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The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative

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Summary

In a speech on March 14, 2002, at the Inter-American Development Bank, President Bush outlined a proposal for the United States to increase foreign economic assistance beginning in FY2004 so that by FY2006 American aid would be $5 billion higher than three years earlier. The new funds, which would supplement the current estimated $12.87 billion economic aid budget, would be placed in a Millennium Challenge Account (MCA) and be available on a competitive basis to a few countries that have demonstrated a commitment to sound development policies and where U.S. support is believed to have the best opportunities for achieving the intended results. These "best-performers" will be selected based on their records in three areas – ruling justly, investing in people, and pursuing sound economic policies.

Development of a new foreign aid initiative by the Bush Administration has been influenced by a number of factors, including the widely perceived poor track record of past aid programs, recent evidence that the existence of certain policies by aid recipients may be more important for success than the amount of resources invested, the war on terrorism, and the March 2002 U.N.-sponsored International Conference on Financing for Development in Monterrey, Mexico.

The MCA initiative will be limited to countries with per capita incomes below $2,975, although in the first two years – FY2004 and 2005 – only countries below the $1,435 level will compete for MCA resources. Participants will be selected based on a transparent evaluation of a country's performance on 16 economic and political indicators, divided into three clusters corresponding to the three policy areas of governance, economic policy, and investment in people. Eligible countries must score above the median on half of the indicators in each area. One indicator – control of corruption – is a pass/fail measure, meaning a country must score above the median on this single measure or be excluded from further consideration.

The Administration proposes to create a new entity – the Millennium Challenge Corporation (MCC) – to manage the initiative. The MCC will be supervised by a Board of Directors chaired by the Secretary of State and including other cabinet officials. Several other key issues – FY2004 funding levels, number of participating countries, types of programs supported, and monitoring mechanisms – have yet to be determined.

Congress will play a key role in the approval of the initiative by considering authorization and funding legislation, and in confirming the head, or CEO, of the proposed Millennium Challenge Corporation. A number of issues are likely to be addressed in the congressional debate, including country eligibility criteria, performance indicators used to select participants, creation of a new agency to manage the MCA, and budget considerations. Congress will also maintain continuing oversight of the program during its lifetime.

This report will be updated and expanded when the Administration submits its legislative and budgetary requests early in the 108th Congress.

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Introduction

In a speech on March 14, 2002, at the Inter-American Development Bank, President Bush outlined a proposal for the United States to increase foreign economic assistance beginning in FY2004 so that by FY2006 American aid would be $5 billion higher than three years earlier. He further pledged to maintain economic aid amounts at least at this level into the future. The funds would be placed in a new Millennium Challenge Account (MCA) and be available on a competitive basis to a few countries that have demonstrated a commitment to sound development policies and where U.S. support will have the best opportunities for achieving the intended results. These "best-performers" will be selected based on their records in three areas:

- Ruling justly – promoting good governance, fighting corruption, respecting human rights, and adhering to the rule of law.

- Investing in people – providing adequate health care, education, and other opportunities that sustain an educated and healthy population.

- Pursuing sound economic policies that stimulate enterprise and entrepreneurship – promoting open markets, sustainable budgets, and opportunities for economic growth.

If fully implemented, the initiative would represent one of the largest increases in foreign aid spending in half a century, outpaced only by the Marshall Plan following World War II and the Latin America-focused Alliance for Progress in the early 1960s. Administration officials characterize the MCA as representing the most comprehensive policy change ever in how the United States designs, implements, and monitors development assistance to low and lower-middle income nations. In particular, Executive officials emphasize the "results-based" aspect of the initiative in which countries will be selected based on past and current performance, and programs will be evaluated on and required to show measurable achievements that impact favorably on economic growth and poverty reduction.

Conditioning assistance on policy performance and accountability by recipient nations is not a new element of U.S. aid programs. Since the late 1980s at least, portions of American development assistance have been allocated by the U.S. Agency for International Development (USAID) to some degree on a performance-based system. What is significantly different about the MCA is that the entire $5 billion money pool – which is nearly twice the size of the current USAID "core" development aid budget – will be tied to performance and results. Moreover, program proposals will be based on national development strategies developed by the countries themselves, with a U.S. role limited to providing technical assistance in project design. Further, in another major departure from past policy, the MCA is intended to focus exclusively on development goals without being influenced by other U.S. foreign policy and geo-strategic objectives that often strongly influence U.S. aid decision making. Nevertheless, while new details regarding country eligibility, selection criteria, and organizational structure were announced in December, many issues have not yet been decided and remain under review by the Executive branch.

Congress will play a key role in the approval of the initiative by way of considering authorization and funding legislation, and in confirming the head, or CEO, of the proposed Millennium Challenge Corporation that will manage the MCA. Congress will also maintain continuing oversight of the program as it is implemented and additional funding is sought in subsequent years. Among numerous policy issues for Congress raised by the MCA proposal are:

- **Country eligibility**: Should the MCA target both low and lower-middle income countries, as proposed by the Administration, or should it focus exclusively on the poorest nations where the needs are the greatest and where access to other financial resources is limited? And, if both, how should funds be allocated between the two groups?

- **Performance indicators and selection process**: Will the indicators and the methodology proposed by the Administration identify the "best performers"?

- **Implications for other U.S. development aid programs**: How will the MCA affect global and country aid programs not part of the new initiative?

- **U.S. organizational structures:** Is the proposed Millennium Challenge Corporation, with a staff of 100, the most appropriate structural model for managing the MCA? What are the implications for the U.S. Agency for International Development, the primary government bilateral aid agency?

- **Program development and selection:** What types of activities should the MCA fund and how will these programs be designed?

- **Legislative and funding matters:** What should be the relationship between MCA authorizing legislation and current foreign aid laws and legislative practice? What are the budgetary implications on the MCA?

Background of the Millennium Challenge Account Initiative

Context

The concept of the Millennium Challenge Account is based on the premise that economic development succeeds best where it is linked to sound economic and good governance policies, especially where these conditions exist prior to expanding resource transfers. Past failures of economic aid provided by the United States and other international donors, some argue, have been caused to a large extent by a lack of attention to performance and the requirement for measurable results.[1] Executive branch officials say that the MCA abandons the process of basing aid allocations on promises by recipient governments to initiate policy changes in the future, and instead will make those decisions based on achievements already made and policies that are currently working.[2]

This view has been joined by a growing body of literature in the late 1990s concluding that there was little relationship between the amount of development aid provided and success in raising economic levels and reducing poverty. Rather, some researchers argued that foreign assistance produced the greatest impact where the recipient country had already adopted sound policies.[3] Others have concluded that international development assistance has largely failed and will continue to do so unless the donor community fundamentally shifts its focus to support real policy change.[4] Despite many development successes in such areas as agricultural production and child immunization, Representative Jim Kolbe, Chairman of the House Appropriations Foreign Operations Subcommittee, calculates that for 97 countries receiving $144 billion (constant dollars) in U.S. aid since 1980, the median per capita gross domestic product (GDP) has declined from $1,076 to $994 in 2000.[5]

Also influencing the debate over the launch of a new foreign aid initiative are the terrorist attacks of September 11and an evaluation of their causes. There remain differences of perspective regarding a possible direct relationship between poverty and terrorism, especially given the fact that many terrorist leaders come from

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[1] Others will argue, however, that of equal or perhaps more importance has been the close ties of U.S. foreign assistance with more strategic and geo-political goals where development results have been of secondary importance for policymakers charged with aid allocations and policy formulations.

