



Millennium Challenge Account Goals and strategies of US development policy

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In Europe hardly another security-related issue has attracted the kind of controversial discussion that currently surrounds the US' foreign and defense policy. Yet little attention has been paid to US development policy, which was assigned a more prominent role in the new US National Security Strategy set out in September 2002.

In this connection US development assistance is officially set to be increased by 50% over the years to come. Apart from a number of other projects (fight against AIDS, emergency assistance, increased contributions to the World Bank), the core of this commitment consists in a new special fund, the „Millennium Challenge Account“. It is to be used to strengthen governments that „rule justly“ (e.g. move against corruption), „invest in their people“ (e.g. in health and education), and „encourage economic freedom“ (e.g. market access and investment protection). There is no doubt that the program means – at least on paper – a turning point in US development policy. The criticism and doubts voiced on the new development initiative are bound up mainly with some unanswered political questions as well as with the program's substantive orientation.

1 Development policy and national interest

In the past US foreign and development aid was closely linked to national and geopolitical security interests: extending from the Marshal Plan, the financial assistance granted to South Vietnam in the late 1960s, the flanking material support provided for the Camp David peace process in the 1970s, down to Reagan's policy of containing leftist movements, which benefited the regimes in Zaire, Indonesia, and some Central American countries, the broad lines of US development policy were geared more or less completely to US foreign-policy interests. If the US Agency for International Development (USAID) found little Congressional support even during years of the Cold War, the collapse of the Communist-led systems wholly deprived US development assistance of its *raison d'être* and its base of legitimacy on the home front. It was market liberalism that became the beacon ideology of development-policy strategies – „Trade not aid“ was now, and not only in the US the rallying cry of the new development-policy paradigm that was to lead developing countries out of crisis.

In the heat of the fiscal-consolidation battles of the 1990s, the US development budget found itself in the position of a soft target, with Republicans repeatedly calling for a complete liquidation of USAID. By the year 2000 US aid for poor countries had declined by roughly 50% (in GDP terms). The US furthermore slashed its financial contributions to multilateral development projects. True, in 2001 the US, with its contribution of USD 10.9 billion, was, in absolute terms, still the world's major donor, accounting for some 20% of all ODA provided by the OECD countries. But it should be noted that this amounted to a share of no more than 0.11% of the US's GNP, the lowest percentage share reported by the group of industrialized countries.

What funds were left over were focused mainly on the countries of the Middle East, with regions like Southeast Asia or Sub-Saharan Africa going more or less empty-handed. The two most important recipients of US development aid are Israel and Egypt (which together account for roughly one fifth of all US aid funds), with Colombia, Jordan, Peru, Ukraine, and Russia placing a distant

third. Nearly all recipient countries are given a blend consisting of military assistance and economic support for development goals.

2 The US National Security Strategy

While the talk of a „world that will never be the same“ after the events of 9/11 has already become a commonplace, the new „National Security Strategy of the United States of America“ (NSS) of September 2002 documents, in the field of security policy, the fundamental strategic change envisioned by the US administration. At the outset of his term in office the US president – in the spirit of traditional realism – was determined to concentrate efforts in the field of foreign and security policy on regional hegemons who might be in a position to destabilize existing power balances or to jeopardize the leadership role held by the US. Now, though, the new strategy paper describes the world as a generally threatening place, amalgamating – under the impression of 9/11 – rogue states, international terrorism, and proliferation of weapons of mass destruction (WMDs) to form a scenario of omnipresent threat.

In response, US foreign and security policy is now set to be re-gearred and re-orchestrated: in essence, the „distinctly American internationalism“ – propagated not without a measure of pathos in the NSS paper – rests on the unshakable foundations of – Republican – economic liberalism: market economy, free trade, and democracy are seen as the *sine qua non* of prosperity, peace, and justice. The US' historical foreign-policy mission, and at the same time the prerequisite for global security, is now seen in the building of „open societies“, „spreading the American dream“ in the world's crisis regions. The policy of containment, until now *the* grand strategy of the US, is being superseded by a security doctrine that is at once more aggressive in military terms and clearly marked by unilateralist and interventionist features.

But the debate on preemptive military action, which, rightly, has moved into the focus of interest in connection with the war against Iraq, overlays the fact that the NSS might hold even more surprises in store: for the first time, development policy in the broadest sense of the term has come to be seen, alongside diplomacy and military intervention, as the third pillar of a securi-

ty strategy. According to a White House strategy paper, development assistance can, under the new conditions given at present, provide a direct contribution to winning the „war on terrorism“. By supporting „front states“ and weak nations as well as by using „soft power“, the US government may prove able to correct its image as an aggressive military power both with the US population („compassionate conservatism“) and among its allies („benign hegemon“). At the same time, some political circles have begun to realize that worldwide inequality touches directly on US national security interests: „Making the world safe for democracy“ – even in the US more and more voices are pointing out that this guiding objective of the NSS is doomed to remain beyond reach if the US does not commit itself firmly to the goal of poverty reduction in the developing world.

