

## THE MCA—LIMITING ASSISTANCE TO LOW INCOME COUNTRIES

The Millennium Challenge Account (MCA) was announced by President Bush in March 2002 as a mechanism to deliver substantial new resources to a carefully selected group of poor countries to support development and poverty reduction. When announced, the President promised to begin funding the MCA in 2004, scaling up to \$5 bn in additional annual resources by 2006.

The Administration's plan for the MCA expands the pool of countries eligible to receive MCA funds over the next three years. In the first year (2004), the MCA is limited to IDA-eligible countries with per capita incomes under \$1435 only. In the second year, all countries that have per capita incomes under \$1435 would qualify and in the third year, the income limitations are extended so that lower-middle income countries with annual per capita incomes under \$2975 will qualify for a portion of MCA funds as well.

DATA believes that the pool of countries eligible for MCA funding should not grow beyond the low income group that will be eligible in the second year—countries with per capita incomes below \$1435 annually. While it is true that the lower-middle income countries (which would become eligible in the third year) also have great needs, the MCA will be most effective targeting low income countries exclusively for the following reasons:

- **Low income countries have much greater needs**—On average, the countries that would qualify in the first two years are much poorer and have much worse social conditions than do lower-middle income countries (average annual GDP per capita of \$460 versus \$1965; average adult illiteracy rates of 33 versus 14 percent; and average infant mortality rates of 69 versus 27 per 1000 live births).
- **Low income countries have fewer options**—The lower-middle income countries that would be able to access MCA funds in the third year already have better access to other financial resources. Low-income countries receive less private capital (8.7 versus 10.3 percent of GDP); have much less capacity to raise tax revenue (12.6 versus 21.8 percent of GDP); and are able to save only half as much as lower-middle income countries (8.4 versus 16.2 percent of GDP).
- **Lower-middle income countries receive other U.S. assistance**—The group of countries that would become eligible in the third year include many countries of strategic importance to the United States. These countries already receive the largest share of U.S. economic and security assistance.

<b>Illustrative List of Countries</b>	
<i>Low Income (per capita incomes &lt;\$1435)</i>	<i>Lower-Middle Income (per capita incomes \$1435-\$2975)</i>
Afghanistan	Columbia
Cambodia	Egypt
Chad	Jamaica
Ethiopia	Jordan
Haiti	Romania
Nicaragua	Russia
Rwanda	South Africa
Ukraine	Turkey