[2] See remarks by Andrew Natsios, Administrator, USAID, at the U.S. Embassy in London, October 21, 2002. [http://www.usaid.gov/press/spe_test/speeches/2002/sp021021.html]

[3] See, for example, Craig Burnside and David Dollar, "Aid Spurs Growth – in a Sound Policy Environment," *Finance and Development,* December 1997; and Paul Collier and David Dollar, "Aid Allocation and Poverty Reduction," The World Bank, January 1999.

[4] See, for example, William Easterly, "The Failure of Development," *Financial Times,* July 3, 2001.

[5] Remarks of Rep. Jim Kolbe to the Advisory Committee on Voluntary Foreign Aid (ACVFA), October 9, 2002.

relatively wealthy backgrounds, but most agree that it can be a contributing factor. President Bush, in announcing the MCA on March 14, 2002, made numerous references to the war on terrorism, noting that "We also work for prosperity and opportunity because they help defeat terror." He further emphasized that although poverty does not cause terrorism, "poverty prevents governments from controlling their borders, policing their territory, and enforcing their laws. Development provides the resources to build hope and prosperity, and security."[6]

Accompanying this was a renewed interest in global development aid funding levels as governments, international institutions, and non-governmental organizations prepared for a mid-March 2002 U.N.-sponsored International Conference on Financing for Development in Monterrey, Mexico. Conference proponents hoped the session would serve as a catalyst for donors to increase aid commitments in order to achieve by 2015 the ambitious goal of reducing poverty by one-half relative to 1990. At the 2000 Millennium Summit, international leaders, including the United States, had pledged support for a set of specific targets, including those related to hunger, education, women's empowerment, child health, HIV/AIDS, and other infectious diseases, that became known collectively as the Millennium Development Goals. A World Bank analysis, released February 2002, estimated that to achieve these goals by 2015, donors would need to increase spending by $40 to $60 billion per year, or roughly double the amount currently provided.[7] As the Monterrey conference approached, international development advocates began pressing participating governments to issue specific pledges that would help close this funding gap identified by the World Bank.

Outlines of the MCA

Following the President's speech in March, an inter-agency team, including representatives from the National Security Council, Office of Management and Budget, State Department, USAID, and the Department of Treasury, met frequently to work out proposals to design and implement the U.S. initiative. The NSC managed overall policy development while the State Department took charge of outreach – seeking input from the non-governmental community – and the Treasury Department assembled economic and governance indicators that would be used to determine eligible countries. The team drafted recommendations on many, but not all MCA issues, and after being approved by the Secretaries of State and Treasury, the proposals were forwarded to the President.

After making further modifications, on November 25 President Bush endorsed several key principles of the initiative. Thereafter, the process of drafting legislation, deciding on budget levels for FY2004, and consulting with Congress began. While several important issues have been decided, others remain under discussion as the

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[6] President Proposes $5 Billion Plan to Help Developing Nations. Remarks by the President on Global Development at the Inter-American Development Bank, Washington, D.C., March 14, 2002.

[7] World Bank, *Goals for Development: History, Prospects, and Costs*, by Shantayanan Devarajan, Margaret Miller, and Eric Swanson, April 2002. Text available at [http://econ.worldbank.org/view.php?topic=19&type=5&id=13269].

MCA framework evolves. These issues are highlighted below and discussed in more detail in the following section on the MCA and congressional consideration.

MCA features announced by the Administration. The Administration has issued proposals on a number of key MCA elements, some of which will be incorporated into authorizing legislation considered by Congress early in the 108th Congress.

- **Country eligibility.** In the first year – FY2004 – 74 countries that can borrow from the World Bank's International Development Association (IDA) with a per capita income below $1,435 are eligible. The list will expand to 115 over the next two years to include all countries with per capita GNI less than $2,975. (For complete list, see appendix B.)

- **Selection criteria and performance indicators.** MCA participants will be selected based on their performance measured by 16 economic and political indicators. In most cases, a score above the group median on the indicator would represent a passing "grade". The MCA Board of Directors will be guided by the statistical outcomes, but maintain some discretion over the final selection.

- **Corruption measure is "pass-fail".** To be eligible, a country must score above the median on the corruption indicator, as compiled by the World Bank Institute.

- **Program development and submission.** MCA programs will be "country-driven" in which participating country officials will design and submit project proposals based on national development objectives.

- **Organizational management of the MCA.** The Administration will ask Congress to create a new entity – the Millennium Challenge Corporation (MCC) – that will be supervised by a Board of Directors chaired by the Secretary of State and made up of other cabinet officials.

MCA issues undecided within the Administration. Beyond some of these key decisions, other matters remain under discussion.

- **FY2004 funding.** President Bush pledged that by FY2006 funding for the MCA would total $5 billion. But the pace of reaching the $5 billion level in three years has not been decided and may depend on how many countries are expected to qualify to receive funding. The proposed FY2004 level will be included in the President's budget submitted in early February 2003.

- **Number of countries participating.** Because the MCA will be a "performance-driven" program, it is difficult to predict how many nations will qualify and participate. Administration officials have suggested, however, that the number will be relatively small – perhaps less than 20 by the third year. It is also undecided whether all or only some of the countries that qualify based on the performance indicators will receive MCA funding. The final list may comprise selections from the pool of best performing countries or the selection could be based on the quality of program proposals submitted by qualifying nations. Other options are also under review.

- **Impact on USAID program objectives in MCA countries.** MCA participants may or may not continue to receive regular development aid under existing USAID programs. If they do, it is unclear whether those activities will change focus in order to support MCA projects. The role of USAID missions in MCA countries is also yet to be clearly stated.

- **Types of programs supported.** Whether MCA programs will be limited to budget support for government initiatives, infrastructure projects, or more targeted activities focused on specific sectors, or be available for the full range of development alternatives remains open. All options, according to Administration officials, remain under consideration, as does the question of directing MCA resources to the private sector and non-governmental organizations.

- **MCC operations.** Beyond deciding to house the MCA in a new "corporate-like" structure, consensus has not been reached over how the staff will be selected, how the MCC will proceed in implementing the initiative, and what role, if any, non-governmental experts will play in the MCC.

- **Monitoring and accountability.** Executive officials say that MCA programs will be closely monitored and scrutinized, perhaps by some independent auditing system, but they have not established plans or procedures.

- **Graduation or exit strategies.** A main objective in providing an increased resource pool to help "jump-start" or accelerate a country's development process, is to set it on the road toward graduation. What criteria to use to end programs in successful countries or how to withdraw from a non-performing MCA participant remain undecided.

