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Controlling Carrots and Sticks

White House Tries to Rein In Foreign-Aid Agency It Recently Created

By MICHAEL M. PHILLIPS

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WASHINGTON -- Four years ago, the Bush administration came up with a way to allocate aid to poor nations based on how well they were governed, rather than how closely they were allied with the U.S. Now some in the administration worry that the new agency distributing the aid has become so autonomous that it undermines the State Department's ability to direct U.S. foreign policy.

The agency, the Millennium Challenge Corp., has clashed with State Department officials over the MCC's practice of warning foreign leaders that they won't get assistance unless they hold clean elections, improve their human-rights records, cut budget deficits or take other steps -- a task that diplomats jealously guard.

At the same time, the State Department has raised eyebrows inside and outside the administration with its efforts to steer aid to such favored U.S. allies as Georgia and Jordan even if they don't meet the MCC's definition of a well-run country. "The pressure comes from State in most cases," says Sheila Herrling, an MCC specialist at the nonpartisan Washington think tank, the Center for Global Development.



John Danilovich

The tussle reflects the difficulty of changing the U.S. approach to foreign aid, which had been set for decades by the realpolitik of the Cold War. In 2002, President Bush, frustrated that the traditional approach had lifted few countries out of poverty, proposed a program under which aid would go only to poor countries that meet quantitative standards of honest government, effective social spending and market-based economic policy. Each country would know how it ranked and why it did or didn't qualify.

Administration officials say tensions have flared in recent months, especially over MCC operations in sub-Saharan Africa. In January, MCC Chief Executive John Danilovich raised hackles by publicly advising the president of Benin to scrap any idea of extending his term in office indefinitely. The coming election "is a significant milestone in Benin's history and continued participation in the MCC requires that a successful election be held on the agreed date and according to Benin's constitution," Mr. Danilovich said. The elections went smoothly, and a successor took over.

Mr. Danilovich also sent Senegal's prime minister a warning letter about its preparation of an MCC proposal without giving diplomats what they considered sufficient time to review it.

This month, the MCC sent a memo to senior State Department officials promising three days' notice before sending letters to heads of state -- but with a comment that it expects State to reciprocate. "To ensure maximum coordination, we would expect any substantive commentary on the proposed MCC communication...returned to the MCC within the same time frame," said the MCC memo, a copy of which was reviewed by The Wall Street Journal.

Congress created the MCC in 2004, and the agency set 16 criteria to measure eligibility for grants, from how well a country fights corruption to how many of its children are immunized. Lawmakers have appropriated \$4.3 billion for the MCC so far and the president is asking for an additional \$3 billion for the fiscal year starting Oct. 1, although it appears likely that lawmakers won't appropriate the full amount. The MCC has approved eight grants, including \$65.69 million for Vanuatu, \$110 million for Cape Verde and \$235.65 million for Armenia.

"The point I'm trying to make to you is that wise use of government monies can help us achieve objectives which lead to the reduction of global poverty," Mr. Bush said at a conference on Third World development this month. "And so we're just through spending the money without asking for results."

In a bureaucratic twist, Condoleezza Rice, then Mr. Bush's national security adviser, pushed to insulate the MCC from political pressure. Yet now that Ms. Rice has moved to the State Department, some on her staff are irked with the MCC's perceived trespass on diplomatic turf. When the MCC speaks on behalf of the U.S. government, some diplomats believe it can pull the rug out from under the U.S. ambassador.

The issue looks different from the MCC side, which wants to maintain its reputation for strictly and fairly applying the aid rules. MCC officials say that approach already is generating important retooling in Africa and elsewhere. "We will not hesitate to say 'no' or 'no more,'" Mr. Danilovich said in a speech at the American Enterprise Institute in January.

Spokespeople for the MCC and State Department play down any conflict. The State Department's Sean McCormack describes an "excellent, smooth working relationship." An MCC representative said, in a written response to questions: "Since its inception...the MCC has successfully worked to communicate with agencies and groups inside and outside of government about the work we do."

Allocating Aid

The Millennium Challenge Corp. assists nations that meet quantitative standards in honest government, effective social spending and market-based economic policy. They are:

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|--------------------------------|--|
| ■ Civil liberties | ■ Girls' primary education completion rate |
| ■ Political rights | ■ Public expenditure on primary education |
| ■ Voice and accountability | ■ Cost of starting a business |
| ■ Government effectiveness | ■ Days to start a business |
| ■ Rule of law | ■ Inflation rate |
| ■ Control of corruption | ■ Trade policy |
| ■ Immunization rate | ■ Regulatory quality |
| ■ Public expenditure on health | ■ Fiscal policy |

Source: Millennium Challenge Corp.



A woman in Faratsiho, Madagascar, shows the title to her land which was issued under a Millennium Challenge Corp.-funded project to modernize the country's antiquated land-tenure system.

Congress set up the MCC so that it would operate relatively free of the day-to-day imperatives of U. S. foreign policy. "The MCC does not work for a desk in the State Department," says Randall Tobias, the Bush administration's new director of foreign assistance and an MCC board member. "It wasn't intended that

way."

But the agency's board also includes Ms. Rice, the Treasury secretary and other top administration officials, so, he adds, "it's pretty hard to say the MCC is going off independently."

The board itself, however, hasn't always been of one mind about which countries deserve MCC aid.

The board voted unanimously on June 16 to suspend Gambia's eligibility because of alleged human-rights abuses and public corruption, among other problems. In internal administration discussions, however, the State Department was seen as more conciliatory toward Gambia. And board members have, at times, disagreed over when they should use their discretion to assist countries that -- by the numerical criteria alone -- wouldn't have made the cut, according to Steve Radelet, a former Treasury Department official and a senior fellow at the Center for Global Development.

For instance, Jordan, a U.S. ally in the Middle East, qualified for an interim program even though it isn't a democracy. Likewise, Georgia, a country that has supplied hundreds of soldiers to the U.S.-led coalition in Iraq, received a \$295.3 million grant even though it had come up short on corruption and several other indicators.

An MCC representative says Georgia deserves some slack because it is now aggressively fighting corruption. But Ms. Herrling calls it "a straight-up political decision."

"The key to success at MCC is whether they withstand the political pressure to direct MCC resources to countries that are not performing on their development indicators, or to withstand pressures to use MCC money for geopolitical purposes, not development," Ms. Herrling says.

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