6

A New Corporation?

One of the most controversial issues in the debate about establishing the MCA has been its home. The administration has proposed that the MCA be housed in a new government corporation, the Millennium Challenge Corporation (MCC), designed to reduce administrative costs and increase effectiveness. Congress is currently considering this idea, and something similar to it seems likely to be approved. In making this proposal the administration pointedly rejected placing the MCA in USAID. This chapter explores the options for administering the MCA and the strengths and weaknesses of the proposed corporation.

The Current Landscape

A wide range of agencies administers different components of US foreign assistance. Four agencies are dedicated to development. USAID is the largest, with an annual direct budget of $3.6 billion, and up to $8.8 billion including funds it manages in cooperation with other agencies. USAID operates in 86 countries. Two very small agencies operate on a foundation model with a regional focus: the African Development Foundation (annual budget of $17 million) and the Inter-American Foundation ($13 million). The Peace Corps ($280 million) is the other major development agency, which operates on an entirely different model of providing volunteers to work in low-income and transition countries.

In addition, several other departments and agencies are involved in development policy and programs. The State Department oversees the Economic Support Fund (ESF), which provides financial support for political and diplomatic initiatives. The largest recipients of ESF funds, which totaled $3.3 billion in fiscal 2002, were Israel ($720 million), Egypt ($655 million), Pakistan ($625 million), Jordan ($250 million), Turkey ($200 million), and Afghanistan ($105 million).[1] USAID implements many ESF programs for the State Department, which, besides having other effects, puts political pressures on some of the agency's operations. The State Department also runs democracy-building, humanitarian assistance, transnational, and several other programs and is responsible for the United States' role in the United Nations and its development activities.

The Treasury Department represents the United States at the international financial institutions, including the International Monetary Fund, the World Bank, and the African, Asian, and Inter-American Development Banks, among others. The Treasury also runs a small technical assistance program in low-income and transition countries. The Treasury and State Departments together manage US debt policy and debt relief programs. The Department of Health and Human Services has significantly expanded the size of its international health programs in recent years, some of which are administered through the National Institutes of Health and the Centers for Disease Control and Prevention. The Departments of Agriculture (through food aid) and Defense (through humanitarian assistance) also play important roles. Other agencies play smaller roles, including the Departments of Commerce and Energy, along with the Environmental Protection Agency (EPA) and the Office of the US Trade Representative. Several quasi-independent agencies also are active in developing countries, including the Trade and Development Agency, the Overseas Private Investment Corporation (OPIC), and the US Export-Import (Ex-Im) Bank.

The Millennium Challenge Corporation

To this mix the administration proposes adding the MCC. The basic organization is straightforward: the administration has proposed that the MCC be an independent corporation overseen by a small board of directors chaired by the secretary of state, with the secretary of the treasury and the director of the White House Office of Management and Budget (OMB) as members. The chief executive officer of the new corporation would be nominated by the president and approved by the Senate. The administration envisions the new corporation as lean and mean, with a staff of approximately 100 to administer $5 billion per year, drawn from various government agencies on a limited-term basis. The MCC would outsource a significant amount of services to both existing government agencies (particularly USAID) and private contractors. The biggest advantage of es-

1. See the State Department's fiscal 2004 budget request at www.state.gov/documents/organization/17230.pdf.

tablishing an organization is that it could avoid the political pressures, bureaucratic procedures, and multiple congressional mandates that weaken current aid programs. The MCC could provide a fresh start with new rules and regulations, which could be easier than fixing the existing ones. Its status as an independent body could make it more flexible and responsive and allow it to attract some top-notch talent. A case can be made that its mission differs from that of USAID, since it will operate in fewer countries with a different delivery mechanism (although it is hard to push that argument too far, since its objectives of supporting economic growth and poverty reduction overlap considerably with those of USAID). Carol Lancaster (2002) argues that the case for housing the MCA in a new organization hinges on the extent to which its mission, operational procedures, and authorities and directives from Congress differ from existing aid organizations. Since the MCA is supposed to do business differently than other aid programs, with a narrower focus, higher standards, more recipient input into program design, and more flexibility, it follows that there is a strong case for situating it in a new institution.

