The Devil is in the Details: From the Millennium Challenge Account to the Millennium Challenge Corporation[1]

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The devil will be in the details in the establishment of the Millennium Challenge Corporation (MCC) and the implementation of the Millennium Challenge Account (MCA) – as it is with most organizational innovations. The special challenge with this venture will be not just figuring out how the MCC should be organized, but managing the political environment to ensure that it is able to achieve its goals and function effectively. There are five major issues that must be addressed: the political process by which the MCC will be established; how the MCC will be funded; the criteria for eligibility; implementation of programs; and the management of the organization, including the role of the Board. This essay will touch on some of the major challenges in these categories.

Establishing the MCC. The issue here is whether to seek authorizing legislation for the establishment of the MCC. There are strong arguments for and against this approach. The Congress has proven unable to pass a Foreign Aid Authorization bill since 1985. Although in theory such a bill is needed every one or two years conduct any government program, this requirement can be waived and has been for over 15 years for

[1] To read more of the Center's work about the Millennium Challenge Account visit http://www.cgdev.org/nv/features_MCA.html

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foreign aid. Why has the Congress not passed an aid authorization bill? There have been several reasons. One is that members of Congress have long avoided voting for foreign aid bills unless it was absolutely necessary. Aid authorization bills, because of the possibility of a waiver, are not absolutely necessary. (The story is different with aid appropriation bills. They are necessary even if they are in the form of a continuing resolution.)

But there has been another problem with passing a foreign aid authorization bill. Members of Congress have tended to include legislative language on a variety of their favorite programs (often as a price of their supporting the bill) to the extent that aid authorization bills have become unacceptable to an administration that knows it doesn't have to have one and probably doesn't want one in any case.[3] It is a good bet that most members of authorizing committees, the Senate Foreign Relations (SFRC) and House International Affairs Committees, are already planning the particular activities they would like to see the MCC undertake. Appropriators also typically attach numerous earmarks and directives on aid legislation but these have been within the bounds of acceptability to successive administrations – which are also more constrained to accept them in appropriations bills which they must have to operate.

On the other hand, not seeking authorization authority could be politically quite costly for the administration. The alternative might be to seek needed authority and funding through the appropriations process. A great deal of authorizing in fact now takes

[3] This happened in the early 1990s when the Congress attempted to pass new authorizing legislation. During the Clinton Administration's effort to get a new aid authorization through Congress, members were reluctant to vote for a bill, even one that included their preferred projects or activities, because they then feared the administration would later back away from it, leaving them with the costs of supporting an often unpopular bill but without any benefits to show for their support.

place in appropriations committees. It would another insult to the authorizing committees, creating hard feelings that could affect other legislation or the confirmation of political appointees. The head of the MCC, as a presidential appointee, will have to be confirmed by the Senate.

The best strategy is to identify several key members of Congress to act as 'godfathers' or 'godmothers' for the MCC, for example, the Chairman of the SFRC and the Chairman of the Foreign Operations Sub-committee of the House Appropriations Committee. In the past, finding a key member of Congress to sheppard legislation through and protect particular agencies and programs has been one way to ensure continuity and avoid excessive earmarking. The ideas and preferences of these members regarding the operation of the MCC, will, of course, have to be taken into account in this sort of strategy. And even with this strategy, the administration (most probably including the President from time to time) will have to remain involved in the legislative process to ensure that what comes out of Congress bears a reasonable resemblance to what the administration sends in. President Bush has extraordinary influence at present and the Republicans control Congress. So this might be one of those unusual moments of political discipline where a new aid authorization would be possible.

Funding the MCC. The way the Congress appropriates funding for the MCC will be important in how the Corporation functions in the future. If appropriated funds are obligated over only a one or two year period, the pressures to spend all available funds – evident in most aid agencies – will plague the MCC. The recent focus on 'results' notwithstanding, political appointees and career officials are still judged in Washington and elsewhere on how effective they have been in maintaining and increasing the budgets of their organizations. That means that all available resources must be fully obligated in the period during which they are available. If that does not happen, the Office of Management and Budget within the administration as well as the Congress will most likely cut future budget levels, arguing that the agency has not been able to spend its existing level.