The MCA and Congressional Consideration

As Congress considers MCA authorizing legislation, funding recommendations, and confirmation of the MCC chief officer, followed by continuing oversight of program implementation, several key elements of the initiative are likely to be closely examined. These will include matters that have already been decided within the executive branch, as well as issues that remain under discussion.

Country Eligibility and Income Levels

One of the first questions addressed by the executive steering committee was where the income cutoff point should be drawn for purposes of defining potential MCA participants. The debate chiefly focused on whether only the poorest nations should be considered for MCA programs. As noted above, the Administration announced in late November that a pool of 115 countries, phased in over three years, will compete for MCA resources. They will be grouped into three clusters according to income level and World Bank borrowing status, with a new cluster added to the competition each year corresponding to the anticipated rise in MCA resources. In FY2004, only the 74 IDA-eligible countries with per capita incomes below $1,435 can compete, while 12 more will be added the next year.[8] By FY2006, when $5 billion is planned for MCA programs, countries with per capita incomes between $1,435 and $2,975 – 29 in number – will be added. Since countries above $1,435 per capita income are likely to score higher on the eligibility indicators, the White House further has decided to have separate competitions for the low and low-middle income groups to avoid income bias.

Issue: Income eligibility. There emerged at the outset a relatively broad consensus within the U.S. development community that the MCA should focus on IDA-eligible, low-income countries.[9] For a policy aimed at promoting economic growth and reducing poverty, most agreed that it made sense to place emphasis where the greatest needs existed. By expanding the number and income level of MCA participants beyond IDA-eligible status, some argued, the amount of money available for the poorest nations would be reduced. One analyst noted further that the 29 member low-middle income group includes nations that maintain strong political and strategic ties with the U.S. – Egypt, Jordan, Colombia, Turkey, and Russia. That would increase the possibility, or at least the perception, that countries might be selected on criteria other than MCA performance measures.[10] Achieving economic results as an objective has frequently taken a position secondary to strategic interests in U.S. aid allocation considerations in the past.

In addition, some point out that the poorest countries have far less access to capital from private sources, making MCA resources even more valuable to them.

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[8] IDA-eligible borrowers total 81. While most fall below the $1,435 gross national income (GNI) per capita level, seven small island countries with incomes above this level also can borrow from IDA. See Appendix B for a complete list of countries falling into each income grouping.

[9] Two non-governmental organizations, for example, argued that the MCA should limit participation exclusively to IDA-eligible countries. See InterAction. *The Millennium Challenge Account: A New Vision for Development*, May 2002; and Catholic Relief Services, *Improving Effectiveness: Recommendations for the Millennium Challenge Account*, June 24, 2002.

[10] Steve Radelet, *Qualifying for the Millennium Challenge Account*, Center for Global Development, December 13, 2002, p. 4.

According to one analysis, aid as a percent of gross national income (GNI) for IDA-eligible countries with per capita incomes below $1,435 totals 10.8% compared with 1.4% for the higher income group (below $2,950); gross private capital flows as a percent of GDP for the poorer IDA-eligible countries (below $1,435) is 6.9% while those between $1,435 and $2,975 receive 10.3%. Tax revenues and domestic savings as a percent of GDP among low-middle income countries are roughly double the level of those for IDA-eligible borrowers below $1,435, thus providing a more expansive potential source of financing.[11]

Others, however, argue that low-middle income countries deserve equal consideration in a program intended to identify and partner with the "best-performers." In some cases, they assert, commitments to sound policies have enabled nations to move into the higher income range. If a primary goal of the MCA is to maximize the effectiveness of aid resources, then non-IDA countries should be included.[12] In addition, countries falling in the $1,435 - $2,950 per capita income range, while maintaining higher income levels, also have large numbers of people living in poverty. These countries, with stronger institutions and better capacity may also be better positioned to apply MCA resources more effectively.

One argument of those favoring exclusive participation of countries below the $1,435 level – that better-off economies would score higher on the eligibility indicators, raise the median standards for qualification, and squeeze out the poorest nations – seems to be addressed by the Administration. Based on a preliminary estimate of the median scores of each group, the median would be higher – and in some cases significantly higher – for 14 of the 16 indicators for low-middle income countries compared with those below $1,435 GNI per capita.[13] In FY2006, when the 29 higher-income countries become eligible, they will be evaluated separately from the other 86, competing against each other to score above the group median on the 16 indicators. This will allow countries to qualify based on comparisons with their income-level peers. Whether the Administration will divide MCA resources into two pots of money for each income group has not been determined. In any case, unless the Administration and Congress agree to increase the MCA beyond the proposed $5 billion target, whatever number of low-middle income nations that qualify will reduce the amount of resources that would otherwise be available for those below the $1,435 level.

Performance Indicators and Selection Process

Executive branch decisions on which performance indicators to use have been guided by whether the data and methodology are transparent, publically available,

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[11] Radelet, *Qualifying for the Millennium Challenge Account*, Appendix, p. 3.

[12] Paolo Pasicolan and Sara J. Fitzgerald, *The Millennium Challenge Account: Linking Aid with Economic Freedom.* The Heritage Foundation, October17, 2002, p. 2.

[13] The two indicators for which this would not be the case are trade policy, which would be the same for each group, and three-year budget deficits. However, because qualification under the latter indicator is set at a specified threshold – less than 20 percent – group medians would have no impact on whether a country passed this hurdle. Source: CRS analysis based on data compiled by Steve Radelet, Center for Global Development.

accurate, and easy to understand. Another key factor is whether the data source provides full coverage for as many countries as possible and is relatively current. Officials further sought to identify indicators that would be few in number but sufficient to reflect broad policy results in each of the three policy categories, and valid relationships between the indicators and economic growth and poverty reduction. Finding indicators that meet all of these requirements is difficult, and according to some, impossible. Gathering valid economic, social, and political statistics, especially in developing nations, has always been difficult, often resulting in significant gaps in coverage and long lag times. Gaining consensus on whether a given set of indicators accurately measures policy achievements unfettered of institutional bias by whatever organization or individuals collect and interpret the data is also a major challenge.

As noted above, the Administration has settled on 16 indicators for measuring performance and determining country eligibility. As shown in Table 1, six fall within each of the ruling justly and encouraging economic freedom categories, while four will determine results in the area of investing in people. Sources include international institutions, such as the World Bank, IMF, and U.N., and non-governmental and private organizations like Freedom House, Heritage Foundation, and the Institutional Investor Magazine. National statistics will also be drawn upon where gaps occur, but none of the data sets will be compiled by the U.S. government.