However, establishing a corporation risks further fragmenting foreign assistance programs across the executive branch. Adding yet another agency to those listed above could impede coordination and increase redundancy. The MCA's very success could weaken USAID by drawing attention and top talent and making it more vulnerable to budget cuts. If the MCA relies on USAID to carry out some of its operations, it could engender resentment and further weaken morale at the agency.

The administration's strategy to date, however, reveals a contradiction. On the one hand, if the administration believes that USAID is competently administering development programs, then there is a good case for it to administer the MCA. If, however, the administration does not have confidence in USAID, the MCA should be located elsewhere, but steps should be taken to either strengthen USAID or eventually close it down. By proposing to house the MCA in a new corporation but not laying out a strategy for USAID, the administration risks significantly weakening the agency and starting a process of slow, painful withering. This can be avoided if the administration and Congress create a new vision for USAID, a subject discussed in chapter 9.

It is worth recalling that President Kennedy used some of the same rationales now being used to support his call for a new corporation to revamp foreign assistance in 1961. In his Special Message to Congress on Foreign Aid on March 22, 1961, he said:

> To achieve this new goal [of a united free world effort to assist the economic and social development of the less-developed areas of the world] we will need to renew the spirit of common effort which lay behind our past efforts—we must also revise our foreign aid organization, and our basic concepts of operation to meet the new problems which now confront us.
>
> For no objective supporter of foreign aid can be satisfied with the existing program—actually a multiplicity of programs. Bureaucratically fragmented, awk-

ward and slow, its administration is diffused over a haphazard and irrational structure covering at least four departments and several other agencies. The program is based on a series of legislative measures and administrative procedures conceived at different times and for different purposes, many of them now obsolete, inconsistent and unduly rigid and thus unsuited for our present needs and purposes. Its weaknesses have begun to undermine confidence in our effort both here and abroad.

The program requires a highly professional skilled service, attracting substantial numbers of high caliber men and women capable of sensitive dealing with other governments, and with a deep understanding of the process of economic development. However, uncertainty and declining public prestige have all contributed to a fall in the morale and efficiency of those employees in the field who are repeatedly frustrated by the delays and confusions caused by overlapping agency jurisdictions and unclear objectives. Only the persistent efforts of those dedicated and hard-working public servants who have kept the program going, managed to bring some success to our efforts overseas.

President Kennedy's remarks led to the passage of the Foreign Assistance Act in 1961 and the establishment of USAID. While the MCA is similar to USAID in some ways, there are some marked differences. President Kennedy hoped to establish a separate agency that would bring all US aid programs under one roof. In the event, some but not all US aid programs were moved to USAID, whereas the MCA is a separate program with a narrower focus. Moreover, his vision was to work with many countries through a broad foreign assistance program, but the MCA is aimed at a small set of countries that must first qualify, complemented by other programs in nonqualifying countries.

Nevertheless, it is striking that the US foreign assistance program still suffers from some of the same maladies identified by President Kennedy four decades ago. Over time, USAID fell prey to the political influences and bureaucratic burdens that had weakened the US programs in the 1950s. For the MCC to operate more effectively, it will have to be established the right way. Key to that process will be oversight of the corporation by the US government, appropriate staffing, strong coordination with other aid programs, and more flexible mandates from Congress.

The Board of Directors

The administration has proposed naming the secretary of state as chairperson of the board. This choice seems appropriate. The strongest argument for it is that the MCA, after all, is a foreign policy tool of the US government, and as chair, the secretary of state would place MCA policy into the broader foreign policy context. Moreover, the department has an established presence on the ground through embassies in each country. The secretary of state has several related responsibilities, including broad oversight of USAID, control of the ESF, the largest assistance fund outside USAID, and several other programs.

However, the State Department has limited direct expertise in economic development issues. Moreover, there is a risk that its chairmanship could influence allocation decisions in favor of US strategic and political allies rather than those with a stronger record of promoting development, which could weaken the MCA's effectiveness. As discussed previously, such influence could be exerted during country selection, allocation of funds to eligible countries, or decisions to reduce assistance to countries that are not meeting specified benchmarks. These pressures cannot be eliminated but will be reduced by the presence of other members on the board (especially if it is enlarged as suggested below) and by the public and transparent structure of the country selection process. There will be less political pressure on an MCA housed in an independent corporation than if it were placed directly in the State Department or administered through USAID, both of which fall under the responsibility of the secretary of state.

