

**Policy Analysis:**  
**Millennium Challenge Account**

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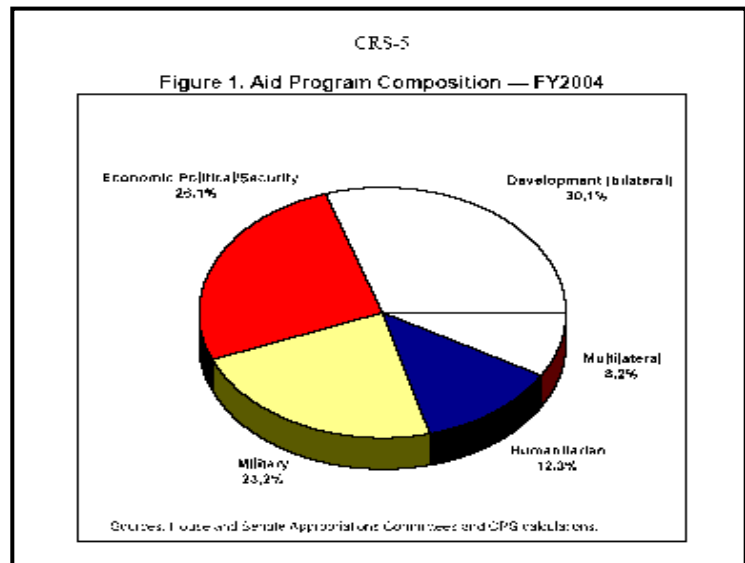
## **Introduction & Description**

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The Millennium Challenge Account (MCA) has been identified as a “turning point” in the United States regarding international aid for developing countries. Not since President John F. Kennedy’s introduced the Peace Corps, US Agency for International Development (USAID) and the Alliance for Progress, has there been such qualitative and quantitative change regarding the distribution of US dollars to developing nations. The MCA is an institutional and incremental piece of legislation that brings together the U.S. “fight against terrorism” and the goals of foreign assistance. As stated by President Bush at the Inter-American Development Bank in March of 2002, “Poverty doesn’t cause terrorism. Yet persistent poverty and oppression can lead to hopelessness and despair. And when governments fail to meet the most basic needs of their people, these failed states can become havens for terror.” The Millennium Challenge Account is a new model for administering development assistance; the President seeks to increase overall aid to developing countries that meet MCA eligibility requirements by fifty-percent by the next three years. President Bush unveiled the framework for the Millennium Challenge Account at the Monterrey Conference on Financing and Development in January of 2002, and described the policy as the United States “New Compact on Development.” The Millennium Challenge Account has become one of the most talked about development assistance policies of the Bush Administration, and it was officially signed by Congress in March of 2004. The Government Accountability Office (GAO) has completed a Year 1 – Progress evaluation of its efforts and a slew of non-governmental organizations are invested in its success. The purpose of this paper is to outline the MCA process, identify its key allies and critics as well outline its current impacts and future directions. There are five major categories of foreign assistance in the United States: bilateral development aid, economic assistance supporting U.S. political and security goals, humanitarian aid, multilateral economic contributions, and military aid. Due largely to the recent

implementation two new foreign aid initiatives — the Millennium Challenge Account and the Global AIDS Initiative — bilateral development assistance has become the largest category of U.S. aid. Please see figure 1.

The Millennium Challenge Account is a new international development assistance legislation that seeks to provide assistance to countries that “rule justly, invest in their people, and encourage economic freedom.” With strong bipartisan support the



Millennium Challenge Account was formally passed in January of 2004, additionally with the authorization creating the Millennium Challenge Corporation (MCC) to administer the MCA funds to eligible countries. Congress provided nearly \$1 billion in initial funding for fiscal year of 2004 and \$1.5 billion for 2005. The President has requested \$3 billion for 2006 and has pledged to increase annual funding for the MCA to \$5 billion in the future.

