



WHERE TO PUT THE MILLENNIUM CHALLENGE ACCOUNT?

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The oldest saw in Washington is the saying “Where you stand depends on where you sit”. But just because it’s old doesn’t mean that it isn’t right. And it applies to organizations as well as people.

It applies to the MCA: where this account is lodged organizationally will shape what it does, regardless of what the President intended it to do. So what are the options for housing the MCA? The MCA can be fully integrated into an existing organization, for example, USAID, the Department of State or even the Treasury Department, and many argue that this is the best approach. Or it could be partially integrated – made part of a larger organization, reporting to the head or an assistant secretary-equivalent of the organization, but with its own personnel and possibly some of its own processes. Finally, it could be created as a new organization – perhaps a government corporation or similar structure. There are a number of reasons to consider this option seriously, especially if it is intended that the MCA will operate in a manner new and distinct from existing agencies.¹

How should the administration and Congress decide where to locate the MCA? The basic principle in a decision like this is that ***form should follow function***. *If* it is the intent to create an aid program that has a different mission than that of USAID, State or Treasury; *if* it is intended that the MCA operate in a manner different from that of these agencies; and *if* it is expected that the way policies and appropriations are handled in Congress will also differ from existing agencies, *then* there is a strong case for creating a new and separate agency to manage the MCA. If some of these ‘*ifs*’ are not what is intended, then there is a case for lodging the MCA in the agency whose mission, *modus operandi* and political environment it most approximates.

¹ For further analysis of this and other issues involving the MCA, see Steve Radelet, “Beyond the Indicators: Delivering Effective Foreign Assistance through the Millennium Challenge Account”, Center for Global Development, September 10, 2002; Nancy Burdsall, Ruth Levine, Sarah Lucas, Sonal Shah, “On Eligibility Criteria for the Millennium Challenge Account”, Center for Global Development, September 12, 2002; and Nancy Birdsall, Sarah Lucas and Sonal Shah, “Guiding Principles for Design and Implementation of the Millennium Challenge Account”, Center for Global Development, May, 2002.

Organizations Matter.

Let us explore briefly why form needs to follow function with particular emphasis on the consequences of lodging the MCA (or any other new program) in an existing agency. The mission of the established agency will usually become the mission of the new program. The existing agency has a mission, a bureaucratic hierarchy, a professional staff and a culture committed to the pursuit of its mission – all of these built up over years of operation. Conflicts within the agency are typically resolved by the head of the agency or his/her representatives who will also be committed to the mission of the agency.

A new program will have to fit within the hierarchy of the existing agency. Conflicts between the new program and the existing bureaucracy will be resolved by senior management of the existing agency – probably usually in ways consistent with the needs and objective of that agency. (Further, these conflicts will likely not be visible to persons outside the agency so the ability of a new program to protect its different mission within an existing agency through alliances outside it will be limited.)

The culture of the existing agency will likely become the culture of the new program, as existing personnel are assigned to manage the new program or newly hired personnel absorb the organizational culture of their colleagues. The new program will likely function with the existing processes of its home agency – which already exist and have legitimacy within the existing agency -- including budgetary processes, procurement regulations and implementation practices. Finally, the political environment of the agency in which the new program is housed will become its political environment, with the all bureaucratic relationships, Congressional involvement and engagement by outside constituencies that attach to the home agency.

These influences are likely to predominate regardless of whether a new program is fully integrated into an existing agency or whether it is only partially integrated -- with, for example, its own mission, governance and personnel. This is so because of the hierarchical decision-making processes which rely on the agency head to resolve conflicts, the tendency for personnel to want to advance their careers throughout an entire agency (and not just be isolated in one corner) and other day to day behavioral incentives created by being part of a single organization. These points apply to locating the MCA in USAID, the Department of State or Treasury.

Creating a New Organization is Feasible.

The other alternative to locating the MCA in an existing organization is creating a new one. But here, there is one big problem: getting legislation out of Congress establishing a new agency without opening up a Pandora's box that could tempt Congress to propose a fundamental restructuring of the entire foreign affairs bureaucracy. But this problem can, in fact, be easily handled, based on historical precedent.

When USAID was created in 1961, no legislation was passed establishing it in law. Rather, it was established through a delegation of powers from the President to the Secretary of State who then re delegated those powers to a separate agency that became USAID. USAID functioned on a delegation of powers until the 1990s. Language could be included in an appropriations bill that would permit the creation of an MCA through a delegation of authorities. (This approach would undoubtedly offend the Senate Foreign Relations Committee and the House International Relations Committee which are the authorizing committees for foreign aid. But these committees have been unable to pass authorizing legislation for foreign aid since 1985 and there is no sign that they can do so now. It would nonetheless be wise to bring them into the planning process whatever route is taken to create the MCA.)