The secretary of the treasury will help coordinate the MCA through US positions in the multilateral development banks, debt policy, and the Treasury's technical assistance program. Moreover, the department can bring strong economic, financial, and analytical skills to the corporation. However, the inclusion of the director of the OMB on the MCC board makes less sense. The office has no development expertise or direct connection to foreign policy, and it can carry out its financial oversight responsibilities without being represented on the board. Indeed, its membership on the board could conflict with its financial oversight responsibilities.

Strikingly, none of the three proposed board members is primarily concerned with development issues. To rectify this, the administrator of USAID should be added to the board. This amendment would bring to the board the agency with the strongest development expertise in the US government. USAID's experience—both good and bad—and institutional knowledge would provide the MCA with important insights on strategic decisions. It would also ensure strong coordination between USAID and the MCA. Technically, the secretary of state represents USAID on the board, but direct representation of USAID would be better. Some may worry that since the administrator reports to the secretary of state, he/she would never vote against the secretary on a board decision. The issue, however, is not voting per se, as administration officials would rarely be split, but enhancing communication between the agencies and bringing on-the-ground experience directly to the board's deliberations.

Adding private-sector representatives would further strengthen the board. Possibilities include:

- representatives of private firms that operate in developing countries, including firms implementing development-related projects and traditional for-profit businesses;

- representatives of US-based NGOs focusing on development;
- US academics with expertise in aid effectiveness and development issues; and
- former government officials (e.g., George Shultz, Robert Rubin, James Baker, or Lawrence Summers).

Members with such backgrounds would bring both substantive expertise and on-the-ground experience. Since the primary objective of the MCA is to make US foreign assistance more effective in supporting economic growth and fighting poverty, it would be tremendously beneficial to have on the board members with specific knowledge and expertise in these issues. Outside members will bring innovative ideas and voice independent opinions on critical issues, not just take the administration's line.

As an alternative to having private representatives on the board, Congress and the administration could create a senior advisory committee to support the board, comprising individuals with strong international and development backgrounds. However, it would be preferable that this expertise be directly represented on the board. To ensure stronger public participation and transparency, the board should hold at least one public hearing a year to afford an opportunity for people to present views on how the MCC is fulfilling its mission.

In considering the composition of the board, the Ex-Im Bank and OPIC are relevant examples. The Ex-Im Bank Board consists of five individuals (chair, vice chair, and three members). Each board member is from the private sector, and none represents other government agencies. Board members are nominated by the president and confirmed by the Senate with staggered terms that overlap administrations. Board membership is a full-time position.

The OPIC Board follows a different model. It has 15 members, seven of whom are drawn from the federal government and eight from the private sector. The seven government representatives include the administrator of USAID, the US trade representative or his/her deputy (currently filled by the deputy), the CEO of OPIC, and four others, one of whom must be from the Department of Labor. Currently the other four positions are held by the deputy secretary of labor; the undersecretary of state for economic, business, and agricultural affairs; the undersecretary of commerce for international trade; and the undersecretary of treasury for international affairs. All 15 members must be nominated by the president and confirmed by the Senate. Until mid-2001, the administrator of USAID chaired the board (reflecting the historical ties between USAID and OPIC) and the US trade representative (or his/her deputy) was vice chair. However, the president now may nominate any of the seven government representatives for the two positions, subject to Senate confirmation. President Bush has not yet nominated anyone for these two positions. This model is perhaps more relevant for the MCA, both because of the government/private-sector mix and because OPIC was originally an outgrowth of USAID.

This discussion suggests either a five- or seven-person board. The five-person version would comprise:

- The secretary of state as chair;
- The secretary of the treasury;
- The administrator of USAID;
- Two nongovernmental members representing private-sector firms or NGOs, or former government officials, one nominated by each major party.

The seven-member version would retain the director of the OMB and add a third nongovernmental member.