According to the Millennium Challenge Corporation, The Millennium Challenge Account operates utilizing four key principles to guide its operations:

- **Reduce Poverty through Economic Growth**
- **Reward Performance and Good Policy**
- **Operate as Partners regarding development assistance**
- **Focus on Results**

The leadership of the MCC is a Board of Directors whom oversees all of the activities of the Millennium Challenge Account. Additionally, the daily activities of the MCC are managed by a Chief Executive Officer appointed by the President and confirmed by the Senate. This CEO is also overseen by a Board of Directors whom is currently composed of:

- **Secretary of State** – Chair of the Board -- Condoleezza Rice
- **Secretary of Treasury** – Vice Chair of the Board -- John W. Snow
- **A U.S. Trade Representative** - Rob Portman
- **Administrator of USAID** - Andrew S. Natsios
- **CEO of the MCC** - John J. Danilovich
- **Two public members:** Kenneth Hackett & Christine Todd Whitman, appointed by the President.

**Eligibility Requirement of Countries:**

Operating like a Public Charity Foundation, the central idea of the MCA is that financial assistance works better when countries develop proposals, strategies and evaluations regarding a particular program design. MCA is built on the belief that development aid works better in countries that have are implementing and have proven track records for free market principles. According to the Economist, the MCA takes “its inspiration from a group of World Bank economists who argued that aid only works in countries pursuing sound economic policies.” As a result, the basic tenets of the MCA are to improve the efficiency and effectiveness of US development dollars

by selecting only partner countries that have a proven record of a relatively stable approach in economic and social welfare policy. As stated earlier, President Bush

<b>FIGURE 1: SELECTION INDICATORS (2006)</b>	
<b>MILLENNIUM CHALLENGE ACCOUNT - SELECTION INDICATORS</b>	
<b>RULING JUSTLY</b>	
<b>Civil Liberties:</b>	Source: Freedom House.
<b>Political Rights:</b>	Source: Freedom House.
<b>Voice and Accountability:</b>	Source: World Bank Institute.
<b>Government Effectiveness:</b>	Source: World Bank Institute.
<b>Rule of Law:</b>	Source: World Bank Institute.
<b>Control of Corruption:</b>	Source: World Bank Institute.
<b>ECONOMIC FREEDOM</b>	
<b>Cost of Starting a Business:</b>	Source: World Bank Group.
<b>Inflation:</b>	Source: Multiple.
<b>Fiscal Policy:</b>	Source: National Governments and IMF WEO.
<b>Days to Start a Business:</b>	Source: World Bank.
<b>Trade Policy:</b>	Source: Heritage Foundation
<b>Regulatory Quality Rating:</b>	Source: World Bank Institute.
<b>INVESTING IN PEOPLE</b>	
<b>Public Expenditure on Health:</b>	Source: National Governments.
<b>Immunization:</b>	Source: The World Health Organization WHO.
<b>Public Expenditure on Primary Education:</b>	Source: National Governments.
<b>Girls' Primary Completion Rate:</b>	Source: World Bank and UNESCO.

initially framed three broad categories, (1) Ruling Justly, (2) Investing in People, and (3) Economic Freedom. The administration of the MCA then developed 16 indicators, from independent sources, to assist in the formulation eligibility (Please see Table 1). Applicant Countries are then ranked in the context of other developing countries, essentially the scores are relative, and thus each country must score above the median in at least half of every category. Exclusively, a country must score above the median on corruption regardless of how well they scored in the other categories. Once countries are designated as eligible candidates, each applicant country must develop a program strategy, implementation plan and evaluation plan. This is vastly different from previous development programs in which countries did not have power to provide input during the stage of program design. According to the MCA, by providing receipt countries with greater say regarding program design, implementation and evaluation, this will increase the accountability and self-responsibility regarding the effectiveness of the resources. Once eligible countries are identified and their particular concept papers approved, they develop a compact or contract detailing how the funds will be used and results measured. “The funds are to be used in qualified countries to support not only government programs but to promote projects conducted by actors from civil society, the private business sector, and local authorities (Steinhillber, 2004).”

The first MCA compact was awarded to Madagascar’s government to modernize and computerize its land registry system, which Malagasy peasants identified as a barrier to economic growth. As a result, Madagascar’s government proposed the modernization of the land-registry system; back logged by 200,000 claims, as well as the strengthening of a banking system that will improve the “supply of credit and the quality of demand for it (Economist, 2005).

