globalpost

Millennium Challenge Corporation: Change we don't need?

Liberal do-gooders say the Bush administration's Millennium Challenge Corporation is the best foreign assistance idea in decades. Will the Obama administration support it?

David Francis | April 03, 2009

WASHINGTON — The Democrats won the 2008 elections by promising change in Washington. So it may not seem shocking that many in the party lack enthusiasm for the Millennium Challenge Corporation, a Bush-era foreign assistance program that incorporates deeply Republican ideas on how to fight poverty. In March, President Barack Obama signed a spending bill that cut MCC's funding nearly in half, from $1.5 billion in 2008 to $875 million in 2009 — a cut that MCC officials said would hinder the program's ability to continue operating.

What is surprising, however, is that in spurning the MCC, Obama and the Democrats face considerable opposition from a constituency they can normally rely on — the typically liberal Washington D.C. international development community. Groups like Oxfam, Partners for Democratic Change and the Center for Global Development — as well as scholars from the Brookings Institute and American University — all praise the MCC, and urge Obama to support it.

"If [MCC's] principles were used to drive the reform of the entire foreign aid system, we'd have one heck of a better system that is consistent with all good development practices we've developed over the last 30 years," said Ray Offenheiser, president of Oxfam America, a group dedicated to alleviating poverty.

Created in 2004, MCC grew out of then-President George W. Bush's frustration with bureaucracy at USAID, which he believed had slowed the agency to a point of ineffectiveness. The MCC was designed with Republican reverence for the private sector: leaner, more modern and responsive.

With only 250 employees, MCC is tiny compared to most agencies. It has a chief executive officer as opposed to an agency administrator. It was chartered as a U.S. Government Corporation — an classification created in the mid-1990s to "create a government that works better and costs less by empowering employees to put customers first," according to a 1993 report.

Also unlike USAID — which has a large presence on the ground in countries it is assisting, and which relies primarily on contractors to conduct development work — MCC has only a few officials in-country. The corporation works directly with developing countries to promote economic growth, and the primary responsibility for implementing aid programs falls to the country's government and private sector.

The two aid organizations differ in several other key ways. Last year, USAID had a budget of $13 billion, while MCC's was $1.5 billion. To prevent Congress from cutting its budget, USAID pressures its bureaucrats to spend their entire annual allocations — often leading to massive outlays in the final weeks of the fiscal year. MCC has handled its money more judiciously, leaving cash in its coffers unless it has a good reason to spend it.

Moreover, USAID does not have criteria for assistance. The agency doles out aid according to need and by political expedience (with priorities determined by politicians). In contrast, MCC compels its prospective recipients to earn the help, which essentially acts as an incentive for development even before the first aid dollar is spent. To be eligible for a five-year MCC compact — the primary mechanism through which it provides assistance — countries must meet 17 independently judged criteria. These include civil liberty protections and control of corruption, factors that indicate the government can foster economic growth. A country becomes ineligible for funding if its score on any of these criteria falls after a compact is entered into. (Countries can also enter into threshold agreements in which MCC gives a smaller amount of aid to help the country meet compact criteria.)

So far, MCC has entered into 18 compacts. Unlike the donor-recipient relationship that countries have with USAID, MCC compacts are partnerships, in which the "compact countries" use MCC money to complete projects that foster poverty reduction.

MCC's critics

In his early days in office, Obama has yet to explicitly signal the future for MCC. The cuts that he signed stemmed from a bill left over from before he was elected. MCC officials said the spending cut would hinder its ability to continue its work — the corporation said the funding decrease would prevent it from entering new compacts this year.

Speaking in Washington last week, MCC CEO Rodney Bent said Secretary of State Hillary Clinton assured him that funding would increase again in 2010, although 2010 spending numbers won't be made public until later this spring.

While some Democrats on Capitol Hill expressed support for MCC following the 2009 budget cut, others said they were skeptical of the corporation's mission. The House Appropriations Committee, in a release of the 2009 budget, blamed "slow program implementation" for the cut.

