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With New Leader, Foreign Aid Program Is Taking Off

Millennium Challenge Will Give More Grants to Well-Governed Nations

By Michael A. Fletcher and Paul Blustein Washington Post Staff Writers Tuesday, January 31, 2006; A15

After getting off to a painfully slow start, President Bush's signature foreign aid program is poised to begin ramping up the amount of money it spends on development projects in poor countries, according to its new chief executive -- who vows that the impact will be "transformative."

John J. Danilovich, the former ambassador whom Bush installed as head of the Millennium Challenge Corp. in November, said the agency is adopting a new strategy to fulfill its mission of providing aid to well-governed nations. It will winnow recipients to a short list but intends to give them significantly bigger grants than those bestowed in previous programs.

Implementing such an approach would mark an important shift for the federally funded corporation, which Bush proposed creating in 2002 as an innovative way to dole out development assistance.

The idea was to establish an agency that, instead of giving funds to a broad cross section of countries, would funnel aid only to poor nations deemed to have relatively honest governments and good policies -- the theory being that aid works best that way. Working separately from traditional aid programs, the corporation was to choose potential recipients based on a clear set of criteria measuring their commitment to free enterprise, perceived success in reducing corruption and willingness to invest in education, health care and other programs aimed at the well-being of their citizens.

Despite widespread praise for the concept, the program has fallen well short of Bush's stated ambition. He envisioned spending $1.7 billion in 2004, $3.3 billion in 2005 and $5 billion per year thereafter. But the administration took two years just to set up the corporation, and even then problems impeded its progress.

With 16 countries eligible to enter into "compacts," the agency was reluctant to give too much money to any individual country. Initially only five countries submitted proposals for projects that the agency's management found worthy of funding -- Cape Verde, Georgia, Honduras, Madagascar and Nicaragua. As a result, the corporation has committed or approved just $1.6 billion in development aid since its inception. As of December, $19.5 million of that money had been disbursed, as recipients are given money only as their projects move ahead.

Frustrated by the slow pace, Congress limited the agency's budget, and its first CEO, Paul V. Applegarth, left shortly after African leaders complained to Bush at the White House last June about the difficulty of obtaining the promised assistance.

A former ambassador to Brazil and Costa Rica who spent much of his career in the shipping business, Danilovich acknowledged that handing out relatively modest sums to individual countries would not produce the desired galvanic effect. That is why he is planning to dispense bigger amounts to fewer countries, while giving recipients larger blocks of capital at the start of their development projects.

"We're concentrating on fewer countries with larger compacts, because we want to have a transformational impact," Danilovich said in an interview. "There is no point in giving a little money to each of a lot of countries, because you're just not going to have that impact."

He said the corporation wants to step up its pace of disbursements. Typically, the corporation's aid agreements are five-year deals that call for money to be distributed to countries as their projects progress. "We hope to do some reconfiguring of our disbursements . . . to see if we can get a substantial amount of money out the door in the first year of a compact," Danilovich said. He added, however, that money would be distributed no more quickly than a country can absorb it.

He also has worked to improve communication with prospective grantees, and has produced a binder that outlines for recipients the process of implementing development deals with the corporation. The idea is "here's the book. Here's what you have to do. Follow it," Danilovich said.

Since Danilovich has come aboard, the corporation has agreed on additional compacts with Armenia and Vanuatu, an island nation in the South Pacific. Yesterday, it announced a deal with the African nation of Benin and officials are hoping to have several more agreements in place by the end of the year.

Danilovich, a smooth-talking manager with long-standing Republican connections, is described by colleagues as much more decisive than Applegarth. But unlike his predecessor, Danilovich came to the job with no experience in development assistance. Although he can rely on his staff -- the agency has

about 200 employees -- many of them are not development experts, either. With notable exceptions, they tend to come from the private sector, the diplomatic corps or Capitol Hill.

That worries some aid specialists who fear that as the agency seeks to ramp up its spending, it runs the risk of squandering money in ways that older aid organizations such as the World Bank have learned through bitter experience to avoid.

"Danilovich comes to the job with certain strengths -- experience with the State Department; important private-sector experience; and management experience, which I consider crucial at this point for the organization," said Steven Radelet, a former Treasury Department official at the Center for Global Development who helped formulate the program. "But what the MCC as an organization still lacks is real strength in people with significant development experience, with deep understanding of how to improve on the practices of other aid organizations without repeating some of the mistakes that have been made in the past."

According to one source who insisted on anonymity, the MCC sought during Applegarth's tenure to hire a chief economist who would bring a well-regarded reputation in the development field. But the initiative fizzled when staffers could not find such an economist who was also a Republican.

In some ways, the level of development expertise within the MCC may not matter, because the ways in which countries spend its money may be less important than the efforts they make to qualify for it. MCC officials call this the "incentivizing effect" -- meaning that the lure of big grants will encourage governments to improve their policies, which may do more to generate growth than any aid project.

One major test of the program's mettle looms in Bolivia, which is moving toward a $598 million MCC grant for road projects. But Bolivia just elected a populist president, Evo Morales, who has allied himself with such nemeses of Washington as Cuba's Fidel Castro and Venezuela's Hugo Chavez.

"We will look very closely at how Bolivia adheres to its political and economic processes," Danilovich said. Asked whether Bolivia will be stricken from the list of eligible countries if, for example, it nationalizes its gas reserves, Danilovich declined to say exactly what would cause the MCC to take such a step. "If free enterprise is jeopardized, it's something we have to look at very carefully," he said.

As the program matures, Danilovich predicted that the problems of reaching development agreements will take a back seat to the huge challenges posed by implementing them.

"The initial thing was get the compacts, and sign the agreements and commit the money and, for God's sake, disburse the money," he said. "I think in retrospect we're going to look back to that as easy. The tough stuff is now going to be to implement these projects. And implementation in this country is difficult. In Western European countries, it's difficult, let alone in developing countries."