## **Stakeholders**

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The Millennium Challenge Account seeks to increase the amount of financial resources dedicated to assisting developing countries. With a broad range of eligibility criteria, the MCA has developed various forms of stakeholders. The center of the debate is not the mission and vision of the MCA, but rather the selection criteria, what occurs with countries that are not eligible, how will MCA work with US AID, and the level of funding for the MCA. “The [State] Department and USAID will work with other agencies, the White House, Congress, and eventual recipient countries to make this initiative succeed in promoting good governance and prosperity,” states the Strategic Planning of the MCC. For the purposes of this section, we will outline only two of these various topics, selection criteria and funding, to illustrate the power and policy preferences of various stakeholders.

### **Selection Criteria**

The MCA selection criterion was developed based on three broad themes outlined by President Bush, eligible countries must, “rule justly, invest in their people, and encourage economic freedom.” As a result, the Board of Directors developed 16 indicators (Please see Table 1), to determine the median score for every applicant country. In the process of the finalization of the indicators, the MCC notes multiple hours of public comment regarding the criteria. Various International Non-Governmental Organizations submitted various comments regarding the Millennium Challenge Account. For example, the Women’s Edge Coalition, comprised of more than 40 organizations, established a working group on the Millennium Challenge Account that offered recommendations regarding eligibility criteria in terms of health indicators and economic freedom, as well as additional technical assistance needs on the overall implementation of the MCA. As a result of their lobbying efforts some of the Women’s Edge suggestions, where

incorporated in the final selection criteria process. For instance, selection criteria regarding “investing in people” clearly requires information “Girls' Primary Completion Rate,” which is the number of female students completing primary education divided by the population in the relevant age cohort. The executive director of Women’s Edge, Ritu Sharma states, “This is a victory for women everywhere (CQ Weekly, pg 1877). The Public comment of the MCA Selection Process from the Women’s Edge Coalition outlines their analysis, it reads: “Since the multiple burdens of poverty affect women more than men, development interventions will not be effective unless they reach women as well as men. In fact, development interventions that target women often create the greatest positive impact for society as a whole (Women’s Edge Public Comment, pg 1).” Another example is InterAction, the largest alliance of U.S.-based international development and humanitarian nongovernmental organizations, whom work to overcome poverty, exclusion and suffering by advancing social justice and basic dignity for all. The NGO Implementation Working Group on the Millennium Challenge Account is a broad coalition of non-governmental organizations co-chaired by Asma Lateef of Bread for the World and Kristin Brady of the Academy for Educational Development that has advocated on issues related to the Millennium Challenge Account Initiative. The InterAction work groups raised concerns on a range of issues such as: missing Data, margin of Error, in particular to the Corruption criteria, as well as the additional indicators such as maternal mortality ratio and the existence of environmental strategy and action plan.

### **Funding for the MCA:**

When President Bush initially introduced the Millennium Challenge Account, he proposed funding at an initial \$1.7 billion; instead he asked for \$1.3 and received \$1 billion from Congress. In fiscal year 2005, the President held he would ask for \$3.3 billion, but instead

**FIGURE 2: STAKEHOLDER DESCRIPTION**

<b>Stakeholders</b>	<b>Source of Power</b>	<b>Role in Process</b>	<b>Policy Preferences</b>
President George W. Bush	Legitimate and formal authority of the Office of the President to set discursive framework and objectives.	<b>Agenda Setting</b>  <b>Policy Adoption</b>	Fund MCA at the amounts requested, as well as approval of his appointments.
Congressmen Tom Lantos (D-Ca)	As co-sponsor, Congressman Lantos, has the legitimate and formal authority to introduce and reintroduce legislation, as well as lobby internally members of the House and Senate.	<b>Policy Adoption</b>	Fund MCA at the levels that the President is requesting, and it not achieved then as high as possible.
Women's EDGE Coalition	As an independent lobbying group, Women's Edge holds the power of an independent informal lobbying coalition.	<b>Policy Formulation</b>	Proposed recommendations to the MCA program design and selection indicators.
InterAction American Council for Voluntary International Action	Power of an independent informal expert with the power to mobilize individuals from receipt countries as well as an NGO coalition.	<b>Policy Formulation</b>	Fund MCA at levels proposed by President Bush, complete design changes in order to ensure long-term sustainability of poverty reduction, not simply just free market liberalism.
Chairman Richard G. Lugar (R-IND) Senate Foreign Relations	Official and legitimate authority as a formal player in the policy process.	<b>Policy Formulation</b>  <b>Policy Adoption</b>	Strong supporter of MCA to be funded at the levels the President has requested.

