

## EXPANDING THE BENEFITS OF THE MCA

In March 2002, President Bush announced his plan for the Millennium Challenge Account (MCA), a new effort to address global poverty by providing substantial new resources to a carefully selected group of poor countries that govern justly, invest in the well being of their people and encourage economic freedom. The MCA's focus on the world's poorest and least-developed countries and its central thesis—that assistance will yield greater results if invested in good performance—combine to create the potential for the MCA to be one of the most effective development programs ever administered by the United States.

The Administration's plan for the MCA:

- Expands the pool of countries eligible to receive MCA funds over the next three years starting with IDA-eligible low income countries and expanding to include lower and middle income countries in the third year.
- Scores countries using a transparent evaluation of a country's performance using 16 economic and political indicators separated into three categories—governance, economic freedom and investing in people.
- Selects countries that score above the median on half of the indicators in each area and also score above the median on the control of corruption indicator.

While no official list of MCA countries has yet been released, analyses from the Center for Global Development (CGD) using the Administration's methodology indicate that only 11 countries would qualify in year one, 12 would qualify in year two and an additional 6 lower-middle income countries would qualify in year three. Thus, the current methodology may generate a smaller list of MCA-eligible countries than might have been envisioned when the bold new program was announced. The likely African candidates, for example, comprise only 12% of the continent's population.

### Creating a Second Tier

DATA believes that the integrity of the “good governance” approach should be protected and expanded by providing limited MCA resources to those countries that nearly qualify for the MCA. Several countries generally considered to be worthy of significant development assistance miss eligibility by one indicator, while several others are ruled out because they fail to meet anti-corruption standards. An MCA Second Tier, established in the second year and set to comprise 20-33% of fully funded annual MCA allocations, could be designed to assist countries that narrowly miss eligibility in any of the three areas of governance, economic freedom or investing in people and/or for those that miss the corruption indicator.

**Funding for ‘Near Misses’**— Provide targeted grants to those countries that miss qualification for the MCA by only one indicator. As is the case for MCA eligible countries, final determination of these ‘near miss’ countries would be made by the MCC Board of Directors but based on the CGD analysis, this would reach an additional 11 countries in the second year. Using the proposed MCA

COUNTRIES ELIGIBLE*	
YEAR 1	YEAR 2
Eligible Countries	
Armenia	Armenia
Bhutan	Bhutan
Bolivia	Bolivia
Ghana	Honduras
Honduras	Lesotho
Lesotho	Mongolia
Mongolia	Nicaragua
Nicaragua	Philippines
Senegal	Senegal
Sri Lanka	Sri Lanka
Vietnam	Swaziland
	Vietnam
Near Miss Countries	
Benin	Benin
Burkina Faso	Burkina Faso
Cape Verde	Cape Verde
Georgia	The Gambia
Guyana	Ghana
India	Guyana
Mali	India
Mauritania	Mali
Nepal	Mauritania
Sao Tome & Principe	Morocco
Togo	Sao Tome & Principe
Countries eliminated by corruption	
Albania	Bangladesh
Bangladesh	Ecuador
Malawi	Malawi
Moldova	Moldova
Mozambique	Paraguay
	Ukraine

\*According to CGD Analysis

model, a contract would be devised and agreed upon by the MCC and the recipient government. Programs would be devised in close consultation with the MCC and would be dedicated to those development priorities of the recipient country which need to be addressed in order to fully qualify for the MCA. Countries failing to achieve sufficient progress would not be eligible for larger scale MCA funding unless and until they qualified for the MCA on conventional terms.

***Funding to Fight Corruption***—Provide grants toward aggressive anti-corruption initiatives in those countries that miss qualification for the MCA only because of the corruption indicator; such assistance would reach an estimated 6 additional countries in the second year. Corruption poses an intolerable impediment to development, but in the world's poorest countries, corruption is as often the manifestation of institutional weakness as it is of intent. MCA assistance should in no circumstances be provided to countries suffering from “grand” or systemic corruption condoned by officialdom. However, in those cases where limited capacity, isolated malfeasance and/or weak institutions are at the root of corruption but where there is intent by the government to address these problems, conditioned MCA assistance could play a central role in enhancing a government's ability to control corruption.