congressional elections scheduled for November 2004. At this stage it seems unlikely that MCA funding in fiscal 2004 will reach even the requested \$1.3 billion. In addition, some members of Congress are already discussing delaying the realization of a full \$5 billion in MCA funding for two years to fiscal 2008. These discussions about delay are partly the result of the administration's slow pace in providing details about the MCA to Congress. With these pressures, and given that the MCA is an untested start-up program, it is quite possible that the MCA will receive funding below the administration's requests for several years and may never reach \$5 billion. If funding does reach that level, it may come at the expense of other aid programs (especially at USAID), which are more vulnerable than the MCA. Although the administration has declared the MCA to be a high priority and pledged that funding will be fully additional to existing programs, it remains to be seen how hard it will fight for this funding in the context of the larger budget debate.

## The Bush Administration and Foreign Aid

President Bush's proposals to increase foreign aid are among the great surprises of his presidency. In addition to the MCA, in the January 2003 State of the Union address he dramatically called for \$15 billion over the next five years to fight the HIV/AIDS pandemic in Africa and Latin America. His September 2002 National Security Strategy envisaged development as one of three key pillars of the strategy, along with defense and diplomacy. His fiscal 2004 budget included two smaller initiatives: a \$200 million famine fund and a \$100 million fund for "complex emergencies." So far, these initiatives are just proposals, and the administration has far to go to turn them into reality. But if implemented as promised they would bring about an unprecedented increase in US foreign aid from approximately \$10 billion in fiscal 2002 to \$17 billion in 2006.

These proposals are quite unexpected for a conservative Republican, since many in the party have staunchly opposed foreign aid for many years. One important motivation for the two major proposals—the MCA and the HIV/AIDS program—was simple political expediency. They provided the president with compelling announcements for the UN Interna-

tional Conference on Financing for Development in Monterrey, Mexico (in the case of the MCA) and for the State of the Union address (the HIV/AIDS proposal). However, although it is too early to tell for sure, it appears that the proposals were more than show. To some extent, they can partially trace their roots to the September 11 terrorist attacks. Yet neither of the major programs is aimed at supporting key partners in the war on terrorism, and neither targets failed states where terrorism can breed. The aim seems to be broader, perhaps reflecting a growing sense that poverty and inequality around the world are contributing to mounting hostility and resentment toward the United States and weakening national security. Both programs appear to recognize that the United States must exercise instruments of both hard power and soft power to foster a safer and more secure world to pursue its interests. This seems especially true with the HIV/AIDS program, since it was announced in the State of the Union in tandem with an outline of the president's strategy in Iraq.

To be sure, the administration's overall policy record toward low-income countries is far from pristine. Its strong support for the 2002 farm bill undercut the livelihood of poor farmers around the world by providing huge subsidies for American farmers. The administration reinstated the "Mexico City amendment" (sometimes called the global gag rule), which bans funding for any purpose to international organizations that are even indirectly related to abortion services. This step, which was taken to appease a domestic conservative audience, will reduce effective family planning programs that have nothing to do with abortion, much to the detriment of poor women worldwide. In March 2001, the administration walked away from negotiations on the Kyoto Protocol on climate change. Although it may have been a flawed agreement, as the administration claimed, the decision nevertheless sent a chilling message that the American economy was more important than any other consideration, including the detrimental impacts of climate change on low-income economies.

### Four Motivations

Why has foreign aid recently taken on such a prominent role in this administration? There are four key motivations, only some of which led to the MCA. First, in the post-September 11 world and the subsequent war on terror, foreign aid allows the United States to project soft power to accompany its hard military power. It was no accident that the president announced the HIV/AIDS initiative in the State of the Union address just before turning to Iraq. Imagery is important, in addition to substance. The administration wanted to try to convince the American public and countries around the world that it is not focused solely on military action and that it wants to play a positive nonmilitary role in low-income countries. The MCA plays a similar role. However, making this case will be all the more difficult following the invasion of Iraq.

Second, aid can support both “frontline” states and weak states where terrorism might breed. The president’s 2004 budget submission includes \$4.7 billion for frontline states intended to “provide crucial assistance to enable these countries to strengthen their economies, internal counterterrorism capabilities, and border controls.”<sup>7</sup> This amount includes \$657 million for Afghanistan, \$460 million for Jordan, \$395 million for Pakistan, \$255 million for Turkey, \$136 million for Indonesia, and \$87 million for the Philippines.