requested \$2.5 billion and received \$1.5 billion. “And whereas the original MCA proposal promised \$5 billion annually by fiscal year 2006, Bush is seeking only \$3 billion, and last week, a House subcommittee recommended halving the request, “stated The New Republic Assistant Editor Marisa Katz. According to the MCA website, Congress provided nearly \$1 billion in initial funding for fiscal year of 2004 and \$1.5 billion for 2005. The President has requested \$3 billion for 2006 and pledged to increase annual funding for the MCA to \$5 billion in the future. This challenge for funding of the MCA continues to occur within Congress every fiscal year. During FY 2004, the Senate Budget Committee, headed by Don Nickles (R-Okla) proposed funding the MCA at \$300 million rather than the \$1.3 billion requested by President Bush. As a result, Senate Foreign Relations Committee chairman Richard Lugar (R-IND) joined by Sen. Barbara Feinstein (R-Calif), introduced an amendment to increasing the budget overall for international affairs and consequently the Millennium Challenge Account to the levels to \$1.3

billion. A number of NGO's led by InterAction<sup>1</sup>, heavily lobbied in hopes of passing of amendment proposed by Chairman Lugar, and they succeeded, for the Millennium Challenge Account was funded at \$1 billion dollars for its first year. For FY 2006, the President has requested \$3 billion for the MCA, \$2 billion dollars less of his initial pledge in 2002.

### **Policy Process**

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The Millennium Challenge Account was a policy developed from the inter-play between institutional and non-institutional players. As detailed by Matthew A. Cahn's, *"The Players: Institutional and Non-institutional Actors in the Policy Process"*, public policy is often formed by the influences exerted by these parties seeking to enact certain legislation. Furthermore, each of these various actors holds distinct forms of political power, for example the President may recommend policy proposals thus setting the agenda, but it is Congress that is the central institution in the public policy process. In regards to the Millennium Challenge Account, one of the key actors in the policy process has been President Bush whom initially introduced the Millennium Challenge Account in 2002 and since then has framed the discourse and agenda. For example, on the 5<sup>th</sup> of February of 2003, President Bush stated, "the MCA will provide people in developing nations the tools they need to seize the opportunities of the global economy I urge the prompt and favorable consideration of this legislation (Administration of George W. Bush, pg. 159)." As a result, the Presidents broad categories of "rule justly, invest in their people, and encourage economic freedom," became the language translated into the quantitative selection indicators for identify eligible countries for the Millennium Challenge Account. The President's power in the formulation of the MCA is a clear example of the substantive public policy process outlined by Jeffrey E. Cohen, in which he argues that a substantive public policy statement pins a

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<sup>1</sup> InterAction states that all of these organizations contributed to the lobbying of include: The Audubon Society, Bread for the World, CARE, Catholic Relief Services, Christian Children's Fund, Church World Service, COLEAD, DATA, Global AIDS Alliance, ICRW.

president down to the specifics of policy making, such as timing, scope, implementers, and details (Cohen, 1997, p.234). Additional power that the President holds as the primary institutional actor, is that he can waive any provisions to make a country eligible to receive assistance under part I of the Foreign Assistance Act, which results in that country being eligible to receive MCA assistance. As President Bush has made clear in his speeches regarding the Millennium Challenge Account goals, “freedom is the nonnegotiable demand of human dignity; the birthright of every person—in every civilization.” Additional powerful institutional actors in the development of the Millennium Challenge Account are Congress and Executive Agencies authorized to develop the process and bureaucracy to administer the funds from the Millennium Challenge Account. Some of these agencies (outlined in Table 3 from the GAO) Millennium Challenge Corporation Progress Report. Demonstrate how institutions within their expertise are called to develop policy. For example, USAID, Treasury Department and USDA, all have roles in the coordination of the MCA and as a result are invested stakeholders.