Staffing

The administration has proposed that MCC staff be drawn for a limited term from a variety of government agencies, similar to the recommendations made in Radelet (2002b). Many staff would be detailed from other agencies, including the Departments of State, Treasury, Health and Human Services, and Agriculture, as well as USAID. Other possibilities include the Departments of Education, Energy, and Commerce, the EPA, and the National Institutes of Health or the Centers for Disease Control. New staff would be drawn from outside the government, including from private businesses, NGOs, private voluntary organizations, academic institutions, and others with experience and expertise in development. Staff detailed from government agencies would serve on a limited-term, rotating basis (e.g., for two years) and then return to their home agency. This procedure would be similar to Treasury Department employees who work for limited terms in the US executive director's offices at the IMF, World Bank, and other financial institutions. This arrangement would ensure the strong input of several agencies in key MCC decisions, proposal review, and monitoring and evaluation. Even though employees would work there for a limited period, extensive institutional and historical knowledge would develop over time in the MCC and be available even after they return to their home agencies. While bringing to bear these multiagency views, rotating the staff will bring in a steady stream of new ideas and avoid creating a static bureaucracy. The MCC should bear the full cost of these staff rather than the home agency.

Staff on detail from other agencies should complement a permanent core staff of MCC employees. The entire staff cannot be made up of people on assignment from other departments. A core staff with development

Table 6.1 Funds disbursed and staff size of selected foundations, private corporations, and bilateral and multilateral donor agencies

Organization	Total staff	Funds disbursed/ budget (millions of dollars)	Funds per staff (millions of dollars)	Staff for 5 billion dollars
Asian Development Bank	2,163	5,300	2.45	2,041
Bank of America	133,944	365,447	2.73	1,833
Bill and Melinda Gates Foundation	238	1,012	4.25	1,176
Citigroup	250,000	436,304	1.75	2,865
David and Lucile Packard Foundation	160	230	1.44	3,478
UK Department for International Development	2,257	3,310	1.47	3,410
US Export-Import Bank	400	10,100	25.25	198
Ford Foundation	600	931	1.55	3,222
International Fund for Agricultural Development	315	450	1.43	3,500
Inter-American Development Bank	1,770	7,900	4.46	1,120
International Finance Corporation	2,000	3,100	1.55	3,226
International Monetary Fund	2,650	23,613[a]	8.91	561
Kellogg Foundation	205	223	1.09	4,596
MacArthur Foundation	192	180	0.94	5,333
National Science Foundation	1,300	4,500	3.46	1,444
Pew Charitable Trusts	140	230	1.64	3,043
Turner Foundation	16	70	4.38	1,143
US Trade and Development Agency	75	52	0.69	7,245
USAID	6,910	8,800	1.27	3,926
World Bank	10,000	19,500	1.95	2,564

a. Total disbursements, average 1998–2002, from IMF (2002).

Sources: Organization Web sites, annual reports, and personal communication with the institutions.

expertise should remain at the MCC for longer periods. The administration has proposed that employment at the MCC be limited to five years, following the example of the Peace Corps, but this is too restrictive. Having some staff with more experience and institutional knowledge would strengthen the corporation.

One of the biggest concerns about MCC staffing is its size. The administration has proposed a staff of approximately 100 people, with heavy reliance on outsourcing services to other agencies and private contractors. Two ways to think about the appropriate size of the MCC staff are to (1) compare it to similar organizations and (2) carefully consider its functions.

On the first point, table 6.1 shows the staff size and total disbursements for several relevant organizations, including donor organizations, foundations, independent government agencies, and two private banks. The fourth column shows the amount of disbursement per staff member, and the fifth shows the equivalent number of staff for annual disbursements of $5 billion, the proposed budget of the MCA. Of all these agencies, the smallest staff size equivalent for an annual $5 billion budget is the Ex-Im Bank with 198. However, this figure is misleading, since a large volume of its business is through loan guarantees rather than actual disbursements, which is less personnel-intensive. The IMF, with a staff size equivalent of 561, has more in common with the MCA, since it maintains eligibility requirements, insists that recipients meet performance benchmarks, and funds broad programs.[2] The next staff size equivalent for $5 billion is around 1,100 (the Bill and Melinda Gates Foundation, the Turner Foundation, and the Inter-American Development Bank). Of course, none of these agencies is exactly like the MCC, so the comparisons should be used with caution. There are significant differences in the size of projects and programs, the extent of technical support and research capacity, and the types of financial instruments that are used. Some of these agencies might be overstaffed, with more employees than they need to perform essential services. Nevertheless, there is a vast difference between the 100-person staff proposed for the MCC and the experience of other organizations.