For aggregating country scores, the Administration has decided to use a "hurdles" approach instead of adding up the results and ranking nations top to bottom. To qualify, a country must score *above* the median on half of the indicators in each policy area; in other words, a country's ranking must be above the median of all 74 countries in the first year on three of the six indicators for ruling justly and economic freedom, and two of the four for investing in people. The one exception to the median standard is the inflation indicator – a country's inflation must be below 20 percent in order to pass that hurdle. Officials believe that the hurdle methodology will demonstrate that a country is committed in all three areas and more precisely identify policy weaknesses. In year three and beyond, when low-middle income countries are added to the competition, there will be separate evaluations for countries below and above $1,435 per capita incomes so that higher income countries will not drive up the median and exclude poorer nations from qualifying.

Importantly, one indicator – control of corruption – will be a "pass-fail" test, in which any country scoring at or below the median on this measure will be disqualified regardless of performance on any of the other 15 indicators. Executive officials argue that since there are strong links between financial accountability and economic success, a strong commitment to fight corruption must be demonstrated by all MCA participants.

Further, after passing all the required hurdles, a country's score will be evaluated by the MCA Board of Directors who will make the final recommendations to the President. The Board will be granted a degree of discretion in selecting the final participants, taking into account such things as missing or old data, trends in performance, and other information that might reflect on a country's commitment to economic growth and poverty reduction. Moreover, officials have yet to decide whether to fund programs in all countries that qualify and pass the final review.

Final selection, for example, could hinge on the quality of program proposals submitted by the best performing nations, although other selection options are also under discussion. Presumably, the President will also maintain flexibility as to whether to agree with the Board's recommendations.

Table 1. MCA Performance Indicators

Ruling Justly	Investing in People	Economic Freedom
Control of Corruption Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters2001.htm	**Public Primary Education Spending as % of GDP** Sources: World Bank and national sources	**Country Credit Rating** Source: Institutional Investor Magazine, September 2002.
Voice and Accountability Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters2001.htm	**Primary Education Completion Rate** Sources: World Bank and national sources	**Inflation** (must be below 20%) Source: IMF
Government Effectiveness Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters2001.htm	**Public Expenditure on Health as % of GDP** Sources: World Bank and national sources	**Three-year Budget Deficit** Source: IMF and national sources
Rule of Law Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters2001.htm	**Immunization Rates: DPT and Measles** Sources: World Bank, U.N., governments	**Trade Policy** Source: The Heritage Foundation, Index of Economic Freedom http://www.heritage.org/research/features/index/
Civil Liberties Source: Freedom House http://www.freedomhouse.org/research/freeworld/2002/tableindcountries.pdf		**Regulatory Policy** Source: World Bank Institute http://www.worldbank.org/wbi/governance/pubs/govmatters2001.htm
Political Freedom Source: Freedom House http://www.freedomhouse.org/research/freeworld/2002/tableindcountries.pdf		**Days to Start a Business** Source: World Bank http://rru.worldbank.org/DoingBusiness/SnapshotReports/EntryRegulations.aspx

Issue: Association of performance indicators with economic growth and poverty reduction. Analysts will be examining the set of 16 indicators to determine how well they predict successful development outcomes. An initial assessment by the Center for Global Development suggests that many of the indicators show a reasonable or strong relationship with economic growth, infant mortality, and literacy rates, although a few show weak associations, especially in the economic freedom category. According to the Center's analysis, each of the six governance indicators maintains good or strong correlation to development outcomes. The measure of public primary education spending as a percent of GDP, however, is weakly associated with the three development standards. Three of the six economic freedom indicators – trade policy, days to start a business, and three-year budget deficits – are also found in the study as being weakly correlated with development achievements.[14]

Issue: Hurdles and median vs. aggregated ranking. Some may argue that an aggregation of scores and top-to-bottom ranking rather than the use of hurdles is a better way in which to determine eligibility with an above-the-median score requirement. While the Administration holds that passing half the hurdles in each of the three policy areas ensures broad commitment to both economic growth and poverty reduction, it also means that countries do not have to meet each of the 16 standards to qualify. This approach departs from more traditional aid requirements in which recipients must comply with all conditions associated with a program framework, especially those of the World Bank, IMF, and in some cases U.S. aid agreements. Once a country passes a hurdle, there are limited incentives to keep improving in those areas. For countries that miss qualifying by a small margin, however, the incentive remains.

Use of the median also in some cases complicates efforts for a country to pass the hurdle due to outcomes beyond its control. The median will change over time, sometimes because new countries are added to the pool, as will be the case in FY2005. In other instances, a country may improve on a particular indicator but still not pass the hurdle because other countries improve more significantly and push the median higher. Conversely, a government could regress or remain stagnant over time but pass a hurdle it had failed the previous year because the median drops. A number of

Possible First-Year Qualifiers – One Analysis

Albania	Georgia	Nepal
Bangladesh	Honduras	Senegal
Benin*	Losotho*	Sri Lanka
Bolivia	Malawi	
The Gambia	Mongolia	

Source: Radelet, *Qualifying for the Millennium Challenge Account*. See complete report for details on other countries, future years, and why the results may vary somewhat with those of the Administration
* Likely to qualify when data becomes available.

[14] Radelet, *Qualifying for the Millennium Challenge Account.* See especially Table 2, Appendix, p. 2. This study also provides a useful critique of each of the 16 indicators concerning data availability, reliability, and other relevant issues. Text available at [http://www.cgdev.org/nv/Choosing_MCA_Countries.pdf].

observers have suggested that instead of using the median, it would be better either to set specific, individual thresholds that would be relevant to each indicator or to use absolute scores.[15]

A further issue in use of the median is that for three of the indicators – political rights, civil liberties, and trade policy – the range is relatively narrow for scoring country performance, resulting in many falling at the median. The Freedom House assigns scores on a 1-7 scale, while the Heritage Foundation uses a scale of 1-5. For the trade policy indicator, for example, 19 of the 74 IDA-eligible countries are assigned the median score of 4. Since a country must place above the median to pass a hurdle, this eliminates a number of candidates with limited differentiation of performance.

Issue: Data accuracy and availability. Due to the difficulty in collecting accurate data, especially those based on perceptions, a certain degree of error can be expected in each of the 16 measurements. This cannot be overcome but is mitigated to some extent by the requirement of only having to pass half the hurdles in each policy area. But it appears most problematic for the pass/fail test of corruption. According to an assessment made by the authors of the corruption index, there is a large margin of error and high degree of uncertainty for 23 countries that score slightly above or slightly below the median. Of these, 13 are below the median and would therefore be eliminated from further consideration.[16]

Missing data also pose challenges, once again especially in the case of the corruption pass/fail measure. A strict interpretation of the data would result in a failing grade on a hurdle where no figures were available. It is anticipated that when the World Bank publishes an updated corruption survey early next year, it will include scores for each potential MCA participant so that a country will not be excluded simply because of the lack of data. But significant gaps in coverage on other measures may continue. Only 63 of the 115 possible MCA-eligible countries have been reported with regard to the indicator "days to start a business"; reporting on education and health spending as a percent of GDP is available currently for only 83 and 87 countries, respectively.

