



## ***EL SALVADOR TODAY: Advocacy Issues Series***

### **Millennium Challenge Account 101: What is it and how does it affect El Salvador?**

#### **What are the Millennium Challenge Account and the Millennium Challenge Corporation?**

The Millennium Challenge Account (MCA) is the Bush Administration U.S. foreign aid program. President Bush first revealed the MCA proposal in 2002, promoting it as a new paradigm in international development aid in which donor and recipient nations would share responsibility for success equally.

The Millennium Challenge Corporation (MCC) is the governing body that oversees the distribution of MCA funds. The MCC is headed by a CEO who is appointed by the U.S. President. The governing board of the MCC consists of the U.S. Secretary of State, the U.S. Secretary of Treasury, the U.S. Trade Representative, the Administrator of the U.S. Agency for International Development, the CEO of the MCC, and four others appointed by the President.

#### **What countries are eligible for MCA funds?**

The MCA eligible countries as of early 2007 include: Armenia, Benin, Bolivia, Burkina Faso, Cape Verde, East Timor, **El Salvador**, Georgia, Ghana, Honduras, Jordan, Lesotho, Madagascar, Mali, Moldova, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Senegal, Sri Lanka, Tanzania, Ukraine and Vanuatu.

Initially, only countries classified as “low income” could become eligible. Today the list has expanded to include both “low income” and “lower middle income” countries. To be eligible, countries must prove that they are striving to meet policy goals set for them by the U.S. in three categories: ruling justly, investing in people, and economic freedom.

El Salvador’s economic liberalization and support for the Central American Free Trade Agreement (CAFTA) are likely among the factors that allow it to be among the first of the “lower middle income” nations eligible for MCC funds. Much like multilateral banks, the MCC dangles the carrot of aid in front of nations as a reward for its acceptance of a neoliberal economic model which promotes privatization of services, deregulation, and “free” markets.

#### **What is El Salvador’s MCA proposal?**

The Salvadoran government has proposed using MCA funds for three major types of programs. All have as their focus the development of the Northern Zone of El Salvador (Santa Ana, Chalatenango, Cabañas, San Miguel, Morazán, and La Unión Departments).

- The first program, which would receive approximately 20% of the funding, focuses on **social programs** to augment education and access to social infrastructure.

- The second program, which also represents about 20% of funding, is earmarked for **business investment**.
- The third program, slated to receive approximately 60% of funding, is the **construction of a highway** to connect to Guatemalan and Honduran roads. The highway would run through all of the Northern Zone departments.

The MCA proposal and its impact on development in El Salvador, raise important questions.

- **Consultation Process:** *Was civil society included in a broad-based consultation process to create the MCA proposal?* Segments of Salvadoran civil society argue that the consultation process was not conducted in its proper order: instead of the Salvadoran government approaching civil society to hear proposal ideas, it had a proposal in hand when it came to the consultations.
- **Poverty Impact Analysis:** The majority of MCC funding will be used to build a highway. It is unlikely the highway will help Salvadorans in the region move out of poverty, particularly small and medium-sized farmers threatened by agricultural imports from the U.S. under CAFTA. Economic growth alone is not enough: El Salvador must look at the distributional effects of projected growth. *Will the MCA funds truly generate alleviation of poverty?*
- **Environmental Concerns:** *Will the highway damage the environment?* The projected highway would affect vast natural habitats and important water sources in northern El Salvador. The road will complement mining activities in the same region, activities that seriously threaten human and animal health through water pollution and deforestation. The environmental impacts of mining will counteract development in the North.
- **U.S. Development Aid:** *How will MCA funds to El Salvador impact U.S. development aid?* Analysts are concerned that MCA funds will replace core humanitarian funds in the U.S. foreign aid budget. This trend shows up in U.S. foreign aid levels to Honduras and Nicaragua, two other MCA countries.

### **What is Salvadoran civil society saying about the MCA?**

A number of Salvadoran environmental and social organizations have come out in opposition to elements of the MCA proposal, particularly the highway. Critics point out the potential negative impact on the environment and the people, and that water sources, natural habitats, and farm land could be threatened by the construction of the highway and the potential mining activity.

### **Where is El Salvador in the MCA Process?**

El Salvador was announced as an eligible country for MCC funding in November 2005, submitted its proposal in March 2006, and was approved for \$461 million in November 2006. Funding will be disbursed over four years.

*Go to [www.mca.gov](http://www.mca.gov) for more information about the program. SHARE will be working with Salvadoran partners to monitor the effects of the MCA compact on Salvadoran communities.*