On the second point, consider the range of functions that MCC staff (or its subcontractors) will carry out:

- vetting of new proposals, both in the recipient country and in Washington;
- monitoring of ongoing projects and programs (which in many recipient countries will be the equivalent of several percentage points of GDP);
- evaluation of programs and projects, including incorporating results and lessons learned into new programs;
- financial management, especially on disbursement, procurement, and contracting;
- coordination with major aid programs in recipient countries;
- coordination with other US government agencies, especially USAID, and also the Department of Health and Human Services, the Treasury, and others;
- continuous updating and strengthening of the eligibility criteria;
- legal counsel;
- public affairs, legislative affairs, and public outreach; and

2. I am grateful to Dan Zelikow for making this point.

- support for all the above (e.g., secretaries, personnel, computer networks, etc.).

It is difficult to imagine a staff of only 100 people carrying out these functions in approximately 20 countries. For example, to be effective, a minimum of two to three MCC staff members should reside in each of the recipient countries to monitor programs, communicate with government officials, work with organizations to prepare new proposals, and be the "eyes and ears" on the ground. These functions alone will require 40–60 people, plus a few local hires.

To keep the core staff small, the administration plans for the MCC to rely on other agencies, both in the field and in Washington, and to contract out services to private organizations. For example, the MCC could use an interagency process to assist in vetting proposals. It could be represented in recipient countries by embassy or USAID staff (although these kinds of interagency processes rarely work well for long periods of time). But the amount of work required will be significant, considering that the average MCA country will receive something on the order of $250 million per year—a very large aid program in most countries. Staff on the ground will be responsible for evaluating the credibility of nongovernment proposal writers, providing some assistance to potential grantees in drafting proposals, assisting in vetting proposals, monitoring ongoing programs, communicating with host-country officials, and other tasks. Staff members from other agencies obviously will not be able to add these responsibilities to their current tasks. These agencies would have to hire additional staff to carry out the MCC's responsibilities. These costs should be fully reimbursable, or the MCC will create resentment in the other agencies, and the quality of the work will suffer. This might be especially true for USAID staff, who—when asked to do the detail work for the better-funded, higher-profile MCC—could be unhappy if MCC staff were better paid than them. It is hard to imagine a successful MCC in the long run without a strong MCC staff presence in the recipient countries.

The other option for the MCC is to contract out specific services. There is clearly some scope for outsourcing certain services such as monitoring and evaluation, assistance in vetting proposals, and some other activities. Contracting out services can bring in top-level expertise, innovative ideas, and specialization.

However, there is a limit to how much the MCC can rely on other agencies or contract out its work while maintaining its proficiency. Many core functions cannot and should not be contracted out. In addition, these options can be expensive, both in terms of financial costs and administrative burdens. They require coordination and contracting, and communication is rarely as efficient as with services directly carried out by an organization. In many circumstances, these strategies could be more expensive than having the MCC carry out the functions itself. In effect, because it will rely on hundreds of people outside the corporation to carry out its functions, the small size of the MCC largely will be an illusion.

Ultimately, it will be very difficult to effectively operate the MCC with 100 people. There is a real danger that such a small staff will be heavily overburdened, working long hours, and unable to pay sufficient attention to many details needed to operate the MCC effectively. If this is the case, the quality of MCC programs will suffer. In effect, the MCC could be starved to death by the desire to make it as lean as possible. Considering the staffing patterns for the organizations in table 6.1 and the functions required of the MCC listed above, a minimum of 250 to 300 staff will be required, including around 60 resident staff in qualifying countries. This level of staffing will not be required immediately, as both funding levels for the program and the number of qualifying countries will ramp up over three years. But staffing of this size will be needed by fiscal 2006 to effectively manage the program.

Congressional Directives

Congress will play an important role in shaping the MCA and helping pave the way for the program to be both more responsive to needs in the recipient countries and more cost-effective in achieving results.[3] The promise of the MCA to be different—to make a measurable difference in the lives of the poor—requires that both the administration and Congress act differently than they have in the past.