Implications for the MCA

The MCA at present is only a broad idea and a proposed budget. The broad idea – the mission – is to promote effective development abroad by providing aid to those countries where there is (a) good governance; (b) investment in people and (c) free markets. Based on the previous discussion, where should it be located?

The criteria for receiving MCA monies underline a development mission for the MCA and appear to exclude purely political or diplomatic goals for the allocation of MCA resources. If that is the case, it makes sense to maintain a separation of the MCA from the Department of State, whose main mission is diplomatic and whose preoccupations tend inevitably to be with relationships with other governments, and especially immediate crises in those relations. The pressures within State and in the field to direct available resources towards supporting US diplomatic objectives abroad – well evident in past and current aid allocations by country – argues for such a separation. However, it would be irresponsible to exclude the Department of State from MCA decisions. The Department should have an opportunity to advise on which countries should be eligible for MCA funding and the right to block aid to countries which may fit MCA criteria but for diplomatic reasons, it does not make sense to aid.

It is hard to argue convincingly that the MCA should be located in the Treasury Department. The only significant involvement of this Department in development issues is its responsibilities for US participation in the multilateral development banks. It does not have the mission, experience or staff to manage a more direct US engagement in providing aid for development abroad.

The most obvious place to locate the MCA in existing government agencies is USAID. It has the promotion of development as its mission; it has long been responsible for managing US assistance for development. And it has a large, experienced and committed staff who have long worked on development issues at home and in the field. However, there are some serious concerns to be addressed before a decision is made to locate the MCA in USAID.

First of all, while the missions of USAID and the MCA may be sufficiently similar to warrant co-habitation, are the processes, politics and bureaucratic culture of USAID appropriate for what is intended for the MCA?

If the MCA is intended to be programmed against the same encompassing priorities that USAID now has – improving health, supporting economic growth and promoting democracy and preventing conflict – then that is an argument for locating it in USAID. If the MCA is to address different concerns or to operate in a more focused and therefore, more limited number of sectors or types of activities – a position advocated by many in the development community -- then there is a serious question of whether USAID is the right place for it.

But even if the missions and priorities the MCA and USAID are deemed adequately similar to house both, there are two other critical areas of question. First, how is the aid in the MCA going to be managed and implemented? USAID has long followed roughly the following pattern: it funds primarily projects which involve technical assistance. Projects (or ‘activities’ in current parlance) are identified mainly by USAID officials (primarily in the field missions) to fit within the Agency’s overall policy priorities, Congressional budgetary and programmatic constraints and the Agency’s country strategies and needs of the recipient country. Once it is decided to go ahead with a project, an RFP (request for proposal) is issued and a competitive process begins among a variety of implementing organizations – primarily consulting firms and NGOs (usually based in the US). RFPs are often quite detailed in the activities they propose for implementation. They typically also include a requirement for ‘results management’ – meaning that the implementer will have to come up with quantitative results and indicators of progress towards those results. In short, USAID tends to be intimately involved in the identification, selection and often design of the project or activity and supervises it from the field. The Agency has a large number of field missions responsible for these and other activities.

USAID’s *modus operandi* is arguably increasingly out of sync with that of other major aid donors or with the prevailing discourse on how aid should be used to promote development. There is a considerable consensus internationally that aid should be managed to promote ‘ownership’ on the part of the recipients of that aid. That usually means that they must play a major role in identifying, planning, executing and evaluating aid-funded activities with aid agencies stepping back from the highly directive (and often intrusive) approaches they have followed in the past. The rationales for shifting greater initiative onto aid recipients are two: one is that when individuals and organizations have had a say in shaping projects intended to assist them, they are likely to support the implementation and sustainability of those projects much more than when they have had projects or programs designed and delivered to them (or imposed on them) from outside. This is one important development lesson that has been learned over the past several decades.

A second important reason for shifting much more of the responsibility for development onto recipients (whether they be governments, NGOs or business

enterprises) is that in most of the developing world in the 21st century, the capacity exists or can be obtained to assume such responsibilities. And taking on those responsibilities will further deepen capacity and confidence on the part of the recipients to manage their own futures – it can ‘empower’ them, to use another of the prominent concepts of development discourse today.

Another change increasingly evident in the way other major aid agencies do business is the use of ‘sector investment programs’ – budget support for expenditure programs by a particular ministry in a recipient government. These programs are usually drawn up by the particular ministry in a recipient government, reviewed and approved by donor agencies and then those donors use their aid to help finance the expenditure program (monitoring its progress along the way). There is much talk among aid agencies of the value of pooling their aid in this way to reduce the onerous transactions costs imposed on many recipient governments by having to deal with multiple and uncoordinated donor agencies and the different administrative requirements of each. It is not clear whether USAID can (or will) move toward the pooling of aid resources, given the regulatory restrictions on how it manages its funds. It is not entirely clear to this writer whether resource pooling is even a good idea (though efforts to reduce the administrative burden of multiple aid donors surely are). But if such approaches to aid implementation are to be part of the way the MCA operates, that is an argument for locating it outside USAID.