Issue: MCA Board of Directors discretionary authority. Allowing the Board some latitude to depart from the purely statistical record will help address some of the data accuracy and availability problems. Countries that just miss qualifying, possibly because of the lack of data, could be reconsidered and approved. In the case of "close-calls," the Board could examine trends over time to assess if a borderline country was improving or falling back in performance, and make

[15] See, for example, Nancy Birdsall, Ruth Levine, Sarah Lucas, and Sonal Shah, *On Eligibility Criteria for the Millennium Challenge Account*, Center for Global Development, September 12, 2002, p. 5; and Radelet, *Qualifying for the Millennium Challenge Account*, p. 25. As noted above, the Administration's proposal sets a specific threshold for the inflation indicator.

[16] Radelet, *Qualifying for the Millennium Challenge Account*, p. 18. See also Daniel Kaufmann and Aart Kraay, *Governance Indicators, Aid Allocations, and the Millennium Challenge Account*, discussion draft of December 6, 2002.

appropriate adjustments. In order to maintain the integrity and transparency of the selection process, final judgments that deviate from the methodological base will need to be clearly explained and closely examined. This will be especially important in cases where the country with close strategic and political ties to the United States is included despite not meeting all the hurdle tests. The same will be true should the President decide to reject a country that has recently opposed or refused to support an important U.S. security-related policy.

Implications for Other U.S. Assistance Programs

The MCA initiative will be an additional economic assistance tool of the United States, and is not intended to replace or substitute for any existing channel of U.S. foreign aid. It can be expected, therefore, that overall American aid will continue to serve multiple national interests and foreign policy goals, including security, humanitarian, multilateral, and commercial objectives. Administration officials have made a commitment that the MCA will be in addition to existing aid activities and that regular U.S. programs will continue even in MCA-participating countries. Nevertheless, because of the priority being placed on the MCA policy orientation and the size of the financial investment, there almost certainly will be ramifications of the new initiative for current programs. Foremost may be funding tradeoffs, especially given rising budget deficits and the costs of fighting the war on terrorism. (Spending issues are also discussed below in the section on legislation and budgets.)

Issue: Commitment to global initiatives. During the past year, some analysts have argued that a portion of the MCA should be dedicated to effective and results-oriented global programs operated on a multilateral basis. One concern is that the large amount of resources directed to the MCA may limit the U.S. ability to maintain or expand upon commitments to such activities as the Global Fund to Fight HIV/AIDS, Tuberculosis, and Malaria. Another worry is that soundly managed, high impact programs in countries with weak governance and poor corruption standards will miss out on the MCA opportunity to accelerate a process that is already making a contribution to long-term economic growth and poverty reduction. Proponents of this view advocate a "two-tiered" approach to the MCA in which separate pools – and perhaps multiple pools – are maintained to serve several types of activities.[17]

The trade-off for this approach would be that significantly fewer resources per country would be available, most likely reducing the impact of MCA assistance. Some also caution that multilateral programs, regardless of their merits, do not necessarily have the same results-oriented performance requirements of the MCA, a fact that would undermine the main objective of the MCA. Increased resources are only one important feature of the new initiative, and to many MCA advocates, the most significant feature by far is the goal of allocating the aid where it will have the greatest impact and be most readily accounted for.

Issue: Policy coherence and USAID program goals in MCA countries. The Administration says it will maintain regular development aid

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[17] See, for example, Gene Sperling and Tom Hart, *A Second Tier for the Millennium Challenge Account*, draft report, October 2, 2002.

programs in a country while it simultaneously launches a far larger MCA-designed activity. Executive officials have not said, however, how this might affect the shape and goals of continuing programs managed by USAID missions. Some may argue that regular aid objectives should be re-oriented to maintain policy consistency with the MCA initiative and in some cases to help facilitate the core focus of the larger pool of resources. Others, especially within USAID country missions, may question whether successful projects should be abandoned, with a potential negative impact on the target population. Some of these same issues regarding policy coherence are likely to be raised by other foreign aid donors and institutions who are concerned that the MCA may be creating additional, and perhaps competing performance goals to those that already exist. How MCA program goals align with the Millennium Development Goals is of particular concern.

Organizational Structures

One of the most contentious issues associated with the MCA policy review process has been and is likely to continue to be where the MCA program management will be placed. This debate has raised issues discussed for many years concerning under what auspices U.S. foreign aid policy should be designed, coordinated, and managed. Over the years, suggestions have ranged from coordination within the National Security Council, creation of umbrella organizations, like the ill-fated International Development Cooperation Agency, and most recently the merger of such responsibilities into the State Department. After extensive debate during the mid-1990s, a decision was reached to make USAID, the principal U.S. government bilateral aid agency, totally independent, but to have it operate under the guidance of the Secretary of State.

After considering numerous options, including the placement of the MCA as a separate unit with the State Department, the Administration proposes to create a new government entity – the Millennium Challenge Corporation – to manage the initiative. Given the innovative and non-traditional approach inherent in the MCA concept, executive officials say it makes sense to establish a new entity to oversee its implementation. The Corporation will have a CEO, confirmed by the Senate, and a staff of no more than 100 that will be drawn largely from other government agencies and serve for limited-term appointments. A Board of Directors, chaired by the Secretary of State, will oversee the MCC. Although it appears there is no precise existing model in the U.S. government, officials say that the MCC will most closely resemble the Overseas Private Investment Corporation, an organization that promotes private American investment overseas, and the Commodity Credit Corporation, an arm of the Department of Agriculture that manages export credit guarantee programs for the commercial sale of American agricultural goods. An important difference between these and the MCC, however, is the proposal to have a cabinet-member Board oversee the latter and make final recommendations.

Issue: The need for a new organization. Before agreeing on the MCC, the inter-agency steering committee reportedly looked seriously at the option of creating a separate unit within the State Department to manage the MCA. One reason for rejecting this proposal may have been the relative lack of experience of State Department staff in administering aid programs. This was one of the central issues considered when the question of whether to fold USAID into the Department was under debate. This technical shortcoming, however, could have been overcome by adopting the MCC principle of detailing aid experts from other agencies to staff the office. A broader reason for not placing the MCA within the State Department, however, may have been a concern that it would be located too close to the center of the U.S. foreign policy apparatus that would limit the program's immunity from strategic and political influences. At a minimum, many observers believed, there would be a perception problem – whether true or not – that the MCA did not truly represent a departure from the past aid entanglements with broad U.S. foreign policy interests.