There are four areas in which legislation for the MCA operations should differ from USAID. First, as discussed in chapter 5, there should be no earmarking of funds in the MCA. Second, the MCA should be able to procure goods and services globally, meaning that aid should not be "tied" to US firms, also discussed in chapter 5. Third, MCA funds should be available to the corporation until expended (so-called no-year funds). Providing funds on a no-year basis will reduce staff incentives to spend funds quickly out of fear of "use it or lose it." This fear is a pervasive problem in aid programs, which significantly undermines effectiveness. Toward the end of the year, staff rush to get programs out in order to keep control over appropriated funds. Since the staff size in an office is determined partially by the size of its budget, a decision to not spend appropriated dollars can lead to a loss of staff and a smaller office. These perverse incentives can lead to a compromise on quality, both because programs are designed too quickly and because recipient-country conditions may not have been fully met. Fourth, the corporation should be given "notwithstanding" authority, allowing it to provide funds notwithstanding any other provision of law (except laws prohibiting certain countries from re-

3. For more discussion of the role of Congress in the MCA, see Brainard et al. (2003).

ceiving US assistance). This will allow the MCC to bypass time-consuming contracting and procurement procedures, thus reducing the bureaucratic costs of aid delivery and improving efficiency.

Congress can ensure strong oversight by establishing an independent committee to advise on the selection process, as discussed in chapter 3. It should insist on annual reports from the MCC on changes in qualifying countries. The MCC itself should be subject to periodic, thorough review by an independent panel to ensure it is achieving strong results. Congress should also name the nongovernment members of the board.

Other Organizational Options

Establishing a government corporation is only one of several options for administering the MCA. Two other options are worth serious consideration: the State Department and USAID. A third option, creating a government department to house all foreign assistance programs (similar to President Kennedy's original plan), is also a possibility but seems remote.[4]

The strongest argument for placing the MCA under the jurisdiction of the State Department is to coordinate it more closely with other foreign policy tools. The State Department could ensure that the MCA is used to support the entire range of US foreign policy objectives in qualifying countries. The department would have the flexibility to combine the MCA with other programs to achieve US goals.

However, this rationale is also the strongest argument *against* putting the program in the State Department. One of MCA's strengths is that it is focused on supporting economic growth and poverty reduction in developing countries. This focus helps define eligibility criteria, the scope of activities funded under the program, and (most importantly) criteria for monitoring and evaluating results. The main mission of the State Department, by contrast, is fostering diplomatic relationships with other countries and implementing broader US foreign policies, and it focuses much of its attention on solving immediate crises. Placing the MCA in the State Department inevitably would create pressures to use it to meet political and strategic objectives. These pressures could seriously erode the effectiveness of the MCA over time, just as they have with other foreign aid programs in the past.

As argued in chapter 1, there are four critical junctures where pressure to use the MCA to meet diplomatic ends could weaken its effectiveness. First, it could influence eligibility decisions for countries that are on the margins of MCA qualification, with current diplomatic partners moving

4. For earlier discussions of similar options, see Radelet (2002b) and Lancaster (2002). Also see Brainard et al. (2003).

up the list and others moving down. Second, it could influence funding allocation decisions among the countries that qualify, with strategically important countries getting favorable reviews on their proposals and a bigger slice of the MCA financial pie. Third, it could influence decisions about reducing or eliminating funds to countries that do not meet performance benchmarks in their programs. The State Department would be much less willing to be tough on strategic allies who miss benchmarks if the US government were trying to gain their cooperation on other issues. Fourth, strategic considerations could affect the total amount of funding allocated to the MCA relative to other assistance programs. In each of these four areas, housing the MCA in the State Department would increase the likelihood that the MCA would be used for political purposes, undermining its overall effectiveness.

A second organizational option would be to house the MCA in USAID. Putting the MCA squarely within USAID's current operational structure, however, would be a poor idea, since the MCA is supposed to operate differently from USAID in program design and implementation. Rather, the MCA could be established as a separate office and operated independently from the rest of USAID but still report directly to the administrator. It could be staffed with a combination of experienced USAID staff, new hires from outside the government (including a few from private business), and staff on detail from other US government agencies, as has been proposed for the MCC. However, the MCA would need separate authorizing legislation and be free of the legislative burdens that affect USAID on earmarking, procurement, and other issues. In essence, the MCA would be under the supervision of the same person who is responsible for USAID but administratively separate from USAID.