Cahn also outlines the role that interest groups hold in the policy process and states that there are a range of interest groups from “think tanks” to corporate interest groups that hold power during the formulation of policy. Cahn states that, “the Brookings Institution, RAND Corporation, Council for Economic Development, Council for Foreign Relations, and others bridge the gap between corporate interest and government (Theodoulou, pg 209.). Many of the interest groups named by Cahn have endorsed and will participate in the productive the quantitative data necessary for the selection criteria. Some of these interest groups are: (a) Freedom House – a non-profit, nonpartisan organization dedicated to democracy and freedom around the world; (b) Heritage Foundation – a think tank - whose mission reads is to formulate and promote conservative public policies based on the principles of free enterprise, limited

government, individual freedom, traditional American values, and a strong national defense; and lastly (c)

UNESCO –  
the United  
Nations  
Educational,  
Scientific and  
Cultural Organization.

**Table 4:  
Progress  
of the  
MCA to  
Year One.**

Selected Elements of MCC Progress as of April 2005						
Compact-related activities	2004		2005			Total as of Apr. '05
	Feb.	May	Aug.	Nov.	Feb.	
Eligible countries		16 for FY04		16 for FY05		17
• Submitted proposals				16 received		16
• In compact negotiations					4	4
• Compact signed					1	1
<b>Resources</b>						
Number of employees		22	43	64	94	107
Funds appropriated	\$1 billion			\$1.5 billion		\$2.5 billion

Source: GAO.

United States General Accounting Office

Since no policy has previously existed similar to the Millennium Challenge Account, the implementation of this policy is also the creation of the Millennium Challenge Corporation to “promote economic growth and reduce extreme poverty in developing countries” and administers the MCA funds. As a result many of the policies developed during the process of enacting the Millennium Challenge Account have been to create the administrative systems internally necessary for the *efficient* functioning of the Millennium Challenge Corporation. The GAO developed a timeline of the policy process of the Millennium Challenge Account (Table 4).

**Current Status of Millennium Challenge Account:**

The policy decisions regarding the Millennium Challenge Account have been incremental. Reflective of Herbert Simon’s concept of ‘bounded rationality’ in Administrative Behavior, A Study of Decision –Making Processes in Administrative Organizations, the MCC has been unable to seek the best rational directions because it is limited in its scope to assess, investigate and determine. As Simon states, the number of alternatives he must explore is so great, the information he would need to evaluate them so vast that even an approximation is hard to conceive" (p. 92). For example, in the “Investment in People” indicator, each country should be

submitting quantitative data, but there is a lack of sources, for the State Department of Human rights only reports of qualitative information on human rights regarding people with disabilities. Additionally, the criteria to determine MCA eligibility, is so large scope, that the only way to analysis and appropriately address each criteria is to address each one individually, thus causing the incremental steps in the implementation of the MCA.

Additionally, the incrementalism has also been a source of criticisms of the Millennium Challenge Account. The Assistant Editor of the New Republic Marisa Katz describes the MCC as “egregiously behind schedule,” and also struggling because “the president and congress are so reluctant to provide the necessary staff and resources (TNR, 2005).” The Economist in June of 2005 pointed out how MCC Chief Executive Officer, Paul Applegarth, resigned 13 months after taking post, which Financial Time’s Andrew Balls reported it was due to the “failing confidence within the Bush administration that the flagship aid program was fulfilling expectations.” Despite all these various criticisms the MCC continues to craft improvements to its MCA selection process, source indicators, and operations. In a press release dated, November 16, 2005, the Millennium Challenge Corporation new CEO Ambassador John Danilovich announced the realignment of several internal departments within the agency in order to streamline MCC's internal processes.