Pressures to spend can undercut the effectiveness of the MCC. It must be able to withhold funding if there are too few eligible countries and must be able to link funding levels to the effective use of the funds. Pressures to spend will almost certainly make prudent decisions about obligating funds difficult. This will be a particular challenge with the MCC if it takes the "foundation" approach to programming. That approach would involve NGOs, private enterprises, local governments and even individuals bringing proposals for funding to the MCC. But in most cases, these proposals are likely to be for relatively small amounts of money.

If funding for the MCC is provided as 'no year money' – that is, available until spent -- the pressures to spend might be lessened. These pressures will not be relieved, unless funds are appropriated covering several years at a time (for example, appropriations covering three years' budgets at a time) and remain available until spent. This could reduce the pressures to spend further since the MCC would not have to submit to the budget and appropriations process every year. It is worth noting that, history suggests that the Congress will be unwilling to appropriate funds to cover several years' expenses. It reduces their oversight and influence on government programs.

Criteria for Eligibility. A great deal of effort has already gone into deciding what criteria, objective indicators and so on should be used to determine country eligibility for

MCC funding. This exercise could easily become one of those lengthy, contentious, convoluted bureaucratic morasses, involving arguments about how many angels can dance on the head of a pin, that end up so complicated that they are unworkable both technically and politically and embarrass all involved.

If quantitative indicators are used, they must be few and simple. Otherwise, the effort at objective judgment will end up highly subjective (how do you weigh indicators 1 and 2 as opposed to indicators 3, 4 and 5?) and vulnerable to political attack from all sides. The motto here should be "keep it simple, stupid". And leave room for exceptions, for they will become necessary and they will have to be explained. If there is no wiggle room in these 'objective' decisions, MCC managers will be embarrassed the first time someone discovers that one of their eligible countries has some serious skeletons in the closet – for example, the president is corrupt, terrorists are active there or the government is suddenly overthrown.

Implementation. There is a lot one could say about the challenges of implementation. I shall address only one here – the form in which MCA monies are spent. The MCC will likely face a dilemma on how it spends its funds. If it takes the 'foundation' approach, as noted above, it will likely spend a portion of its funding on relatively small activities – perhaps up to $5 or $10 million per activity and often much less. The foundation approach has the advantage of giving a variety of organizations – governments (including local governments), not-for-profits, for profit enterprises and even individual policy and program entrepreneurs – a chance to create new activities and fund them, thus strengthening the capacity of these organizations and their ability to do good work. However, these activities are not likely to add up to $5 billion per year. So a significant amount of funding will have to be provided in large blocks.

What are the options for such transfers? They will likely all involve transfers to governments. They could include infrastructure projects, which tend to be expensive. They could involve other types of large projects. They could involve funding in support of reform programs (though this use of US aid has not been very popular either with the Congress or NGOs in recent years). Or they could involve an approach that has become popular with the World Bank and certain European aid agencies – the pooling of aid funds of various donors to support sector investment programs in developing countries. This would be a relatively new approach for the United States, which has long wanted to make sure it could identify what its aid was financing for accountability purposes and wanted a "US flag" on that funding.

In theory, aid pooling makes sense. If a government ministry has a credible strategy and the capacity to carry it out, pooling (in effect, budget support for that strategy) reduces the transactions costs of that ministry having to deal with multiple donors. And some (we do not know how much) aid is 'fungible' in any case – that is, if it is funding something the government would do anyway, it frees up government funds to be applied to other purposes. So why not drop the pretense and just put the aid into the ministry's budget?