This structure would allow the MCA office to take advantage of existing expertise from around the government while avoiding capture by the existing aid bureaucracy. This structure would eliminate the need to establish another government agency, both in Washington and in recipient countries. Most importantly, it would ensure better coordination of foreign assistance policy by making one presidential appointee clearly responsible for managing the major US development assistance programs.

A third, more radical option would be to use this opportunity to undertake a comprehensive restructuring of US foreign assistance programs, as President Kennedy attempted in 1961. As mentioned previously, a plethora of foreign assistance programs are now scattered across many departments, often operating with little coordination with or even knowledge of related programs. Adding the MCA to this mix could lead to greater confusion. One way to make these programs coherent would be to create a department of international development, bringing together programs now run by USAID, the State Department, Treasury, the Department of Health and Human Services, and other departments, along with the smaller African Development Foundation and Inter-American Foundation.[5] (One could consider adding the Peace Corps to the new department, although the program is sufficiently different that it should be kept separate.) The British government now runs almost all its assistance programs through one agency, the Department for International Development (DFID), which is one of the more respected bilateral aid agencies. As with the new Homeland Security Department, there would be two basic purposes for this reorganization. First, it would reduce administrative costs and improve communication among disparate US agencies that are trying to achieve interrelated goals. Second, it would raise the political profile and influence of US development policies both domestically and internationally by increasing representation to the cabinet level.

However, the chances of this change taking place are remote. The US government rarely creates new departments, and it is highly unlikely that the current administration would consider launching its second department. Moreover, current agencies would fight hard to keep their current programs, both because of the direct influence of these programs and because they indirectly provide these agencies with a seat at the broader foreign policy decision-making table.

A more realistic option is to launch the MCA through the new corporation while at the same time restructuring USAID so that it becomes a more effective institution in countries that do not qualify for the MCA. Chapter 9 discusses specific steps toward that end. This would leave the US government with two large aid organizations (and several smaller ones). Over time, there may be pressures for the agencies to merge, so long as USAID continues to operate and improves its effectiveness (Lancaster 2002), perhaps bringing a greater rationalization to US foreign assistance programs in the future.

Time Frame to Launch the MCA

The administration would like to launch the MCA in fiscal 2004 and begin disbursing some of the proposed $1.3 billion budget early in the fiscal year. But starting an organization takes time. How long is it likely to take to get the MCA started?

In answering this question, it is instructive to examine the experience of the recently inaugurated Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM).[6] The idea of establishing a financing instrument for health issues was first discussed by the G-8 in July 2000. In April 2001 the Secretary General of the United Nations, Kofi Annan, called for the cre-

5. David Beckmann of Bread for the World has long advocated for such a reorganization. Also see Lancaster (2002) for a brief discussion.

6. For more information on the GFATM, see www.globalfundatm.org.

ation of the GFATM. Initial donor commitments came during the UN General Assembly Special Session on HIV/AIDS in June 2001 and the G-8 summit in July 2001. At the same time, a Transitional Working Group for the GFATM was established, consisting of nearly 40 representatives from developing countries, donor countries, NGOs, the private sector, and the UN system. The GFATM was officially established with the first meeting of the board of directors in late January 2002, just over nine months after the secretary general proposed the idea. The board approved its first round of grants in April 2002, and after establishing appropriate financial systems in recipient countries, made its first disbursements in January 2003.