Furthermore, the GAO published a Progress Report of the first year operations of the MCC and found that the MCC had achieved “progress in developing key administrative infrastructures...establishing corporate structures for accountability, governance, internal control and human capital management (GAO Summary).” The GAO documented that the MCC applied its 16 indicators determining 17 counties eligible for MCA funding for fiscal years 2004 – 2005. However, the GAO has also expressed concern of the “inherent limitations of the MCC

indicator methodology,” since some of the source data was not available to the public, and may have impacted the mean scores of eligible countries. Additionally, the GAO provided recommendations for Executive Action including 1) Corporate wide accountability, 2) Internal Controls, and an 3) Effective Human Capital Infrastructure. It appears that the MCC has responded to the recommendations of the GAO as well as criticism of slothfulness, and has distributed the majority of its resources in the past seven months, than the MCC has since its inception. Some of the current compacts or contracts of the MCA are:

- **April 18, 2005**: \$110 million four-year compact with the Government of the Republic of Madagascar.
- **June 13, 2005**: \$215 million five-year compact with the Republic of Honduras.
- **July 4, 2005**: \$110 million five-year compact with the Republic of Cape Verde.
- **July 14, 2005**: \$175 million five-year compact with the Republic of Nicaragua.
- **July 20, 2005**: \$6.5 million grant agreement with the Government of Senegal to provide assistance for Senegal in developing its compact.
- **August 11, 2005**: \$3 million grant agreement to assist Ghana in the continued development of a compact.
- **September 9, 2005**: \$6 million grant agreement to assist Mozambique in the continued development of a compact.

### **Prognosis Millennium Challenge Account**

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On November 2005 the Board of Directors of the Millennium Challenge Corporation (MCC) selected a total of 13 countries to participate in the Threshold Program for fiscal year 2006.” The Threshold Program is designed to assist countries that do not qualify but are close and are committed to undertaking the reforms necessary to improve policy performance that may eventually help them qualify for Millennium Challenge Account (MCA) Compact assistance.” Thirteen selected countries to participate in the Threshold Program are: Guyana, Indonesia, Jordan, Kenya, Kyrgyz Republic, Malawi, Moldova, Paraguay, Philippines, São Tomé and Príncipe, Ukraine, Uganda, and Zambia.

The Board met on November 2005, to select countries that will be eligible for MCA assistance under Section 607 of the Act for FY06. The Board determined the following countries as

eligible for such assistance for FY06: Armenia, Benin, Bolivia, Burkina Faso, Cape Verde, East Timor, El Salvador, The Gambia, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Senegal, Sri Lanka, Tanzania, and Vanuatu.

For the first time in FY06, six new countries were selected, which included (i) Four in the "low income" category under Section 606(a) of the Act: Burkina Faso, East Timor, Tanzania and The Gambia and (ii) two in the "lower middle income" category under Section 606(b) of the Act: El Salvador and Namibia. Each of these countries (i) Performed above the median in relation to their peers on at least half of the indicators in each of the three policy categories, (ii) performed above the median on corruption and (iii) in cases where they performed substantially below the median on an indicator, there was either evidence that the data did not adequately reflect their policy performance or that the government was taking corrective action to address the problem.

The only change occurred to the Economic Freedom Indicator regarding the cost of 'Starting a Business' which will be replaced with a "Country Credit" rating indicator. The cause for the indicator change was that the number of days to start a business was 62 days in FY02 to 45 in FY 05, was still seen as a challenge for candidate countries on achieve. Additionally, the MCC will provide the Board with quantitative and qualitative supplemental information regarding natural resources management.

Additionally, in terms of MCA indicators, we see the MCC continue to struggle with the challenges regarding criteria where there are lacks of quantitative sources. For example, regarding the 'Rights of People with Disabilities' the State Department of Human Rights report contains qualitative information on human rights regarding people with disabilities, but not the

quantitative data necessary for inclusion into the MCC. Similarly, there are lacks of indicators measuring the performance of environmental or sustainable resource management. These two indicators are extremely important to quantify for the MCC is moving in this direction.

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