MCA Monitor Analysis

Will the Millennium Challenge Account Be Caught in the Crosshairs?
A Critical Year for Full Funding
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In the coming weeks, the two chambers of Congress will head into conference committee to decide how to allocate some $36 billion in the international affairs budget across a multitude of foreign aid programs.[2] In a federal budget dominated by defense and domestic spending, every penny of the international affairs budget—particularly development assistance—will be hard fought. If history is any guide, Congress will balance the FY08 federal budget by cutting the modest expenditures dedicated to development assistance, save perhaps expenditures related to global health pandemics. Yet core development assistance—long-term investments in the prevention of poverty and instability—remains under-prioritized despite being a key component of U.S. national security and global influence, reducing the strain on national defense, and helping to make the world a safer and healthier place. Particularly vulnerable each year is the Millennium Challenge Account (MCA), one of the few U.S. foreign aid programs specifically targeted to development.

The MCA was announced in 2002 (and formally established in 2004) to award grants to a small set of poor but well-governed countries willing to propose home-grown, comprehensive solutions to spur growth and reduce poverty. The early MCA years were fairly typical of a start-up organization, with resources dedicated primarily to staffing, positioning the institution within the broader donor community and demonstrating to eligible countries that this was not "business as usual" aid. Start-up activities, coupled with allowing for full country ownership and ensuring thorough public consultation, inevitably (and justifiably) led to a relatively long period before actual program implementation could begin. The result: low disbursement rates of approved funding, which were used by Congress to justify budget cuts. This year, Congress again sees a low disbursement rate – the MCA has disbursed only 6.8 percent of appropriated funds available for programs.[3]

The FY08 funding decision, however, will have an entirely different impact: a decision to cut funding could jeopardize the core credibility of the program itself. The MCC has ironed out many of the kinks associated with its slow start up. Countries, now understanding that the MCA is not a

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[2] At the time of writing, the Senate Budget Resolution included $36.5 billion, and the House Budget Resolution $35.3 billion, for international affairs; a final number will be determined in the Budget conference after the upcoming recess.
[3] Of the $6 billion in total appropriated MCA funding (FY04-07), $5.6 billion is available to fund compacts and Threshold Programs, and $382 million has been disbursed, according to the MCC's February 2007 Country Status Reports on compacts (http://www.mcc.gov/countries/csr/all_CSR.pdf) and assuming all money approved for Threshold Programs is disbursed.

business-as-usual aid program, have worked hard to propose locally-owned development programs. For the first time ever, the MCC has more programs under preparation than money to fund them.

As Congress determines funding levels for the MCA, we hope it will:

- Elevate development to the same level of national strategic importance as defense and diplomacy.
- Recognize that the MCA is one of few U.S. foreign aid programs specifically dedicated to achieving long-term global growth and poverty reduction and designed based on 50 years of lessons on development effectiveness.
- Endorse a learning culture in the MCA that is based on strong and accountable monitoring and evaluation mechanisms aimed at measuring and communicating development impacts—successes and failures that go beyond simple disbursement rates.
- Reward the countries that have worked hard to gain MCA eligibility and design strong programs for poverty reduction by fully funding the $3 billion FY08 budget request.
- Refrain from earmarking funds for sectoral favorites (or otherwise), a practice that runs counter to full country ownership, and has plagued other U.S. aid programs.

Tracking the Right Numbers: Funding, Program Commitments and Spending to Date

From FY04 to FY07, over $6 billion has been ***appropriated*** for the MCA, of which $5.6 billion is available for compact and threshold funding.[4] As of February 2007, $60.4 million had been ***disbursed*** to compact and threshold programs.[5] That said, $3.3 billion has been ***committed*** to 11 compacts and 11 threshold programs to be disbursed over five years. Funds are committed to countries when a compact or threshold program is signed, at which point the MCC is legally required to have the funds for all five years of each compact in their entirety in hand, even though ***obligation*** only occurs at entry into force. Until the program enters into force—the point at which any prior conditions have been met and when the five-year implementation clock officially begins ticking—committed funds appear as un-obligated balances. Because the rule requires full appropriation for five years, an apparent low disbursement rate is guaranteed in the early years.

MCC and Eligible Countries Hit Their Stride in 2007: More Program Than Money

The MCC has tried to withstand pressure to disburse for disbursement's sake, holding true to its principles of country ownership, broad consultation with local populations, and integrating an evaluation framework into all programs to ultimately measure the impact of the investment. The streamlining of some compact negotiation processes and peer-learning amongst eligible countries has resulted in countries nearing the completion of their compact proposals both faster and in greater number: nine of the 14 eligible countries that do not already have compacts are undergoing due diligence, the stage just preceding signing. The MCC expects to sign compacts totaling $1.8

[4] Administrative costs and compact development assistance make up the difference.
[5] The February 2007 version of the MCC's Country Status Reports (http://www.mcc.gov/countries/csr/all_CSR.pdf), which report actual disbursements compared to an estimated disbursement schedule. This figure does not include Threshold Program funds (which can account for up to 10 percent of the MCC's appropriated money) nor does it take into account the administrative/operating costs of the MCC.

billion with Mozambique, Morocco, Lesotho and Sri Lanka along with several new Threshold Programs before the end of 2007.[6]

The MCC expects that six to eight countries will be ready to sign compacts in 2008. In our view, the six most likely (with proposed amounts in parentheses) are: Tanzania ($799 million), Mongolia ($322 million), Namibia ($314 million), Burkina Faso ($540 million) and Senegal ($255 million). MCC also projects a compact with East Timor, but instability in the country may delay compact finalization in FY08. We are also keeping our eyes on Moldova, currently not projected to receive a compact in FY08 but moving swiftly and impressively along with a proposal. These estimates add up to $2.2 billion (and more if we include East Timor) and would use a combination of uncommitted FY07 balances and over $2 billion from FY08, if possible. Considering also that the MCC can spend 10 percent of its appropriated funds on Threshold Programs, and taking into account administrative costs of approximately $200 million, it is clear that MCC can use the full $3 billion to fund strong programs.

