



A Comment on the MCA Proposals

Nicolas van de Walle
Center for Global Development
Michigan State University

January 9, 2002

Recent discussions surrounding the Millennium Challenge Account (MCA) proposal suggest that it seeks to address two somewhat distinct goals in the general area of foreign aid. This brief comment will seek to clarify the nature of these goals and will suggest that taking these goals seriously has fairly obvious implications for how the MCA should be implemented.

First, the MCA proposal is an attempt to respond to the recent chorus of voices that has claimed that foreign aid to low-income countries has been insufficient in volume and undergoing a dangerous recent decline. The first observation to make is that it is not at all clear that the present overall volume of aid is inadequate. Overall official aid flows have been declining in real and nominal terms since they peaked in 1991-92. On the other hand, at over 50 billion dollars a year, they do remain quite substantial and high by historical standard. In real terms, aid flows today are on par with the levels of the early 1980s, and are twice as high as they were in the 1960s, during the peak Cold War years. Some observers make it sound like the declines of the 1990s have had a devastating impact on the economies of the Third World; in fact the 1990s were a better decade for the world's poor than the 1980s, during which aid was growing rapidly. Moreover, the last decade has witnessed a sharp rise in NGO aid, which in part compensates for official ODA declines, as well as substantial increases in private flows.

The problem with aid is not one of volume but one of quality. Criticisms of current aid modalities are now well known: aid allocation has not favored countries with good policies or good governance even though we know it is more effective when it is provided to such countries. The current process of international public debt management is a clumsy Rube Goldberg contraption which is both ineffective and callous to the world's poor. There are clearly not enough overall development dollars going to the provision of global public goods, notably in the area of health and communicable diseases.

The current MCA proposal addresses only the first of these criticisms directly. The logic of MCA is to reward the low-income governments with good policies and good governance. In theory, it dispenses with intrusive conditionality: governments will have to have followed unambiguous conditions to qualify for the aid. In this respect, the lesson of the HIPC debt relief process is likely to be learned all over again with MCA. That is, that there is a clear tradeoff between selectivity and the flow of resources. The more selective the program is, the less money will be moved, and to fewer countries. On the other hand, if the emphasis is put on increasing aid volume, compromises in selectivity will be made. In brief, MCA is unlikely to

simultaneously satisfy the current twin objectives of increasing aid volume and of making aid more selective. Worse yet, in desperation to show it can move money more effectively and efficiently, it risks overwhelming the small number of “best performers” with more aid than their limited absorptive capacity can handle. Indeed, the kind of countries that a highly selective MCA would presumably finance already receive the most aid from the west.

What about debt relief and support for international public goods? The current MCA proposal does not address them. The administration has promised that support of MCA would be “additive”, and not come at the expense of other initiatives. But, of course, the logic of recent Washington budget politics has typically been the opposite of additive. It is important that implementation of the MCA does not undermine other programs. The world community will be better served by strong US support of a global push to eliminate malaria, for instance, than by a set of 10 percent increases in overall aid to a number of bilateral programs in low income countries.

MCA is also meant to address a second set of issues, which have to do with the United States’ contribution to international development. In the wake of 9/11, MCA represents the Bush administration’s response to the widespread criticism that the US does not do enough for the Third World and the world’s poor. When it was announced at Monterrey, MCA was supposed to convince US allies of American generosity, and the American public of Bush’s “compassionate conservatism”. It would show that the US was still capable of exerting global leadership in a non-military domain.

This bilateral rationale for MCA is in many respects more attractive. There may be too much overall aid today, but it is harder to claim that the US aid effort is excessive. Indeed, there has clearly been a loss of purpose to US aid in the course of the last decade, with declining aid volume, bickering over the US contribution to multilateral institutions, and an increasingly criticized lead aid organization, USAID. Many observers argue that the US aid effort no longer effectively advances US foreign policy goals, while the steady decline of aid for several decades means that the current aid effort does not make much of a dent in the fight against global poverty. MCA offers a chance to the US to reassert some semblance of leadership in the area of aid and development effectiveness. If used right, it can help assert American “soft power” in the developing world, not only by demonstrating that the US can be generous, but also by promoting free trade, democracy and global capitalism. American power will benefit from a prospering and well-governed Third World, just as American interests are ultimately threatened by economic crisis and state breakdown.