Arguably, USAID’s current structure remains embedded in the past, with its over-elaborated, complex and time-consuming strategic planning, programming and procurement processes. Listening to USAID staff discuss their business, one has a *déjà vu* experience of being transported back to the 1970s while the development discourse worldwide and the practices of many other donor agencies have begun to move well beyond that period into an era of more flexible, recipient-oriented programming.

The other problem area is politics. For a number of years, USAID has operated under numerous earmarks and directives imposed by Congress – so many that at times, USAID officials have calculated that the amount of funding in the earmarks and directives exceeded actual appropriations. Such restrictions are not unique to USAID – they exist for many government spending programs. Behind them are the interests of particular members of Congress (at times connected with their own constituents) and the pressures of special interest groups. These are often NGOs pushing their particular agendas, most of which are worthy but when these numerous agendas become legislatively mandated activities of USAID, these restrictions severely reduce the discretion available to USAID to shape and manage its program flexibly and to undertake significant new initiatives in what it funds. Placing the MCA within USAID would likely result in these new monies inheriting the political practices and restrictions imposed on USAID and so, limit its flexibility. (Already, many NGOs are strategizing on how they can get Congress to earmark the new MCA monies for their particular activities. If the administration does not manage the MCA well in Congress, there may be a ‘feeding frenzy’ similar to what happens on domestic spending bills or members of Congress may

simply assume they cannot trust the administration to make good decisions on the use of MCA monies and proceed to make them for the administration in legislation.)

Ideally, an MCA should be able to deliver its funding as flexibly as possible (within the constraints of accountability) to achieve maximum impact. One way to encourage this is for its funding to be provided at least initially as a block appropriation, to cover the first several years of operation and remain available until expended. This would reduce the pressures to spend within a given time period that have so undercut the responsible use of aid funds worldwide through the unwillingness on the part of aid agencies to say 'no' to unqualified recipients or poor project proposals. If the MCA feels it has to spend its sizeable funding within each year in order to get at least the same the next year (or not have its budget reduced), it will fall to the same temptation regardless of criteria for allocation. We are dealing with human nature which responds to incentives. The MCA should be created without the debilitating incentives that afflict other aid agencies – and not just those in the US. A bloc grant to cover and remain available over several years would also help reduce the temptation on the part of Congress to tie up the funds in earmarks and directives. It seems unlikely that Congress would agree to funding several years' worth of expenditures, to be available until spent, if the MCA is placed in USAID – it has resisted such requests from USAID over many decades.

The weight of this argument, in short, is that if the intention of the administration is to see the MCA used in ways different from those of USAID, it needs to consider seriously the option of creating a new agency. This agency needs to be independent of other agencies, though it must take into account the advice (and especially the objections) of the Department of State regarding the country allocation of aid. It should be able to collaborate with USAID closely where appropriate, possibly channeling some of its funds through the Agency where it is financing activities similar to those of USAID. It may also want to channel some of its funding through other US government agencies as well. (There are few US government agencies at this time which do not have their own 'aid' programs abroad – mainly technical assistance – though the term 'aid' is not used for presentational reasons and we do not know precisely how large these expenditures are since data is not kept in this category. The point here is that they are developing the capacity to deliver technical assistance abroad.)

There is one other political consideration that is essential if there is to be an MCA and it is to do the important things for which it was proposed. That is that Congress must be brought into the planning of the agency. It is never enough to 'consult' with Congress – i.e., just tell them what you plan to do. There needs to be a buy-in by key members and staff from both parties (who can tell which party will be the majority in any one House from one day to the next?). It would be most important to engage in particular the chairs, ranking minority members and key staffers of key committees – certainly the Foreign Operations Sub-Committees in both Houses and possibly the Chairs and ranking minority members of the Senate Foreign Relations Committee and House Foreign Affairs Committee. Their ideas must be part of the planning if anything important is to be accomplished and if the new program is to be protected by these members from the multiple assaults on its mission and operation (which will come) in the future.

If a new agency is set up to manage the MCA, it should have a small staff, especially if it is taking a ‘foundation’ approach to implementing its programs.² It should have a limited field presence – large field missions a la USAID should not be necessary if it delegates much of the responsibility for identifying, designing and implementing the activities it finances to its potential recipients. Procurement regulations must be written to ensure adequate accountability but in a manner much less complex, time consuming and burdensome than those that exist in USAID. (Since the process of deciding which activities would be funded would presumably involve substantive experts inside and outside the new agency assessing and ranking proposals and certifying them for funding, the particular bottleneck with USAID’s procurement – assessing and reassign competitive bids for particular projects or activities – would be eliminated.) The new agency would, however, have to have a strong evaluation capacity to assess the outcomes of its projects and ensure that a maximum degree of learning takes place as a result of them. (Hopefully, assessments would not be based on the increasingly discredited ‘managing for results’ system in place in USAID which (a) is inappropriate for the Agency’s long term, experimental, difficult to measure type of activities where attribution is difficult and (b) has predictably created perverse incentives – including *inter alia* the neglect of real evaluations.)

