



## MEETING THE MILLENNIUM CHALLENGE

*The U.S. established the Millennium Challenge as 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.*

*Because the Millennium Challenge is new, some have questioned the need for and potential uses of the proposed funding. DATA has evaluated country plans devised in conjunction with a range of donors including the IMF and the World Bank to show that **the \$1b appropriated for 2004, the \$2.5b requested in 2005, and the \$5b proposed in 2006 can be fully justified.** The 16 countries selected for the Millennium Challenge in the first year 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.*

### **16 countries are eligible to apply for the Millennium Challenge in the first year**

On May 6, 2004, the Millennium Challenge Corporation Board of Directors selected 16 countries which will be invited to apply for Millennium Challenge funding in the first year. 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.

### **These 16 countries have poverty reduction plans in place that could immediately use \$2-2.2b in 2005**

DATA used country analyses conducted by or in conjunction with the World Bank and the IMF to estimate the resources that can be put to work immediately through existing country plans to improve education, health care, clean water, infrastructure and other essential needs.<sup>1</sup> As the table on the following page reveals, financing gaps totaling \$1.9-2.1 billion have been identified for 2004 and financings gaps of between \$2-2.2 billion have been identified for 2005. The total financing needs over these two years for the 16 selected countries is between \$3.9-4.3 billion—even more than the \$3.5 billion that would be available if the President’s full request of \$2.5 billion for 2005 is appropriated. In addition, in the second year of the Millennium Challenge additional countries will be selected, requiring additional financial resources.

---

<sup>1</sup> Though this analysis uses costings in part generated by the IMF and World Bank, this does not mean DATA subscribes to the overall policy prescriptions proposed by the IMF and World Bank for these countries. Where possible, the analysis used cost estimates provided by a World Bank and IMF Joint Development Committee paper in September 2003 as to financing levels that could be absorbed immediately to accelerate progress towards the Millennium Goals. This paper did not estimate how much these countries need to reach the Millennium Goals but rather “the additional financing that could be used effectively as part of these efforts in the initial phase.” For other countries, figures reflect the financing gaps identified in Poverty Reduction Strategy Papers or the Poverty Reduction Growth Facility papers.



### Existing Financing Needs In Year One Millennium Challenge Countries

Country	Financing gap 2004	Financing gap 2005	Two year total	Source
Armenia	\$26m	\$44m	\$70m	Armenia: Fourth Review Under the Poverty Reduction and Growth Facility; December 2003
Benin	\$100-\$150m	\$100-\$150m	\$200-300m	“Supporting Sound Policies with Adequate and Appropriate Financing”; IMF and World Bank Development Committee; 13 September 2003
Bolivia	\$160m	\$160m	\$320m	IMF and World Bank Development Committee; 13 September 2003
Cape Verde	\$33m	\$33m	\$66m	Cape Verde: Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility; December 2003
Georgia	\$110m	\$125m	\$235m	Georgia: Poverty Reduction Strategy Paper; August 2003
Ghana	\$61m	\$53m	\$114m	Ghana: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility; 30 December 2003
Honduras	\$120m	\$120m	\$240m	IMF and World Bank Development Committee; 13 September 2003
Lesotho	\$25-30m	\$25-30m	\$50-60m	Expected PRSP total as per Lesotho government consultation
Madagascar	\$221m	\$294m	\$515m	Madagascar Poverty Reduction Strategy Paper; October 2003
Mali	\$165m	\$165m	\$330m	IMF and World Bank Development Committee; 13 September 2003
Mongolia	\$10m	\$5m	\$15m	Mongolia: First and Second Reviews Under the Poverty Reduction and Growth Facility; September 2003
Mozambique	\$85-225m	\$85-225m	\$170-450m	IMF and World Bank Development Committee; 13 September 2003
Nicaragua	\$133m	\$133m	\$266m	Nicaragua: National Development Plan
Senegal	\$188m	\$221m	\$409m	Republic of Senegal, Poverty Reduction Strategy Paper; May 2002
Sri Lanka	\$441m	\$446m	\$887m	Sri Lanka: Request for a Three Year Arrangement Under the Poverty Reduction and Growth Facility; April 2003
Vanuatu	\$4m	\$5m	\$9m	Vanuatu: Article IV Consultation; December 2002.
<b>Total</b>	<b>\$1.9-2.1b</b>	<b>\$2-2.2b</b>	<b>\$3.9-4.3b</b>	

**The Millennium Challenge was designed as a response to the Millennium Development Goals; in order to reach these internationally agreed upon goals, these 16 countries will ultimately require more than \$2-2.2b per year**

Experts agree that the figures above represent mere starting points.<sup>2</sup> While they reflect the resource gaps of existing plans, those plans do not reflect the total needs of the country. The World Bank and IMF strongly encourage the governments and members of civil society who write the plans to limit the scope to what might be achieved using domestic resources and expected/potential resources from the international community. The plans are oriented around the inputs thought possible rather than the outputs and goals desired. Those goals have now been agreed upon by the international community of donors and developing countries alike and include specific poverty reduction goals such as giving all boys and girls a primary education, doubling the number of people with access to clean water, and reducing the under-5 child mortality rate by two-thirds.

<sup>2</sup> Estimating the total costs to reach the Millennium Development Goals is difficult because costs vary greatly by country and external financing requirements will be determined in part by country growth rates and the success of reform programs. Some conservative initial estimates indicate that it will cost the international community between an additional \$40-75b to reach the Millennium Development Goals. The UN Zedillo Commission estimates an additional \$50b is necessary; the World Bank/IMF estimates between \$40-60b in additional financing is necessary and Jeffrey Sachs has estimated that a minimum of \$75b in financing will be required. The African Development Bank, in conjunction with several other international financial institutions estimated that the 30 African countries that are best positioned to make progress towards the Millennium Goals will need an additional \$20-25b