3 US development policy – business as usual?

One new aspect of US policy that has been observed since September 11 is a renaissance of strategic foreign aid. The US is increasingly seeking to use foreign aid as leverage to acquire additional support for its policy of stabilizing a number of precarious states and securing its long-term (resource) interests.¹

But even in the core „business“ of development policy there have been initiatives that are evidently aimed at overcoming the „aid fatigue“ of the 1990s. The „New Compact for Development“ announced by the US administration has in recent months repeatedly been broadened to

¹ Aside from the two countries most directly affected, Afghanistan and Iraq, this applies above all a) for Pakistan, which, in an arrangement with the US along with the World Bank and the IMF, has been granted debt relief to the tune of USD 1 billion and loans amounting to an additional USD 600 million; b) for Jordan, a pillar of regional support; for Uzbekistan and Kyrgyzstan, which have provided airbases; and c) for Indonesia, the Philippines, Yemen, and Colombia, which are receiving support in the „war on terrorism.“ And last but not least, the strategy likewise proved useful as a means of providing financial incentives (competing with French moves) for the African „swing states“ in connection with the Security Council debate on a second Iraq resolution and offers of aid to African oil-producing countries in exchange for long-term access to their oilfields.

include new elements. To name the most important ones:

- the Millennium Challenge Account (MCA),² which is set, within the coming three years, to make available a total of USD 5 billion for poverty reduction;
- the administration's pledge to increase its contributions to the World Bank by 18% over the coming three years;
- new funds to combat famine and for emergency relief;
- and, finally, the „Emergency Plan for AIDS Relief“, which is to be endowed with USD 15 billion.

The centerpiece of these initiatives is the MCA, which George Bush unveiled in the run-up to the Monterrey Conference on Financing for Development. Should the program, currently valued at USD 4 billion, actually be implemented, this would boost the US development assistance budget by 50%, even doubling spending for the actual core business of development policy.

One of the program's most important stated goals is to improve the efficiency of development aid by selecting only partner countries with a proven record involving relatively stable approaches in economic, welfare, and social policy. In the first two years countries eligible to apply must have average per capital incomes of less than USD 1,435; in subsequent years the eligibility criteria will be modified to include countries with per capita incomes below USD 2,975 (these would include e.g. Egypt, Russia, and Turkey). The „best performers“ will be selected on the basis of 16 indicators which will be used to assess their progress in the three basic categories „ruling justly“, „investing in their people“, and „encouraging economic freedom“. The indicators will include, among others, inflation rates, trade policy, budget deficits, public health expenditures, primary education completion rates, and political and civil rights. To qualify for the program, applicants must score above the median (measured

² The MCA process is being accompanied conceptually by Larry Nowells (Congressional Research Service), with whom the FES conducted an expert discussion on US development assistance in Berlin in November 2003.

against all broadly eligible countries) on half or more of the indicators in each of the three groups. All eligible countries will, without exception, be required to show an above-average record in fighting corruption. The funds are to be used in qualified countries to support not only government programs but to promote projects conducted by actors from civil society, the private business sector, and local authorities.

The new program differs from the traditional orientation of US development aid not only in its volume but in some other substantive points as well:

- Transparent procedures and close goals definitions have been laid down with the stated intention of „depoliticizing“ the selection process and ensuring that funds are not granted merely on the basis of foreign-policy considerations.
- The only countries eligible are those that are in a position to document that they have already made progress in development. The first aim here is to spawn „islands of stability“ that serve as an incentive to neighboring countries to embark on a similar path. The second is to use successful and efficient case examples to boost domestic acceptance of development aid.
- Program design, effective use of funds, and evaluation are geared to strengthening the self-responsibility of recipient countries. Since eligible countries will, in the view of the US government, already have proven that they meet the conditions required for an efficient use of the funds involved, they will now to be given the opportunity to find an optimal approach to embedding the MCA in their national development strategies.

