

# Foreign Assistance Agency Brief Millennium Challenge Corporation

## Overview

Established in 2004, the Millennium Challenge Corporation (MCC) was designed with a singular mission: *to reduce poverty through economic growth*. The agency's approach reflects key principles of aid effectiveness, in particular:

**Country selectivity.** MCC partners only with countries that demonstrate commitment to good governance and growth-friendly policies. The approach is grounded in the idea that partnering with good policy performers rewards countries taking responsibility for their own development, creates incentives for reform, and potentially increases the effectiveness of MCC investments.<sup>1</sup>

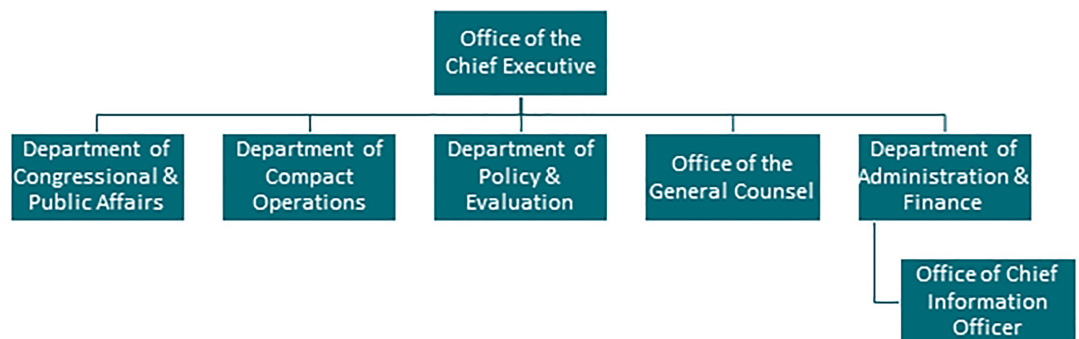
**Focus on results.** MCC's robust framework for results ensures that the agency focuses on binding constraints to growth, identifies economically efficient projects (i.e., those with local benefits that exceed project costs), tracks projects' progress, and measures their impact.

**Emphasis on local ownership.** Partner countries take a lead role in developing and implementing programs. This approach is based on the notion that US investments will be more effective and sustainable when they support local priorities and strengthen partner governments' accountability to their citizens.<sup>2</sup>

## Structure and Leadership

MCC is a small agency with around 300 employees. The agency's chief executive officer (CEO) is appointed by the president and confirmed by the Senate.<sup>3</sup> MCC's board of directors is made up of five government representatives—the secretary of state, the USAID administrator, the secretary of the Treasury, the US trade representative, and MCC's CEO—as well as four private representatives recommended by Congress (one each from the majority and minority in both chambers) who serve in their individual capacities. The secretary of state acts as chair.

Figure 1: MCC Organizational Chart<sup>4</sup>



## Budget

Congress authorized the MCC in the FY2004 Consolidated Appropriations Act (P.L. 108-199).<sup>5</sup> Funding for MCC is appropriated through annual Department of State, Foreign Operations, and Related Programs Appropriations measures. MCC is free from the restrictions and spending directives that encumber much of US foreign assistance, allowing it the flexibility to support partner-country priorities and target results-focused investments.

Table 1: MCC Budget Summary (USD millions)<sup>6</sup>

	FY10	FY11	FY12	FY13	FY14	FY15	FY16 enact.	FY17 req.
Millennium Challenge Corporation	1,105	900	898	898	898	899	901	1,000