So far, the MCA is off to a slower start, and it may be well into fiscal 2004 before it disburses its first grants. Eleven months went by between the president's speech proposing the MCA and the administration sending its short draft legislation to Congress (this contrasts with the six months between President Kennedy's message to Congress on foreign aid in March 1961 and the establishment of USAID). Up to that point, the administration had not engaged Congress in serious discussion on the issue and had dragged its feet on making key decisions. The administration decided against the idea of jump-starting the program in 2003 with some small pilot projects, although it may go that route in early fiscal 2004. At the time of this writing it appears that if the administration's proposals are accepted, it could begin organizing the corporation in May or June, nominating a CEO, detailing staff to the new organization, naming the countries qualifying in the first year, and drafting guidelines for proposals. These guidelines might be ready for qualifying countries by midsummer at the earliest, when they could begin drafting proposals for funding. The MCC would officially initiate operations in October, and, optimistically, could receive its first proposals shortly thereafter. The vetting process is likely to take a minimum of two or three months, since weaker proposals will be sent back for revision, and the capacity to implement proposals on the ground will have to be assessed. Thus, the first proposals might be approved in December 2003 at the earliest. Meanwhile, the MCC will have to establish its financial, procurement, contracting, and monitoring and evaluation procedures before any funds are actually delivered. Thus, optimistically, the first grants could be disbursed around March 2004 at the very earliest, halfway through the fiscal year and two years after the president proposed the program. A later date is certainly possible.

This process could be accelerated if the administration moves more quickly. Once it commences discussions with Congress, the administration should quickly name the person it intends to nominate as CEO and bring that person on (or someone else on an interim basis) as a consultant to take charge. It could also assign a staff of about 25 from various departments (who would eventually be officially detailed to the MCC) to move to a central location and begin working full-time on the MCA. These staff could finalize country selection, work on proposal guidelines, and initiate contact with qualifying countries. Rapid movement in early 2003 could jump-start the process and ensure rapid disbursements for sound proposals earlier in fiscal 2004. So far, however, the administration has moved slowly and has shown little sign of making the MCA as high a priority as the president implied it would be. This slow pace has signaled to Congress that funding levels for fiscal 2004 can be reduced from the president's request.

One reason for the relatively slow start was the decision to create the MCC as a new corporation separate from any existing agency, a decision that, in and of itself, took several months to reach in late 2002. As a result, none of the existing departments has taken ownership and responsibility for the new entity, instead waiting for direction on key decisions from the White House. No single department has the incentive to dedicate the staff time necessary to get the new organization rolling. To accelerate the process, the administration should name at least a skeleton staff to work on these issues full-time, rather than working primarily through an interagency process in which most individuals devote only part of their time to the MCA.

Summary: Making the Corporation Work

The administration's proposal to establish a corporation is a potentially innovative way to implement the MCA. Since the MCA will have a focused mandate and different operating procedures from USAID, there is a sensible case for a new entity. Placing the MCA in a new corporation could diminish political pressures on funding decisions, reduce bureaucratic costs, eliminate many congressional mandates that weaken USAID, and allow the MCA to operate much more flexibly and responsively than current programs. However, establishing a corporation creates significant risks, including the possibility of weakening existing aid organizations and further fragmenting US assistance policy. If the plan to establish the corporation goes forward, several steps should be taken to minimize these risks and ensure it works as effectively as possible.

First, the board should include the administrator of USAID. In addition, it should include a small number of outside experts representing private business, NGOs, or others with development expertise. Alternatively, an outside advisory panel could support the board's operations.

Second, staffing must be adequate for the task, especially on the ground. The administration hopes to keep the corporation small, but its projected staffing of 100 people is insufficient for a program with an annual budget of $5 billion, and could result in poor evaluation, oversight, and coordination. To be successful, the MCC will require strong staffing on the ground in the qualifying countries.

Third, stronger coordination mechanisms will be necessary with both US government agencies and multinational organizations. One of the biggest concerns is the impact of the new corporation on USAID and the relationship between the two organizations. The corporation is likely to draw staff and resources from USAID, which could further impair the agency, possibly engender some resentment, and make cooperation difficult. Having both agencies operate simultaneously in recipient countries could be very confusing for recipient countries, create coordination problems, and unnecessarily duplicate services.

Fourth, the new corporation will need flexible authorities to operate more effectively than other aid agencies. Congress should minimize earmarking and tied aid, provide funds for the MCA on a no-year basis, and ease contracting and procurement rules. Without these basic steps, the new corporation could face some of the same difficulties that currently burden USAID, which ultimately would undermine the originality and effectiveness of the MCA. At the same time, Congress should secure an appropriate oversight role by establishing an expert panel to review the country selection process, naming nongovernment board members to the MCC, and instituting a periodic independent review process for the MCC.