

THE MILLENNIUM CHALLENGE

The Millennium Challenge is the first major increase in U.S. assistance to poor countries in decades. It is designed to reward democratic countries that are fighting corruption and investing in the health and education of their people while also creating an incentive for other countries to do so as well. 16 countries have been selected for first year funding from the Millennium Challenge to help them meet the internationally agreed Millennium Development Goals. But just as the program is getting started, **Congress is proposing to cut 50%** from the President's requested funding for FY2005.

Such a cut would undermine support for qualified countries as well as the incentive for other countries to make the reforms necessary to qualify – a core objective of the Millennium Challenge. Because the U.S. will sign agreements with recipient countries for 3-5 years of funding, funding needs to be front-loaded to cover this time period. A 50% cut would result in far fewer lives being saved and millions fewer children in school.

WHAT IS THE MILLENNIUM CHALLENGE?

- ✓ The Millennium Challenge Account (MCA) was announced by President Bush in March 2002 as a new mechanism to deliver substantial new resources to a carefully selected group of poor countries to help them reduce poverty and fight corruption.
- ✓ Eligibility for the MCA is based on country income level and individual countries' commitment to good governance, fighting corruption and investing in their people.
- ✓ On May 6, 2004, the Millennium Challenge Corporation Board of Directors selected 16 countries to apply for Millennium Challenge funding in the first year, eight of which are in Africa. The Board used a series of quantitative indicators to measure commitment to ruling justly, investing in people and instituting economic freedom. Final selection was based on this analysis as well as updated data and other factors on the ground.¹

WHY ARE FUNDING LEVELS SO CRITICAL?

The Millennium Challenge requires frontloaded annual commitments: In order to enter a compact with any of the 16 countries above, the MCC will require *3-5 years' worth of financing* in its account. This ensures effective investment in that recipients will be able to plan for multiyear programs with the certainty that funding will be available. Without such front-loaded funding, the Millennium Challenge must either fund relatively small projects in each qualified country (reducing the "reward" to qualifying countries and incentive to others) or selectively fund only a small group of qualified countries, leaving many qualified countries unfunded and undermining the incentive mechanism entirely.

The poorest countries have great needs . . . and plans to address them: The annual needs identified in well structured, country-owned plans to improve education, health care, clean water and infrastructure for the first 16 countries selected alone exceed the total resources even proposed in the President's budget. DATA analysis released in May 2004 showed that the 16 countries selected for first year funding have existing plans and capacity to utilize a minimum of:

- \$1.9-2.1 billion in 2004 -- more than twice as much as the \$1 billion appropriated for 2004
- \$2-2.2 billion in 2005 -- almost the entire \$2.5b requested by the President. Additional countries will be selected in 2005 as well.

Restoring \$1.25b to the Millennium Challenge will save lives and futures: The \$1.25bn difference between what the President proposed and what Congress is considering for FY05 will make a major difference:

- 10 million fewer children would be sent to school for the first time
- 8000 fewer communities would gain access to clean water
- 6 million fewer children would receive vaccinations against 6 common diseases like polio, measles and tetanus

¹ Eligible countries in 2004: Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, Vanuatu

THE MILLENNIUM CHALLENGE

- 170,000 million fewer mother and their babies would be saved through safe deliveries and infant care
- 15 million fewer insecticide treated bed-nets would be distributed to fend off malaria
- 7 million fewer people would begin to gain access to basic infrastructure such as roads, better soil and electricity
- Millions would be deprived opportunities for gainful employment

Background: In March 2002, the White House indicated that the MCA would channel a total of \$10b over three years (2004-2006), reaching an annual expenditure of \$5b by 2006. The President added “this new money is above and beyond existing aid requests in the current budget I submitted to the Congress... I carry this commitment in my soul...” The President’s FY2004 budget request included only \$1.3b for the MCA. Congress eventually passed a total of \$1b after adding \$350m by amendment. The President requested \$2.5b for the MCA in 2005. Though this amount is less than the \$3.3b originally indicated by the White House in 2002, it would provide enough funding for the MCA to get back on track towards reaching the \$5b goal for FY2006. Now the House has proposed cutting the Millennium Challenge to \$1.25b in FY2005 and the Senate has proposed a cut back to \$1-1.25b.