At the same time, many groups encouraged the Administration to establish the MCA as an office within USAID, but apart from the normal operations of the agency. Various external groups argued that USAID, with its 40 years of development experience, maintained the knowledge, staff, and on-the-ground country presence to most effectively administer and monitor the MCA. To place responsibility elsewhere, they contended, would risk duplication of effort, competing priorities, and inconsistent policies.[18]

Others are skeptical, however, that USAID is best suited to implement the MCA concept. The Agency is frequently criticized as encumbered with excessive regulations, managed with poor financial systems and time-consuming planning cycles, and burdened by extensive congressional oversight. One analysis, after weighing both the merits and disadvantages of placing the MCA within USAID, concluded that if the Administration wants the MCA to operate differently than USAID, it should create a new agency to manage it.[19]

Issue: Role of MCC staff in managing and monitoring the MCA. One of the first concerns of aid managers is the ability of a 100-staff organization to maintain proper oversight and accountability standards over what will become a $5 billion program. By comparison, USAID maintains a staff of nearly 2,000 American direct-hires and several thousand more contractors and foreign nationals based overseas to implement a roughly $8 billion program. Few would argue that a similar work-force is needed – indeed, there would likely be minimal support for a bureaucracy even half that size. But with a central mandate of performance, results, and accountability, the MCA requires a strong monitoring capability. The Administration has mentioned the prospect of an outside, independent auditing system, but the issue appears to remain unresolved.

Even though USAID will not manage the MCA, it is likely that its staff, especially those located in MCA participant countries, will play a supporting role in various capacities. USAID Administrator Andrew Natsios has told his staff that the Agency's long record of best practices and experience will be required if the MCC is to be successful. But how this will operate in the field is an open question. There is concern among some USAID professionals that the time and attention of mission

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[18] See, for example, the arguments of InterAction, raised in its May 2002 policy paper, *The Millennium Challenge Account: A New Vision for Development.*

[19] See Carol Lancaster, *Where to Put the Millennium Challenge Account?*, Center for Global Development, October 15, 2002.

staff to support administrative, contracting, and procurement needs of MCA programs will diminish their ability to manage regular aid programs. And as mentioned above, how the current mission portfolio relates to MCA objectives is unclear.

Issue: Future of USAID. The creation of a new agency to manage the MCA is likely to be viewed by some as a vote of no confidence in USAID. This may stimulate renewed debate over whether the USAID mandate should be modified – perhaps limiting it to a strictly humanitarian aid agency – or folding it into the State Department or the MCC itself at some future date. USAID supporters are concerned that an MCA managed outside the principal U.S. development organization will establish a two-class aid system with USAID responsible for addressing the needs of the "weaker" performers while the main emphasis will transfer to the MCC. The potential impact on staff recruitment and morale, and eventually resources, they believe, could be serious. An argument could be made as well, however, that this provides an opportunity for USAID not only to demonstrate its expertise as an aid organization and serve the MCC as a valued "consultant," but also can serve as incentive to review its own operations and correct some of the persistent problems identified by critics.

Program Development and Selection

With broad agreement that development programs work best when they are designed and therefore "owned" by the host country and not imposed from outside, executive officials stress that MCA programs will be country-driven. Once a nation is identified as eligible, it will be invited to draft and submit program proposals for evaluation and selection through the MCC. Projects should directly support broad national development strategies already in place, preferably constructed with extensive input from civil society. Since several of the possible MCA countries have already designed such strategies as part of the Heavily Indebted Poor Country (HIPC) debt reduction initiative – the so-called Poverty Reduction Strategy Papers – these PRSPs might serve as the guiding framework for program goals where appropriate.

The Administration has outlined numerous types of programs that might be supported by the MCA: budget support for various community, sector, or national initiatives; infrastructure development, commodity financing, training and technical assistance, and capitalization of enterprise funds or foundations. Selection would depend on country-specific circumstances and would not be appropriate in all cases. For example, budget support programs would only be suitable where governments maintain transparent budgeting, accounting, and control systems and have strong governance and anti-corruption records. Endowing enterprise funds or foundations might be appropriate where other alternatives are weak or where innovative ways of financing development proposals appear attractive.

An eligible country could submit multiple proposals annually, some of which might take several years to implement. The MCC would create a contractual relationship with selected countries and require the establishment of project performance goals so that progress could be closely monitored. Should performance fall behind or fail, the contract could be declared void and funding cut-off.

Issue: Detailing the types and targets of programs. One of the next steps for the MCA inter-agency steering committee will be to refine more precisely the nature of programs the MCA will support, who the beneficiaries will be, and what criteria will be used in making the selection. A number of groups, especially in the U.S. NGO community, have stressed the need to include programs that will directly support non-governmental and civil society activities that may operate independently of the government. Some advocate that the MCC solicit proposals directly from private, non-governmental groups.

The Administration appears to be receptive to the principle that MCA funded activities need not support only government-run or sponsored initiatives, but also could include projects operated directly by the private sector or NGOs. What may be more problematic is the receipt of proposals straight from these non-governmental sources. This might result in an awkward competitive relationship between government and non-government submissions, a competition that might be best settled by the country itself prior to transferring recommendations to the MCC.

Another issue related to the types of programs eligible for MCA resources is the capacity of both the U.S. and participant countries to manage the projects. Budget support, infrastructure, and commodity assistance most likely would be large-scale activities where substantial amounts of resources could be invested, thereby reducing the total number of projects to be managed and monitored. Community-based or NGO projects, on the other hand, likely would be much smaller in size and funding requirements, but far more numerous in totality. While supporting the broadest array of development programs with MCA funds provides the maximum opportunities, U.S. policy makers will have to decide whether they are prepared to assume responsibility for a large number of projects in the MCA portfolio and the associated management, oversight, and accountability demands.

Legislative and Funding Matters

The Administration is drafting MCA authorizing legislation and making final decisions over funding for FY2004, matters that should be submitted to Congress in early February 2003. Although details of the legislation are not yet available, program flexibility will be a key theme in whatever emerges. Executive officials say that while the MCA should have its own statutory base separate from existing laws, including the Foreign Assistance Act of 1961, current restrictions that prohibit U.S. assistance to countries will remain. These include a lengthy list of potential infractions including those related to human rights, drug production, terrorism, nuclear weapons transfers and testing, military coups, debt payment arrears, and trafficking in women and children, just to name a few.

On the funding question, the Administration has expressed a commitment to a $5 billion MCA program by FY2006, although the pace at which resources approach that figure in the first two years will be influenced by anticipated demand as well as larger budgetary considerations stemming from competing spending priorities, a growing deficit, and other possible policy initiatives. Whatever the outcome, the Administration has made an additional commitment that MCA resources will not be drawn from existing aid programs, but will be in addition to those appropriations, although of course final decisions on appropriations will be made by Congress.

Issue: Flexibility and congressional directives and oversight. An issue that has been heatedly argued between Congress and all Administrations for many years has been the practice of congressional legislative directives and earmarks in foreign aid authorization and spending laws. Executive officials argue that the excessive use of such directives, both formal and informal, seriously erodes their ability to manage foreign policy and operate a coherent foreign aid program. Most in Congress view the use of directives and earmarks, however, as a legitimate tool for congressional participation in setting foreign aid policy and spending priorities. Some Members point to congressional emphasis in recent years on initiatives such as child health, basic education, and international HIV/AIDS, programs that both the Clinton and Bush Administrations subsequently came to embrace and support with higher budget requests. Without congressional pressure through earmarks, U.S. commitment and leadership on these policies would not exist to the extent they do today, many argue.