The answers are two. First, aid monies are not fungible in the sense that even where they are being spent for purposes the government would finance in the absence of aid, the quality of those expenditures – for example, projects in health or education – might be enhanced by the involvement of foreign aid donors.

Second, in reality, there are some potentially serious problems with the pooling approach. There are still many government ministries in developing countries that lack the ability or the probity to manage a large inflow of aid resources effectively and cleanly. Thus, donors must scrutinize all expenditures of the ministries they support to make sure that all of them are well managed and used as intended. This is highly interventionist and difficult for donors. It is unlikely that the MCC will have the staff to do this – at a minimum, they would have to be located in the country receiving the pooled aid. But should a ministry use *any* of its funds (which include US pooled funds) for corrupt purposes or ineffectively there will be a high political cost to pay in Washington – especially given the emphasis on aid effectiveness by the President.

Another option for disbursing the MCC monies is through existing US government agencies, in support of their programs in eligible countries. That includes of course USAID. But it might include other US government agencies as well – most have their own 'foreign aid' programs usually involving technical assistance to foreign governments in their particular area of expertise. And this option brings us to the issue of management of the MCA.

Managing the MCA. The key challenge of management will be to maintain the mission and focus of the MCC (whatever it turns out to be) in the face of multiple political pressures to program aid in a vast array of directions. If the MCC does not have a mission and programming processes that permits it to say 'no' to many of these pressures, it will lose control of its money much the way USAID has, and will become little more than a collection of special interest programs.

There is one particular pressure that the MCC is likely to face, however, that bears recognition. The MCC board is made up of cabinet officers representing other government agencies. This will almost certainly generate pressure on the MCC to program some of its aid – perhaps a significant amount – through their agencies. US government agencies -- like HHS, Energy, the EPA -- began to distribute technical assistance abroad when the socialist regimes in Eastern Europe and the former USSR collapsed. The US wanted to aid these new countries but had no experience or infrastructure there. The monies for that aid – appropriated in the SEED and Freedom Support Acts – were allocated by a State Department coordinator for each region to USAID and through USAID to a variety of other government agencies to ensure a quick US presence and level of support in the transition countries. The US bi-national commissions led by former Vice President Gore (for example, Gore-Chernomyrdin in Russia or Gore-Mbeki in South Africa) also fueled the engagement of 'domestic' US government agencies in international aid by placing cabinet officers as chairs of the committees in these commissions. Senior officials do not like to engage abroad without 'deliverables' to signal that their engagement has been productive and successful, intensifying the incentives for them to offer aid and technical assistance to their sister agencies abroad. US government agencies continue to receive some funding from USAID for work abroad, but it appears that most have also established their own, internally funded 'aid' programs.[4] The 'globalization' of the US government ensures that most government agencies will remain engaged abroad.

[4] The size of most of these programs is not known since few agencies keep spending data in this form.

Human nature and bureaucratic realities point to the likelihood that pressures to channel MCA monies through other US government agencies represented on the MCC board will become intense through the board's involvement in policy and program decisions. It's a good bet that agencies likely to be members of the board are already planning for this eventuality. This is not necessarily a bad thing, as long as the expenditures make sense in terms of the mission of the MCC and the needs and capabilities of the recipient countries. But they do threaten to create an even more fragmented foreign aid program in Washington with all the problems of coordination within the US government that that creates. And they do threaten to drive the MCC away from a country focus -- that is, allocating aid to support priority activities of individual countries as reflected in their own Poverty Reduction Strategy Papers (drawn up with World Bank support to provide a broad strategy for their development and a guide for aid allocations) and other development plans -- and toward a thematic focus which is what naturally arises in a cabinet agency specialized in a particular sector.

It is an exciting time for the development community inside and outside government – to be able for the first time in 40 years to conceptualize and create a new aid agency. But it is also a challenging time and the details need to be right if the aspirations of the administration, those concerned with effective development abroad and those whom we hope to benefit with our aid are to be realized. The devil remains in the details.