Center for Global Development

Challenges for the new leader of the Millennium Challenge Corp.[1]

By Steve Radelet and Mvemba Dizolele

This week's resignation of Millennium Challenge Corp. (MCC) Chief Executive Paul Applegarth, followed by the news the next day that Congress has cut back the funds that President Bush requested for the fledgling aid agency has both critics and supporters of the MCC wondering whether it can live up to its bold vision. While the MCC has made important progress to date, it also faces major challenges that will persist regardless of who heads the organization.

MCC Vision and Performance

The original concept of the Millennium Challenge Account (MCA) was to identify countries with a strong commitment to development, provide them with substantial funding for high priority activities to support economic growth and fight poverty, limit bureaucratic interference, and hold recipients accountable for results. While the initiative has so far fallen short of this goal, it continues to be a promising and innovative vehicle for the U.S. to achieve these important foreign policy objectives.

At least some of the criticism that the MCC has been slow off the mark is misplaced: much of the responsibility for the slow start lies with the administration, which did very little preparatory work during the two years between the president's speech proposing the MCC in 2002 and the passage last year of the enabling legislation.

Given this late start, the MCC made significant progress during its first year of operations, establishing a new organization, hiring key staff, opening offices and setting up the basic functions of a new corporation. It moved as quickly as the legislation allowed to convene its Board of Directors, announce country selection methodology, and select MCA-eligible and threshold countries for 2004 and 2005. By April 2005 the MCC has received proposals from 16 of 17 MCA-eligible countries and from all countries eligible for the Threshold Program. To date the MCC has signed two compacts (Madagascar and Honduras) and the Board has approved two additional compacts (Nicaragua and Cape Verde) which are currently under congressional review. Given the

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[1] This analysis draws heavily from Steve Radelet's recent Testimony for the House Committee on International Relations: **The Millennium Challenge Account: Making the Vision a Reality** (April 27, 2005)
http://www.cgdev.org/docs/MCA%20Testimony1.pdf

level of recipient country effort involved, taking one year to approve these compacts seems quite appropriate.

Amid this rush, the MCC achieved modest success in adhering to the principles that guided its creation. To some degree, it has been more focused and more nimble than traditional aid programs. It is also uniquely transparent about how its selects qualifying countries. The MCC posts on its web site (http://www.mcc.gov/) all the data used to select eligible countries, opening itself to unusual scrutiny. MCC staff have made themselves available to interested parties through outreach meetings, individual consultations, sessions with eligible-country embassies, and participation in NGO working group meetings.

The new CEO of the MCC will benefit from this initial progress but will also face major challenges. Three stand out: scaling up the MCC's activities to match the original vision, increasing speed, and ensuring high quality programs to support growth.

Scaling Up

For the MCA to really help committed governments transform their economies, it must provide substantial funding to make a real difference on the ground and offer strong incentives for countries to take the necessary steps to qualify. The President's original proposal called for $5 billion in funding each year, implying compacts that would be in the neighborhood of a minimum of $150-$200 million per year or more, making the MCC the largest donor in most countries.

But the first compact, for Madagascar calls for only about $27 million per year, just enough the make the MCC a slightly larger than average donor in the country. For the first 16 eligible countries, the MCC is currently reviewing proposals amounting to about $3 billion over 3-5 years – an average of about $40-60 million per country per year, depending on the length of the compact. This would make the MCC the third or fourth largest donor on average in the recipient countries. Programs of this size are only one-quarter to one-third of the original MCA vision, and as such are unlikely to be large enough to create the incentives for improved performance. The new CEO will want to encourage countries to be big, bold, and innovative in their proposals, rather than discouraging large proposals, as sometimes has been the case. And she or he will need to work with Congress to ensure the funding necessary to follow through on these pledges.

Increasing Speed

There is a natural tension between the desire for speed, on one hand, and a country-led process and program quality on the other. Although the MCC made reasonable progress in its first year, approving four compacts, at least 11 other countries in the first round are well behind schedule. Ideally, after one year, the MCC should be close to making decisions – either up or down – on all 16 of the first round countries, not just a few. Currently the MCC works with countries after they submit their proposals in an attempt to strengthen programs. Since there are no deadlines, the process can continue for many months without a clear decision. An alternative that the new MCC CEO should consider would be to announce two Board dates each year during which decisions would be made on all submitted proposals. This would provide greater clarity and speed.[2]

Ensuring High Quality Programs

Ensuring high quality programs will be crucial to the MCC's ultimate success. The MCC accepts proposals covering a very wide range of areas, including agricultural production, tourism, land titling, transportation, water, finance, energy, health, and education. The MCC's small staff does not have, and should not be expected to have, expertise in all of these areas. Yet it needs to make recommendations on the proposals, provide oversight, and conduct monitoring and evaluation.

To ensure high technical quality, it will need to rely on a combination of in house expertise, staff from other executive branch agencies, and outside experts. In addition, the new MCC CEO should consider establishing an independent Technical Review Panel of outside experts to evaluate all proposals prior to approval with respect to their technical merits and their potential contribution to poverty reduction and growth. The Panel would make non-binding recommendations to the Board.

Beyond establishing a Technical Review Panel, the new CEO should reconsider both the composition and the size of the MCC staff. The MCC has placed a priority on hiring staff with fresh ideas from the private sector, complemented by professionals with government experience. As a result, while the current staff is a strong group of professionals with important skills, there appear to be relatively few with strong expertise in economic development, which could adversely affect program quality. It is critically important to augment the current staff with experts in economic development and poverty reduction, along with experienced professionals with deep knowledge of the strengths and weaknesses of other donor approaches.

With respect to staff size, the MCC currently has about 120 staff members, and is planning to increase to 200 by the end of 2005. Aiming for a small staff size is admirable. However, a staff of 200 is extremely small for an organization planning to disburse at least $2 billion per year or more in the near future. The fact that this staff-to-disbursement ratio is much higher than that of other funding organizations highlights the dangers of too small a staff, including delays in proposal review, negotiation, disbursement, and weakness in communication with other agencies, Congress, and recipient governments. Such communication clearly suffered in the first year because of staff shortages.[3]

High Stakes Opportunity

During its first year of operations, the MCC made reasonable progress towards some of its ambitious goals. The start up delays are now water under the bridge. The coming change in leadership offers an opportunity for the new CEO to assess what has been accomplished so far, and to chart a course that addresses the serious challenges ahead.

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[2] For details see **The Millennium Challenge Account: Making the Vision a Reality**

[3] For details see **The Millennium Challenge Account: Making the Vision a Reality**

The stakes are high: the MCA is the most ambitious and potentially far-reaching reform of U.S. development assistance in a generation. If it succeeds, its contributions to development and U.S. foreign policy goals can be significant. If it fails, future administrations are unlikely to attempt anything this ambitious for many years to come.

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