The dispute over congressional foreign aid directives is unlikely to be resolved during the MCA debate. However, the different nature of the MCA initiative will provide the Administration with a different set of arguments against earmarks. Because of the demand-based, results-driven nature of the MCA, executive officials will contend that the traditional pattern of congressional directives – specifying funding amounts for selected countries or activities, and placing restrictions on certain operations – would undermine the basic principles of the MCA concept. Legislative set-asides for a particular set of countries or for certain program activities would arguably undercut the transparent, objective process of selecting the best-performers.

In settling these differences, one model to examine might be how Congress authorizes and funds other demand-driven programs in the annual Foreign Operations appropriation bill. Since it is not known in advance who may request or require support under programs such as the Export-Import Bank, the Trade and Development Agency, or international disaster assistance, Congress generally appropriates amounts that are expected to be needed to meet the resource demands placed on these activities, with few or no set-asides for specific requirements. Authorizing laws for these programs include some restrictions, but are generally not nearly as extensive as those for regular bilateral economic and military aid programs. An important difference, however, between such programs and the MCA is that their purpose is far more narrowly defined than that of the MCA.

Linking existing foreign aid eligibility requirements with the MCA will likely draw broad support within Congress, since many of those requirements reflect fundamental social and political values and were congressionally initiated. But the prospect of applying to an MCA participant these overarching aid prohibitions, especially those that require an Administration discretionary determination to trigger the aid cut-off, raises a new set of issues. Would, for example, the extent to which the U.S. has a major financial investment in a successful MCA project influence a decision on whether to declare the government in violation of narcotics cooperation standards?

Issue: Funding and possible tradeoffs. When the FY2004 budget is submitted in February, MCA advocates will be scrutinizing two funding issues: the size of the MCA request and proposals for other U.S. economic aid programs. Many believed that MCA resources should and would grow in equal amounts of $1.67 billion per year to reach the $5 billion total in three years. Conflicting Administration statements gave credibility to the view that this was the intention, although officials have said more recently that this is not the case. For one reason, since the number of qualifiers the first year is still far from certain, the funding requirements may be quite different from $1.67 billion.

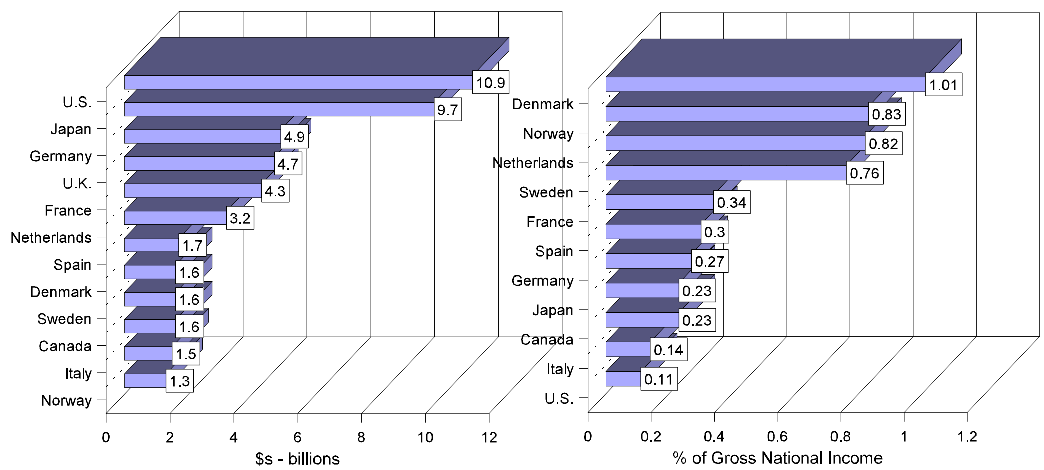
In addition, the budget environment is much different than it was in March when the President issued his policy statement. Budget deficits have risen, creating greater pressure to hold spending down in nearly all areas. Moreover, congressional leaders reportedly have agreed to adhere to the Administration's overall discretionary budget authority level for FY2003 – $750 billion – that will require the Senate and House Appropriations Committees to revisit Foreign Operations program recommendations made earlier; significant cuts are anticipated. Similar pressures are likely to continue in the FY2004 debate, making the task of accommodating a new and large funding initiative more difficult.

One way to manage MCA increases would be to rearrange overall foreign aid spending priorities and reduce amounts elsewhere. But the President has said the Administration will not take this path. Nevertheless, even if the FY2004 budget request maintains funding for other foreign aid programs at existing levels, congressional appropriators may be limited in their ability to fully provide for both the MCA and other aid accounts. Unanticipated foreign policy contingencies could arise later in the year, creating new resource demands. Congress may decide on different appropriation priorities than the President and allocate a smaller amount to the Foreign Operations funding bill. This would set the stage for direct trade-offs between the MCA and competing security, economic, and humanitarian activities. In addition, the MCA is not the only Foreign Operations program that may be vying for increased spending next year. The U.S. has pledged additional resources for "topping up" the HIPC initiative and funding IDA grants, and there will likely be strong cases made by some Members to increase Afghan reconstruction efforts and expand U.S. support for efforts to fight HIV/AIDS and other global infectious diseases.

Appendix A – U.S. Aid Compared to Other Major Donors and the Impact of the MCA

For many years, the United States has been criticized by other nations and international development organizations for not contributing enough to fight global poverty and promote economic growth. Although the United States was the largest provider of Official Development Assistance (ODA)[20] until the early 1990s and was second to Japan in most years since until 2001, its contribution has been at or near the bottom of the list of international donors when measured as a proportion of national wealth.

Figure 1. ODA Performance 2001



In 1972, the United Nations adopted a resolution calling on developed countries to allocate 0.7% of GNP for foreign economic assistance. This target, which continues to be cited by many nations and international organizations, was never endorsed by the United States and has been achieved by only a few, mainly Nordic countries.

The United States defends its record as a development aid provider, arguing that contributions to global poverty reduction should not be measured simply in terms of

[20] ODA is a category used by the Organization for Economic Cooperation and Development (OECD) to measure and compare the efforts of 22 member countries in supporting global economic development. ODA includes all concessional and grant economic and food assistance, excluding export promotion programs and military support. It also excludes assistance to certain countries that are more economically advanced, such as Israel, Russia, Ukraine, Poland, and Hungary. Consequently, ODA measures a large part, but not the total amount of U.S. economic assistance. In FY2002, for example, the United States is providing about $1.1 billion to nations that are not included in ODA figures. Moreover, ODA is usually reported on a "net" basis – that is, aid disbursements minus loan repayments. Because of these factors, ODA amounts for the United States are somewhat smaller than actual economic aid appropriations annually approved by Congress.

aid transfers as a percent of GNP.[21] U.S. officials note that in dollar terms, American ODA has remained substantial, and is programmed on more favorable terms than that of other donors. The United States, they emphasize, was a leading voice over the past several years in the Heavily Indebted Poor Country (HIPC) debt initiative, being the first government to advocate 100% cancellation of bilateral debt owed by the world's poorest nations. American charitable organizations and businesses provide a significant proportion of annual aid transfers and private investment to the developing world. Given the large amount spent by the United States on defense and the security it provides to allies and friends around the world, American contributions to global stability and a stable environment in which economic development can take shape is much larger than ODA expenditures suggest, they contend.