In addition to the frontline states there are weak and failing states. The president’s National Security Strategy proclaims that “[t]he events of September 11, 2001, taught us that weak states, like Afghanistan, can pose as great a danger to our national interests as strong states. Poverty does not make poor people into terrorists and murderers. Yet poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders.”<sup>8</sup> Foreign aid can be a part, probably a relatively small part, of the strategies for these weak states. In failed states, for example, aid probably can do no more than provide humanitarian assistance, and there are circumstances in which the United States should not provide aid at all. As important as this objective is, the MCA plays no role in frontline, weak, or failed states.

Third, the new initiatives indicate that the administration and members of Congress are beginning to understand that poverty and inequality around the world are a growing threat to US security and national interests. The fact is that many people in poor countries do not see the United States as standing for democracy, liberty, opportunity, and generosity. Instead, they see Americans as isolated, selfish, and arrogant, focused on consuming more than most people can imagine while others live in dire poverty. The growing gap between the richest and the poorest countries, whatever its underlying causes, has deepened resentment and anger toward the West. Many people believe—rightly or wrongly—that rich countries, led by the United States, set the rules in their own favor, leaving the poor with less hope and even fewer opportunities. These beliefs have deepened since the invasion of Iraq. If the United States is to reverse this growing resentment, it must do more to ensure that democracy, open commerce, and prosperity spread much more widely throughout the world. President Bush recognized as much in his speech proposing the MCA when he said, “[W]e must include every African, every Asian, every Latin American, every Muslim in an expanding circle of development.”

Fourth, the programs respond to a growing number of Americans (and Europeans) who believe that global inequality and gnawing poverty in poor countries are morally unacceptable and run counter to American

7. See the State Department fiscal 2004 budget request at [www.state.gov/documents/organization/17230.pdf](http://www.state.gov/documents/organization/17230.pdf).

8. See United States National Security Council (2002).

values. The growing discomfort in the West about these trends is evident in the demonstrations in recent years against the World Trade Organization (WTO), the World Bank, and the International Monetary Fund (IMF); the misgivings about globalization; and the demands for greater debt relief for poor countries. This is quite different from the security threat: many people simply believe the current situation is wrong. The Irish rock star Bono, a leader in these movements, has strongly influenced the administration on debt relief, the MCA, and the HIV/AIDS program. President Bush invited Bono to join him when he first proposed the MCA; Bono later accompanied then Treasury Secretary Paul O'Neill to Africa. Church groups across the country have become involved in these campaigns. Senior government officials now regularly meet with NGOs to discuss development policies. These actions indicate the extent to which the administration recognizes the growing political importance of activist groups and other Americans who are apprehensive about global economic trends and deeply concerned about poverty in low-income countries.

### **Connections to the MCA**

The MCA is part, but only a limited part, of what is needed to achieve the aforementioned goals. As mentioned, it can do nothing for the frontline, weak, or failed states. Moreover, economic growth and poverty reduction in low-income countries depend far more on a country's own policies and institutions than on foreign aid. Nevertheless, aid can play an important role in the right environment. The MCA could help support growth and poverty reduction in perhaps two dozen poor countries during the next five years. That would be a good start, both in terms of substance and in terms of helping the image of the United States abroad. Its influence could be magnified if it has a positive effect on other US aid programs and those supported by other donors.

Yet it will only be a start. As discussed in chapter 9, more fundamental changes are necessary in other US foreign assistance programs to help achieve these goals in other countries. Moreover, to be effective, aid must be coupled with a more open, fairer trading system and other policies that do not obstruct economic opportunities for the world's poor. If the United States is serious about fighting global poverty, it must change some of its policies (especially trade policies) that undermine the economic opportunities for low-income countries and perpetuate imbalances in the global trading system.

### **A Unilateral Approach**

Both of the Bush administration's major foreign aid initiatives—the HIV/AIDS program and the MCA—take a decidedly unilateral approach to de-

velopment assistance.<sup>9</sup> Of the \$15 billion in funding for HIV/AIDS the president proposed over the next 15 years, he envisages just \$1 billion going through the new Global Fund to Fight AIDS, Tuberculosis, and Malaria. The MCA is completely unilateral, and there has been very little consultation between the administration and other major donors on the program. The proposed structure of these initiatives reveals the administration's distrust of both its own and multilateral aid agencies.