4 Fanfares of development policy or substantial advances?

A good number of commentators see in the MCA a program that will mean changes for US development policy as incisive as those initiated by the launch of USAID and the Peace Corps under Kennedy. The expectations are great. The US administration's newfound commitment to focusing its efforts more on poverty reduction has met with a positive response. Still, there continue

to be – above all now that the MCA has been set out in its concrete form – substantial doubts and criticism bound up with both open political questions and the program's substantive orientation:

- The MCA process has been slow to get started. Two years have passed since Bush announced it in March of 2002. In early February 2004 the MCA's Board of Directors met for the first time, and by the end of July 2004 the first country agreements are set to have been signed. The growing doubts as to whether the program will be implemented as announced are not unjustified. In view of the additional burdens the US faces in connection with its wars and reconstruction efforts in Afghanistan and Iraq, the government requested for the program's first year of operation not the USD 2.4 billion originally projected but only USD 1.3 billion. In the end the Senate reduced this sum to USD 1 billion. Bush's new draft budget for 2005, with its projected deficit of USD 512 billion, will do little to favor the implementation process. While the administration promised to provide *extra* funding for the purpose, the precarious budget situation could also entail crowding-out effects, especially for USAID.
- The majority of developing countries will still need years before they have any realistic prospects of applying for the program. The funds are in effect reserved for the „happy few“, that is, for those countries with the least pressing development problems. The ten or 12 countries eligible to apply in the first round are for the most part small countries.³ For instance, at present only three countries south of the Sahara are even eligible to apply – Lesotho, Ghana, and Senegal; another five countries from the region fail to meet the strict qualifications for lack of one criterion. Yet these eight countries account for no more than 15% of the region's population. For the many other countries in the region – in particular the „failed states“ so sensitive in security terms – no strategies have yet been devel-

³ As of September 2003: Armenia, Bhutan, Bolivia, Ghana, Honduras, Lesotho, Mongolia, Nicaragua, Senegal, Sri Lanka, and Vietnam. The final selection is set to be made in mid-May 2004.

oped. Nor do regions have any role to play here. The strategy's focus is clearly on the short-term achievement of „efficiency“ between donor and recipient, less on a comprehensive perspective geared to medium-term needs and development priorities.

- The program's operational aspect has for this reason remained somewhat uncertain. Apart from its vague orientation to poverty reduction, it is still unclear what concrete projects are to be supported, where the priorities lie, and what shape the evaluation and monitoring process is to take on.
- Interaction, a nationwide association of US development NGOs, mainly criticizes the choice of performance criteria, expressing fears that the main point of the market-liberal acid tests set out under the policy area „economic freedom“ may be to serve as leverage to assert US trade interests. Interaction further criticizes the as it were mechanistic and one-dimensional notion of a development policy that sees investments based on free markets, democracy, and functioning administrations as leading, within just a few years, to significant positive results. Developments in Bolivia may serve here to highlight the set of criteria involved. The current „poster child“ of the MCA ranking has recently been hit by an outbreak of social strife – including the so-called „gas war“ – generally directed against the government's privatization policy.
- It continues to be unclear whether and how the MCA will be integrated with the US's existing development-related institutions. Some observers fear duplications and coherence problems, noting that the program will be administered by a new government organization, the Millennium Challenge Corporation (MCC). This new sign of distrust toward USAID might also, once again, serve to amplify the voices calling for the agency to be dissolved and incorporated into the State Department.
- The MCA, to be sure, has no room for the multilateral level. At present there are not even any plans for loose coordination with existing transnational programs – such as the PRSP process. The MCA's purely bilateral base is likely to mean a further US withdrawal from

large-scale multilateral (development) projects like the Global Fund to Fight AIDS, Tuberculosis and Malaria. This could dash ongoing efforts aimed at improving donor coordination and boosting the efficiency of development assistance, a point on which the MCA approach itself focuses.

- As in the case of the bulk of US development aid (over 70%), receipt of MCA funds is to be conditioned on purchase in the US of the goods and services involved – a practice that has recently been criticized by the OECD's Development Assistance Committee (DAC).
- Finally, US development policy itself is by no means free of contradictions. Interested parties will be curious to see whether, in the shadow cast by these concrete announcements, the US will address any other development-relevant issues that it has until now dodged. As regards agricultural subsidies, e.g. for US cotton farmers (in Cancun the dispute over the issue was the symbolic climax of the confrontation between the US and a number of developing countries) or the high percentage of food aid involved (in part GM maize), the US seems prepared to remain adamant. While in the case of Iraq a new dynamic appears to be emerging on the issue of debt relief, only die-hard optimists believe that a universal debt-relief debate might emerge that would go beyond the selective interests of the US.

There can be little doubt that the announced enlargement of the US development aid budget and the basic objectives of the Millennium Challenge Account – more efficiency, „depoliticization“, and greater responsibility for recipient countries – amount to highly promising approaches for a reformulation of US development policy. But in view of numerous unanswered political questions, the program's closely defined orientation, the development-related imponderables involved, and the program's lack of integration with multilateral processes, there is every reason for skepticism as to whether the MCA will prove able to meet the high expectations awakened by the announcement of a new „Global Marshall Plan“.

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