Table 2. Millennium Challenge Account Funding

One Possible Scenario of Economic Aid Increases

(billions of dollars)

Fiscal Year	ODA Levels (current $s)	Increase from FY2003 baseline (nominal)	ODA Levels (constant FY03 $s)	Increase from FY2003 baseline (real)	ODA as % of GDP
2000 actual	$11.174	–	$11.899	–	0.11%
2001 actual	$10.989	–	$11.449	–	0.11%
2002 estimate	$12.870	–	$13.153	–	0.12%
2003 request	$12.236	–	$12.236	–	0.11%
2004 projected	$13.903	13.62%	$13.612	11.25%	0.12%
2005 projected	$15.570	27.25%	$14.915	21.89%	0.13%
2006 projected	$17.236	40.86%	$16.136	31.87%	0.13%

Sources: OMB, Department of State, and CRS assumptions and calculations.

The scenario presented in this table assumes a $5 billion increase between FY2003 and FY2006, allocated in equal amounts ($1.67 billion in each of FY2004-FY2006). Other assumptions would yield different results.

Exactly how the MCA will affect total U.S. ODA figures and comparisons with other donors over the next three years is far from certain, but some projections can be made. The illustration shown here assumes, for discussion purposes, that the

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[21] In recent years, the World Bank, the OECD, and other institutions have substituted the term gross national income, or GNI, for GNP in order to conform to revised 1993 System of National Accounts guidelines. The U.S. government in most cases uses the calculation of gross domestic product, or GDP. GNI includes GDP plus net receipts of primary income (compensation of employees and property income) from nonresident sources. For the United States, GNI is slightly larger than GDP – in 2000, for example GNI was less than one-tenth of one percent larger than GDP. The calculations in Table 2 and the ensuing discussion are made based on OMB reported and projected U.S. GDP figures.

MCA will grow to $5 billion by FY2006 in three equal installments, although as noted above, this is unlikely. It further assumes other ODA will remain constant and that the baseline from which to add this $5 billion commitment will be FY2003 enacted levels, which are also undecided.

Based on these working assumptions, a $5 billion dollar increase by FY2006 would result in a $17.2 billion foreign aid budget, as shown in Table 2. In real terms (constant FY2003 dollars), taking into account the effects of inflation, U.S. economic assistance in FY2006 would be $16.14 billion, the highest amount since FY1979 and the signing of the Camp David Middle East peace accords and FY1985, an unusual year in which the United States responded to special Middle East economic stabilization and African famine requirements. But using FY2003 as a baseline rather than FY2000, the percentage of increase, especially in real terms (counting inflation), between FY2003 and FY2006 would be less than the 50% figure used by some Administration officials. The nominal increase would be about 41% while in real terms, FY2006 funding would be nearly 32% more. Because of the size of the U.S. economy and continued growth projected over the next several years, the MCA increases will have little impact on the amount of U.S. aid as a percent of GDP. According to current projections, assistance would rise from the current 0.11% of GDP to 0.13%.

Appendix B – Potential MCA Participants: Country Categories

IDA-eligible, per capita income $1,435 and below
MCA eligible FY2004 and beyond

Africa	Income*
Angola	$500
Benin	$360
Burkina Faso	$210
Burundi	$100
Cape Verde	$1,310
Cameroon	$570
C.A.R.	$270
Chad	$200
Comoros	$380
Congo, Dem Rep of	**
Congo, Rep of	$700
Cote d’Ivoire	$630
Eritrea	$190
Ethiopia	$100
Gambia	$330
Ghana	$290
Guinea	$400
Guinea-Bissau	$160
Kenya	$340
Lesotho	$550
Liberia	**
Madagascar	$260
Malawi	$170
Mali	$210
Mauritania	$350
Mozambique	$210
Niger	$170
Nigeria	$290
Rwanda	$220
Sao Tome&Principe	$280
Senegal	$480
Somalia	**
Sierra Leone	$140
Sudan	$330
Tanzania	$270
Togo	$270
Uganda	$280
Zambia	$320
Zimbabwe	$480

East Asia/Pacific	Income*
Burma	--
Cambodia	$270
Indonesia	$680
Kiribati	$830
Laos	$310
Mongolia	$400
Papua New Guinea	$580
Solomon Islands	$580
Timor-Leste	**
Vanuatu	$1,050
Vietnam	$410

Latin America	Income*
Bolivia	$940
Guyana	$840
Haiti	$480
Honduras	$900
Nicaragua	**

South Asia	Income*
Afghanistan	**
Bangladesh	$370
Bhutan	$640
India	$460
Nepal	$250
Pakistan	$420
Sri Lanka	$830

Mid-East	Income*
Djibouti	$890
Yemen	$460

Eurasia	Income*
Armenia	$560
Azerbaijan	$650
Georgia	$620
Kyrgyz Rep.	$280
Moldova	$380
Tajikistan	$170
Uzbekistan	$550

Europe	Income*
Albania	$1,230
Bosnia	$1,270
Yugoslavia	$1,000

* Gross National Income, dollars per capita, 2001. *World Bank Development Report, 2003.*
** Precise data unavailable.

Per capita income $1,435 and below
MCA eligible FY2005 and beyond

Africa	Income*	East Asia	Income*	Latin America	Income*
Equatorial Guinea	$700	China	$890	Ecuador	$1,240
Swaziland	$1,300	Philippines	$1,050	Paraguay	$1,300
		Eurasia	**Income***	**Mid-East/N Africa**	**Income***
		Belarus	$1,190	Morocco	$1,180
		Kazakstan	$1,360	Syria	$1,000
		Turkmenistan	$950		
		Ukraine	$720		

Per capita income $1,436 - $2,975
MCA eligible FY2006 and beyond

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Namibia	$1,960	Fiji	$2,130	Belize	$2,910
South Africa	$2,900	Marshall Islands	$2,190	Colombia	$1,910
		Micronesia	$2,150	Dominican Rep.	$2,230
		Samoa	$1,520	El Salvador	$2,050
		Thailand	$1,970	Guatemala	$1,670
		Tonga	$1,530	Jamaica	$2,720
				Peru	$2,000
				St. Vincent/Grenadines	$2,690
				Suriname	$1,690
		South Asia	**Income***	**Mid East/N Africa**	**Income***
		Maldives	$2,040	Algeria	$1,630
				Egypt	$1,530
				Iran	$1,750
				Jordan	$1,750
				Tunisia	$2,070
				West Bank/Gaza	$1,610
		Eurasia	**Income***	**Europe**	**Income***
		Russia	$1,750	Bulgaria	$1,560
				Macedonia, FRY	$1,690
				Romania	$1,710
				Turkey	$2,540

* Gross National Income, dollars per capita, 2001. *World Bank Development Report, 2003.*