The Impact of an FY08 Budget Cut

If Congress does not appropriate the full $3 billion MCA request, it will put the program between a rock and a hard place, with the biggest impact felt by the impoverished countries who worked hard to gain MCA eligibility expecting to be rewarded. Flat-lined funds will force the MCC to choose between the options of signing larger, transformational compacts with fewer countries or financing smaller compacts spread across the increasing number of eligible reforming countries,[7] neither of which reflects the intended mandate and global understanding of the MCA. If these countries finalize their compacts and find there are insufficient resources to fund them, it will be a serious blow to the MCC's credibility and the country's expectations, and an egregious misuse of the country's time and resources. ***In an era of "mutually-accountable aid," the U.S. will be neglecting its end of the bargain***.

Furthermore, neither option of fewer countries or smaller compacts is optimal for promoting the "MCC Effect," which to date has been the major success story of the MCC. The MCC Effect refers to the effect the MCC has had on creating incentives for policy reforms in candidate countries that see MCA eligibility as a good governance seal of approval and a program worth the effort to access. With limited funding, however, the result is worrisome: countries that make targeted policy changes to meet MCA indicators (either on their own or through the MCC's Threshold Program) will ultimately not receive assistance at all because of unavailable resources or the reward for reform will be too small to create a strong incentive for countries to bother.

Full funding in FY08 should be accompanied by a strong message to the MCC and its partner countries to more publicly and accessibly communicate program results. As implementation ramps up this year with several countries in year two of operations, it is imperative that the results from investments are clearly and broadly documented.

[6] We question whether the conditions are ripe for a compact in Sri Lanka due to instability; deducting the projected compact funds for Sri Lanka still leave the MCA with more program than money.
[7] For more on this, see Herrling and Radelet, "The MCC Between a Rock and a Hard Place: More Countries, Less Money and the Transformational Challenge," Oct. 2005. http://www.cgdev.org/content/opinion/detail/4734/

MILLENNIUM CHALLENGE ACCOUNT PROGRAMMED FUNDS

	FY04	FY05	FY06	FY07	FY08 (request)
Appropriated	994.0	1,488.0	1,752.0	1,752.0	3,000.0
Maximum available for Threshold Program	99.4	148.8	175.2	175.2	190.0
Administrative costs	8.1	60.9	145.8	170.2	189.5
Maximum available for Compacts*	886.5	1,278.3	1,431.0	1,406.6	2,620.5
of which, maximum available for LMICs	NA	NA	357.8	351.7	655.1
Compact Eligible					
Armenia		235.7			
Benin		307.3			
Bolivia					
Burkina Faso					*540.0*
Cape Verde	110.1				
East Timor					*300.0*
El Salvador			381.0	80.0	
Georgia	295.3				
Ghana		547.0			
Honduras	215.0				
Jordan					*500.0*
Lesotho				*362.0*	
Madagascar	109.8				
Mali			460.8		
Moldova					
Mongolia					*322.0*
Morocco		*150.0*	*550.0*		
Mozambique				*500.0*	
Namibia				*271.7*	*42.4*
Nicaragua	175.0				
Senegal					*255.0*
Sri Lanka				*220.0*	
Tanzania					*799.0*
Ukraine					
Vanuatu		65.7			
Compact development/609g**	23.5	29.1			
Other***	0.1				
Compact subtotal	**928.8**	**1,334.8**	**1,391.8**	**1,433.7**	**2,758.4**
Threshold Eligible					
Albania	13.9				
Burkina Faso		12.9			
East Timor					
Guyana					
Indonesia			55.0		
Jordan			26.2		
Kenya	13.6				
Kyrgyz Republic					
Malawi		20.9			
Moldova			24.7		
Niger					
Paraguay		37.1			
Peru					
Philippines		22.1			
Rwanda					
Sao Tome & Principe					
Tanzania	11.2				
Uganda	11.2				
Ukraine			48.1		
Zambia		24.3			
Threshold subtotal	**49.9**	**117.3**	**154.0**	***175.2***	***190.0***
REMAINING FOR PROGRAMMING	**7.2**	**-25.0**	**60.4**	**-27.1**	**-137.9**

Italics indicates MCC estimate for amount and funding year, compacts and/or threshold programs are not yet signed.
*Assumes all Threshold money is used for Threshold Programs. Compacts can technically use all appropriated funds minus administrative costs if no Threshold programs are funded. Threshold Programs are likely to claim close to or all of their 10% allocation.
**Activties formerly funded with 609g funds (baseline surveys, feasibility studies, etc.) are included in the Administration budget after FY05
***This refers to a grant given to the CSIS Hills Center for Governance In Nairobi.

Likely to increase or be added.

May decrease.

Signing questionable given instability in country.

source: Author's analysis of MCC projections based on Country Status Reports, 2004 and 2005 Annual Reports, the FY2008 Congressional Budget Justification, and Danilovich's March 13, 2007 testimony before the House of Representatives Appropriations Subcommitte on State, Foreign Operations and Related Programs