Long Term Scenarios and a Lamentation

Let us consider the long term prognosis for US foreign aid generally and the implications of where the MCA is located in those scenarios and vice versa.

First, the vice versa: if the MCA is located in a new organization and not in USAID, it will be seen widely as a major vote of no confidence on the part of the administration in USAID – unless the roll out is handled very carefully (and even then, everyone will read the implications). Such a vote of no-confidence will likely make USAID vulnerable to all those inside the administration, in Congress and elsewhere unhappy with USAID who will likely begin to urge the Agency be eliminated or broken up. It may be expected that pressures will reappear to merge USAID into the Department of State. (This is not a new idea – it was pushed hard within the Clinton administration and later in Congress but unsuccessfully. It’s was a *bad idea* then and it’s a bad idea now if the development mission of USAID is to be preserved.) Handling the fallout for USAID of creating a new agency for the MCA needs to be considered carefully, with a strategy for the role the administration ultimately wants to see USAID play in US foreign policy and development abroad.

Let us take the future from a second angle. If there is a war with Iraq, however it comes out, there will be major demands on US aid resources. Some will be needed to help rebuild the country (though these should be more limited than what is needed for Afghanistan and hopefully more quickly mobilized). Others will likely be needed to

² See on the ‘foundation approach’, Nancy Birdsall, Ruth Levine, Sarah Lucas and Sonal Shah, *op.cit.*, and Carol Lancaster, *Transforming Foreign Aid: US Assistance in the 21st Century*, Institute for International Economics, Washington, D.C. 2000.

secure friends and allies in the region and beyond as the US launches what is likely to be an unpopular war, especially in the Moslem and Arab worlds. These types of demands fit the pattern seen in Afghanistan (involving initiating or increasing aid programs in neighboring 'stans' to ensure their support for US policies) and elsewhere in the past. Though these aid funds should not be judged on developmental criteria, their use to advance US diplomatic goals is both useful and inevitable, given our stance as a great power seeking to shape events abroad.

Where will these funds come from? It is hard to imagine Congress putting up significant additional aid monies if it appropriates the new funding for the MCA – especially in what is likely to be an increasingly constrained budgetary environment and an uncertain (and perhaps recessionary) economy. So the needed funds will have to come from existing resources. If MCA resources are to be used exclusively for good performers, they would not be available for reconstruction and certainly not for geo-political purposes where favored allies do not fit the MCA criteria. Neither are they likely to come from Economic Support Funds, allocated primarily by the Department of State to countries of the Middle East (Israel, Egypt and Jordan) at a time of conflict in that region. So the probability is that those resources will be drawn from existing development aid programs managed by USAID with the deficit in development spending possibly 'replaced' by MCA resources.

If MCA is part of USAID, its resources may also become vulnerable to these demands, whatever the criteria on which their allocation is based. The pressures on USAID could be intense and an MCA within USAID could hardly resist the same pressures. If the MCA is protected from such pressures by being a separate organization, drawing them from USAID's resources will reduce USAID's development functions and may eventually create momentum to move USAID into the Department of State so its resources will be close at hand and easily deployed.

A happier scenario is that there is no war in Iraq or few pressures to divert aid resources to geo-political purposes arising out of conflict in the Middle East and elsewhere. An independent MCA is created and gathers strength. There would then be two major aid agencies in the US government (and two minor ones – the InterAmerican Foundation and the African Development Foundation). Pressures may eventually arise to merge the two (or perhaps the four) into one agency. If that should happen after the MCA establishes its staff, operating procedures, culture, personnel and other accouterments of a functioning government organization, there might be a merger of equals between USAID and the MCA (i.e., what the MCA lacks in bureaucratic size it will more than compensate for with the volume of its annual aid), leading to a healthy rethinking and reshaping of how the US manages its aid abroad.

Behind this last point is a lamentation – the creation of the MCA provides an extraordinary opportunity – really the first since 1961 – to rethink fundamentally what the mission, organization and processes should be to manage US foreign aid in the 21st century. We are well past due for such a rethink. The world has changed fundamentally in the past several decades but apart from frequent, disruptive and generally ineffectual

reorganizations of USAID, not much has changed fundamentally in how we think about our development objectives, how we seek to reach them and how an aid agency should relate to other parts of the US government, including but not restricted to the Department of State. This opportunity shows every sign of being lost through the inattention and haste of the administration. Alas.