With the MCA, the administration could have spearheaded a multilateral initiative with the same basic design: choosing countries selectively, delivering aid more efficiently with more recipient-country input, and demanding results. There are three likely reasons that the administration chose the unilateral route:

- **Political.** In the face of mounting criticism that the United States does too little to fight global poverty, the administration wanted to announce a significant, clearly American initiative at the International Conference on Financing for Development in Monterrey. A multilateral effort, even if spearheaded by the United States, quickly would have lost much of its brand identification as a US initiative.
- **Substance.** In two key areas of the MCA—country selection and the expectation of results—the administration does not have faith that the multilateral institutions will maintain high standards. It does not find convincing the claims by some multilaterals, such as the World Bank, that they have become more selective in recent years. Many in the administration believe that to turn the MCA over to a multilateral organization would doom it to large bureaucratic costs and weak results. The United States would be expected to be the largest donor but would cede much of its control to the other donors. In a unilateral approach, the United States can maintain complete control over all aspects of the program.
- **Ideological.** The unilateral approach to foreign aid is part of a much larger pattern of the administration's skepticism of multilateral approaches to foreign policy. There are many other examples, including terminating negotiations on the Kyoto Protocol on Climate Change, rejection of the Rome Statute of the International Criminal Court, and withdrawal from the antiballistic missile (ABM) treaty.<sup>10</sup>

Several arguments in favor of a multilateral approach are laid out most clearly by Nicolas van de Walle (2003) and Gene Sperling and Tom Hart

9. The administration's major multilateral aid initiative was to push the World Bank and the regional banks toward providing more of their funds as grants. The United States pledged an 18 percent increase in its funding for the World Bank's concessional window over three years as part of the negotiations, conditional on the Bank meeting certain performance requirements.

10. For a discussion, see Ikenberry (2003).

(2003). First, a multilateral approach would be less cumbersome and confusing to recipient countries that are overwhelmed by the myriad proposal processes, financial mechanisms, and reporting systems used by different donors. In September 2002, when former US Secretary of the Treasury Paul O'Neill asked Gerald Ssendaula, the Ugandan finance minister, what the biggest problem was with aid delivery, he replied, "It's too expensive." A unilateral MCA would add one more to the mix rather than ease the burden for recipients. Second, a multilateral approach would provide the opportunity to better leverage US funds since other donors would contribute more for each dollar the United States spends. While some donors may respond to the MCA by increasing their own aid allocations, they are likely to do so less than they would through a multilateral effort. Third, a multilateral approach reduces the pressure to allocate funds to diplomatic and strategic partners. However, the MCA's public selection process goes some distance toward easing those concerns. Moreover, multilateral organizations are far from immune to political pressures. They tend to take a different form in which each member receives funding, regardless of their commitment to good development policies, but the pressures exist nonetheless. Fourth, a multilateral approach would be less immune to earmarking, tied aid, and other burdens imposed by Congress, although it would be subject to its own bureaucracy.

Under a best-case scenario, it is possible that a unilateral MCA could have a positive impact on other donors and on donor harmonization. By itself, the MCA will be the equivalent of 9 percent of worldwide ODA flows, not an overwhelming share but far from insignificant. Its proposed recipient-driven, program-based approach could influence other donors to try similar strategies. Moreover, recipient proposals used for the MCA could be the basis for other donors cofinancing the same activities. For example, consider the Education for All (EFA) initiative, in which donors agreed in 2000 to provide funding for countries that produced strong education strategies. The EFA strategies could be the basis for MCA funding in qualifying countries, with the United States and other donors cooperatively financing parts of the same basic education plan.

Much will depend on the extent to which the administration is willing to work cooperatively with recipient governments and other donors to reduce the administrative burden on aid recipients. If the United States stridently insists on using its own unique proposal format and reporting systems, the MCA will set back recent efforts to improve coordination. If, however, there is a serious effort to give recipients more influence over the process, including establishing rigorous procedural norms that a majority of donors can accept, and if these practices expand beyond the MCA to other US aid systems, the MCA could be a small step in the right direction of improving donor harmonization, and a big step forward in improving the quality of US foreign assistance.