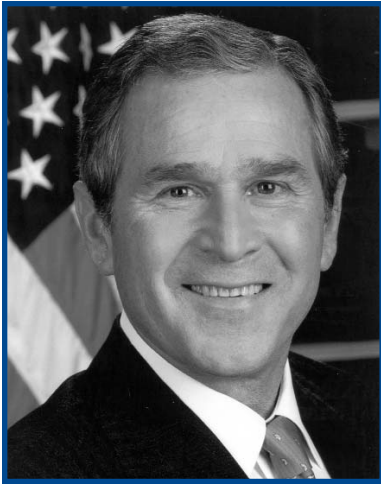




MILLENNIUM CHALLENGE ACCOUNT

A Presidential Initiative

AUGUST 2002



“Countries that live by these three broad standards—ruling justly, investing in their people, and encouraging economic freedom—will receive more aid. ...The goal is to provide people in developing nations the tools they need to seize the opportunities of the global economy.”

President George W. Bush

March 14, 2002

A NEW COMPACT FOR DEVELOPMENT

On March 14, 2002, President George W. Bush called for a new compact for development based on shared interests and mutual responsibilities. Increased assistance from donor countries must be linked to sound policies in recipient countries. In sound policy environments, every dollar of aid attracts two dollars of private capital. In countries where poor public policy dominates, aid can harm the very citizens it is meant to help—crowding out private investment and perpetuating failed policies.

To make this compact a reality, the president has proposed the creation of the Millennium Challenge

Account (MCA), which will increase U.S. Government development assistance by almost 50 percent over current levels. When fully funded, the Millennium Challenge Account will provide additional assistance of \$5 billion per year.

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In a speech on March 14th at the Inter-American Development Bank, President Bush said:

- “Good government is an essential condition of development. So the Millennium Challenge Account will reward nations that root out corruption, respect human rights, and adhere to the rule of law.”
- “Healthy and educated citizens are the agents of development, so we will reward nations that invest in better health care, better schools, and broader immunization.”
- “Sound economic policies unleash the enterprise and creativity necessary for development. So we will reward nations that have more open markets and sustainable budget policies, nations where people can start and operate a small business without running the gauntlets of bureaucracy and bribery.”

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PARTICIPATION IN THE MILLENNIUM CHALLENGE ACCOUNT

Countries will be selected for the Millennium Challenge Account based on clear, objective, and concrete criteria that measure commitment to ruling justly, investing in people, and encouraging economic freedom.

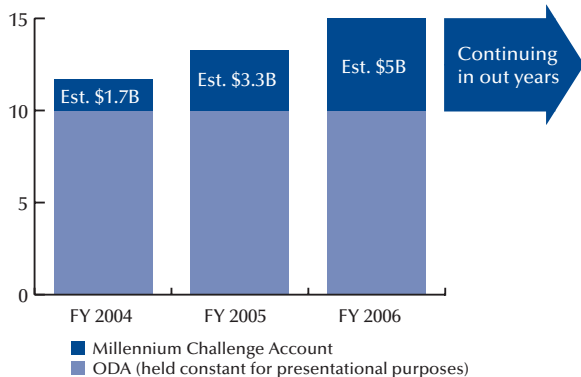
Potential recipients will be encouraged to identify uses for Millennium Challenge Account funding through participatory processes involving local and national elected officials, civil society, and development partners such as non-governmental organizations and private voluntary organizations. The development priorities, investment needs, growth potential, and quality of recommended projects of selected countries will determine how assistance is actually allotted.

Millennium Challenge Account support will be provided in the form of grants that will be delivered in innovative and efficient ways to maximize economic growth and poverty reduction.

“The goal,” as President Bush said, “is to provide people in developing nations the tools they need to seize the opportunities of the global economy. In return for this additional commitment,

we expect nations to adopt the reforms and policies that make development effective and lasting.”

Illustrative Funding Levels for ODA + Millennium Challenge Account
(Billion USD)



CLOSING THE DEVELOPMENT DIVIDE

In two generations, per capita income in developing countries has nearly doubled, illiteracy has been cut by a third, and infant mortality in the poorest countries has been almost halved. Today, children have a greater chance than ever to survive to adulthood and gain access to education that will prepare them for a brighter future. Nations spanning the globe, from Chile to India, have adopted new ways of doing things and found new wealth in doing so.