At the same time, it must be recognized that even a doubling of aid to low-income countries thanks to the MCA cannot leverage all those good things in the short term. The lesson from the past is that the countries that most need aid typically use it the least well, and there will always be poor countries that fail despite the best efforts of the western aid community. Moreover, US leadership in the fight against poverty may have taken a small step forward with the MCA, but needs to be expressed in many other fora and institutional settings in the coming years to be fully credible and undo the negative image built up in recent years. American soft

power will not be significantly enhanced unless MCA is integrated in a sustained diplomatic and multilateral initiative vis a vis the developing world.

So, where should MCA be housed? Current deliberations have focused on the relationship between the MCA and USAID, and it now seems likely that the administration plans to create a new federal agency to administer the MCA funds.

My own view is that a bilateral MCA is unlikely to succeed in its lofty goals. Instead, MCA funds should be handed over to a multilateral organization, perhaps in the form of a special trust fund with specific guidelines on its use. The World Bank would be a good candidate, or perhaps the funding could be divided across the different regional development banks. First, most aid effectiveness studies have found that multilateral aid is more effective, because it is less likely to be undermined by foreign policy and commercial motivations from the donor government. The multilateral option would protect the funds from the kind of congressional meddling which has so undermined USAID, and would be likely to undermine any new bilateral agency, whatever safeguards were put in place. That hurdle remains untested for the MCA as the Congress has yet to be fully engaged in the deliberations.

Second, a multilateral agency is more likely to be able to implement the kind of specific policy and governance criteria set out in the MCA proposal. Again, given USAID's inability to stick to such criteria in the past, the arguments that a new government agency would be better able to are not convincing, since any national agency in Washington will face the same pressures and constraints. Moreover, it is not clear that the US government wants to be seen setting binding and sometimes very unpopular conditions in low income countries. Inevitably such conditions would be viewed as self-serving and ideological and would fan anti-American sentiment, not least because they would be applied unevenly across countries, as a function of American interests. Better to have these conditions applied by the international bureaucrats of the World Bank or some other multilateral agency. They are more likely to apply them consistently, and less likely to be viewed as agents of American imperialism.

Finally, a multilateral MCA could be the first step of a substantial rethinking of the US approach to foreign aid. On the multilateral level, MCA funds could leverage greater US leadership in improving the effectiveness of organizations like the World Bank. The US needs to play a more important role in promoting more systematic donor coordination, today all but nonexistent. It should play a more aggressive role in revitalizing the specialized UN agencies like FAO and WHO that are best suited to address global public goods. All of these agencies can advance US interests without appearing to result from an American diktat. At the bilateral level, the US needs to think long and hard about the future of a traditional aid agency such as USAID. In most of the low-income countries that are targeted by the MCA, it is a second tier donor rarely giving more than a tenth of the total aid provided. Despite its recognized leadership in certain sectors, USAID's highly centralized, project-driven approach, micro-management from the Hill and highly tied procurement process make cooperation with other donors unwieldy, yet most experts agree that aid should move in the direction of more coordinated non-project modalities of assistance. Thus, regardless of the precise manner in which the MCA is carried

out, the moment has come to rethink how the US provides its assistance to the low-income world. Creating a second bilateral aid agency without such a prior rethinking is likely to be counterproductive.

Some will argue that this multilateral option is politically unrealistic, because the loss of control and discretion over such a large amount of funding will prove unacceptable to Congress, the executive and the numerous private and associational groups which aim to benefit from an increase in American aid. Perhaps, but then, that would only prove my point that a bilateral agency will not avoid the pitfalls of the past. A multilateral MCA would best serve not only international development, but also US interests.