A Democratic Senate source familiar with budget negotiations said MCC wasn't providing enough return on investment. "Funding in the Bush administration [for MCC] were big amounts. Meanwhile, child medical care for the poorest of the poor suffered," the source told GlobalPost Passport.

Some uneasiness stems from MCC's origins in the Bush administration. "There is no getting around the fact the MCC is a Bush initiative," said Lex Rieffel, a development expert at the Brookings Institution in Washington. "There are a lot of politically active people who absolutely choke on the notion that the Obama administration, dedicated to change, would put its saddle on that horse."

Others complain that MCC only serves to dilute U.S. foreign assistance capabilities by adding to what American University professor Gordon Adams called the "diaspora" of U.S. aid agencies. This includes MCC, USAID, and 18 more executive agencies managing more than 50 overseas development programs. Too often, Adams said, these agencies fail to communicate and dilute the effectiveness of U.S. development work.

"The ability to think cross-agency does not exist in Washington," he said.

Lastly are concerns that the corporation was not getting results quickly enough. MCC has some small victories it can point to — increasing incomes for Armenian farmers and boosting child immunization rates in Indonesia, for example. But it also has its failures, including the recent suspension of its compact with Nicaragua because that country no longer met the corporation's political freedom criteria.

MCC contends that it is difficult to gauge success, because most of the five-year compacts have yet to be completed.

"Because we're newer, we don't have decades worth of projects to point to," Alicia Phillips Mandaville, associate director for development policy at MCC, said at a recent forum in Washington.

In a subsequent interview with GlobalPost Passport, Mandaville acknowledged the criticisms of MCC. But she said they stem from the corporation's unique approach to development.

"When we're making an investment decision about moving forward with a compact, one of the checks we put in place is whether the project proposed by the country will increase the incomes of the poor," she said in an interview. "That's a really specific check question you don't see a lot of agencies make. It's something that's tied closely to our identity."

She continued to say MCC donor countries like the organization's specific approach to foreign assistance.

"Countries don't want all foreign assistance to be the same," she continued. "They want foreign assistance programs to be focused on achieving goals. Think about MCC's focus on poverty reduction and growth, and it's easy to see where MCC fits."

Mandaville acknowledged that MCC's goals would not be accomplished in the short term. She urged patience and faith in a long-term approach in which MCC's work is a basis for additional development.

"In a perfect world, we saw a country implement a compact and get the results that it wanted," she said, "and then move forward on their own with other development projects. That's not an explicit goal but I think that some of the ways we design programs ... push countries in that direction."

This approach has strong backers in the development community. Many believe that USAID's models of development are outdated, and that the U.S. needs to start thinking about development as a financial investment that yields the best results over time.

“If you ask ministers in developing countries what they need most, they will consistently say they need economic growth,” said Sheila Herring, a senior policy analyst and MCC analyst at the Center for Global Development. “This contradicts what Americans like to think their aid funding goes to — malaria shots, HIV/AIDS, and seeing kids in school. It’s unfortunate, because [investment] is the most necessary thing for poverty reduction.”

Oxfam’s Offenheiser touted MCC’s belief in country ownership as its most attractive feature.

“The key appeal of the MCC is that it’s focusing on a real partnership with the countries where it’s investing its money,” he said. USAID’s approach is “a short-term way of approaching the development process. This compact approach and this ownership principle is really what’s needed.”

These comments reflect a growing consensus in Washington that a dramatic overhaul of the U.S. development bureaucracy and policies is needed. The Foreign Assistance Act is outdated and USAID has become, according to one development expert, a “contracting agency.” The Pentagon, not the State Department or USAID, has too often become the face of the U.S. development apparatus in developing countries.

MCC, while a new and relatively untested concept, provides a development approach that encompasses the best practices from decades of worldwide development work. It makes long-term investments in countries and makes those countries accountable for their own success. It also does not provide assistance carelessly, as countries must meet strict criteria. If these criteria are not met, the aid stops.

There will always be a place for USAID to provide humanitarian assistance after natural disasters, in conflict and post-conflict environments and as a stop-gap measure. But many development experts agree that the agency’s methods are outdated for making sustainable change. They note that long-term investment is what developing countries need — precisely the kind of aid MCC provides.