Yet in this world of growing opportunity, entire regions are being left behind. The statistics are alarming. Half of the world's

Through the Millennium Challenge Account initiative, the president is inviting every person in the developing world to participate in the ever-expanding circle of development.

population lives on less than \$2 a day. For millions of people, especially in Africa and the Islamic world, poverty is increasing and per capita income is falling. In Malawi, thousands of teachers die each year from HIV/AIDS, and life expectancy has fallen to 38 years. In Sierra Leone, one-third of all babies do not survive to age 5.

President Bush wants to narrow the divide between nations that are making progress and those that are falling deeper and deeper into despair. This divide is a major source of sorrow and instability. Through the Millennium Challenge Account, the president is challenging poorer countries to adopt sound policies that provide their citizens an escape from poverty.

Official development assistance can never provide more than a small percentage of the resources that are needed for development. Countries that rule justly, invest in their people, and promote economic freedom will energize individual initiative, mobilize domestic capital, attract foreign investment, and expand markets.

These countries will be able to integrate into the global market—key to economic growth and poverty reduction.

As the president said, “Trade is the engine of development.” The United States buys and imports over \$450 billion in products from the developing world every year—more than eight times the amount developing countries receive in aid from all sources.

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THE RELATIONSHIP BETWEEN THE MILLENNIUM CHALLENGE ACCOUNT AND EXISTING DEVELOPMENT ASSISTANCE

In announcing the Millennium Challenge Account, President Bush stressed that this new money is in addition to the near \$11 billion per year the United States currently devotes to Official Development Assistance or ODA. It will not replace current ODA funding for humanitarian assistance, food aid, or other forms of development assistance approved under the ODA programming guidelines.

Apart from the Millennium Challenge Account, ODA funding will increase substantially from 2001 to 2003 in key sectors, including HIV/AIDS (54 percent), basic education (50 percent), trade and investment (38 percent), and agriculture (38 percent).

In 2001, the United States was the world's largest provider of ODA. The \$5 billion allotted for the president's Millennium Challenge Account will increase this amount by 50 percent by 2006.

At USAID, the core development assistance account is expected to increase 22 percent overall between 2001 and 2003. Significant increases are planned for Africa (30 percent), Asia and the Near East (39 percent), and Latin America and the Caribbean (29 percent).

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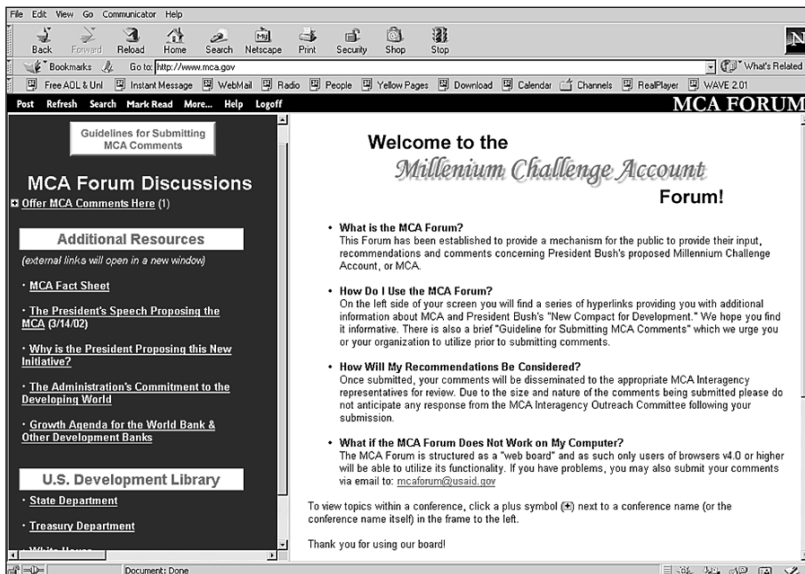
REACHING OUT TO PARTNERS

President Bush asked that a global outreach program be implemented to obtain the comments and recommendations of organizations committed to sound development programming. This outreach effort is under way; any organization may provide input.

The president is seeking input in two specific areas:

- development of Millennium Challenge Account eligibility criteria
- Millennium Challenge Account program application methodology

Interested parties are encouraged to visit www.mca.gov and provide input directly via our unique web-board technology. Alternatively, please send an e-mail inquiry to MCA@mca.gov, or call the Millennium Challenge Account hotline at 202-712-5000.



The Millennium Challenge Account will increase accountability for developed and developing nations alike, because it links increased contributions from donors with improved responsibility by recipients.

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