## MCC's Approach

### Country Selectivity

MCC partners only with low- and lower-middle income countries, a categorization based on per capita income.<sup>7</sup> In 2017, MCC's candidate pool included 74 countries.<sup>8</sup> To assess candidate countries' relative policy performance, MCC compiles 20 quantitative, publicly available indicators from third-party sources into country "scorecards." The indicators fall into the three broad areas: *ruling justly, investing in people, and encouraging economic freedom*.<sup>9</sup> To meet MCC's eligibility criteria, a country must score better than a given threshold (usually the income-based peer group median) on the majority of the indicators, including the indicator that measures control of corruption and at least one of the two indicators that measure the strength of democratic rights and practices. MCC's board of directors bases its eligibility decisions on countries' scorecard performance, and on supplemental information that provides a more complete picture of a country's policy performance and MCC's opportunities to reduce poverty and promote economic growth in that country.<sup>10</sup> In addition to selecting countries on the basis of their governance, the agency has demonstrated an important willingness to suspend or terminate a country partnership when policy performance substantially deteriorates.<sup>11</sup>

### Programming

MCC's flagship program is the country *compact*. A compact is a partnership agreement in which MCC provides large-scale grant financing (around \$350 million, on average) over five years to a selected partner country for programs focused on poverty reduction through economic growth. To date, MCC has signed 33 compacts with 27 countries totaling approximately \$11.7 billion.<sup>12</sup>

The agency also has a smaller *threshold program* that supports targeted policy reform activities in selected countries with the goal of helping the country become compact eligible. The agency has signed 26 threshold programs with 24 countries totaling approx-

imately \$584 million.<sup>13</sup> Initially, threshold programs primarily supported targeted policy reforms intended to help a country improve its scores on the eligibility indicators needed to pass the scorecard. In more recent years, the program has shifted to focus on gauging a country's willingness to undertake policy reform, informed by a constraints-to-growth analysis.<sup>14</sup> Threshold programs have accounted for about 5 percent of MCC's total program spending since 2004, with an average cost of around \$20 million over two to three years.

### Program Development

The partner country government, in consultation with a wide range of stakeholders, takes the lead in setting priorities for MCC investments. During the initial phase of compact and threshold program development, MCC supports the partner country to undertake an integrated constraints-to-growth analysis that identifies factors limiting private investment and economic growth. The partner country proposes projects to address these constraints, and MCC, in cooperation with the country, performs a cost-benefit analysis on each proposal to ensure selected projects address constraints in a cost-efficient manner.<sup>15</sup>

### Program Implementation

Partner countries take a lead role in compact implementation through a dedicated accountable entity called a Millennium Challenge Account (MCA), which manages and oversees all aspects of implementation.<sup>16</sup> The MCA is overseen by a local board of directors that usually includes high-level government officials, as well as private sector representatives and civil society leaders.<sup>17</sup>

### Program Evaluation

Almost 85 percent of MCC's portfolio by value is or will be covered by an evaluation following the program's completion.<sup>18</sup> Roughly half of planned evaluations are rigorous impact evaluations, which seek to estimate the causal impact of MCC's investments on observed outcomes.<sup>19</sup>

## Transparency

MCC ranks among the most transparent aid agencies worldwide.<sup>20</sup> The agency publishes the tools it uses to select partners (country scorecards), the analyses it uses to choose projects (constraints-to-growth analysis and cost-benefit analysis), quarterly updates on compact progress, and the results of project evaluations.

## Activities

**Supporting Country-Identified Priorities:** While MCC has funded projects in a range of sectors, infrastructure has been particularly prominent. Since the agency's inception, more than 40 percent of its cumulative compact funding has supported investments in transportation and energy infrastructure. In countries where the economic analysis pointed to a lack of electricity

as a primary growth constraint, the agency played an important role in advancing the Obama administration's Power Africa initiative, committing more than \$1.5 billion in programming to improve electricity access and renewable energy systems. MCC compacts have also invested in other sectors, including agricultural development, education, health, and property rights and land policy. MCC's board and some members of Congress have encouraged the agency to explore the potential for compacts that promote regional integration, including through cross-border infrastructure investments, to unlock further growth potential.<sup>21</sup>

**Encouraging Reform:** MCC's compacts include jointly developed policy conditions that the partner country government agrees to complete as part of the partnership. These often include policy, institutional, or regulatory reforms considered critical for MCC's investments to yield sustained results.<sup>22</sup>

Figure 2: Cumulative Compact Funding by Sector, as of June 2016<sup>23</sup>

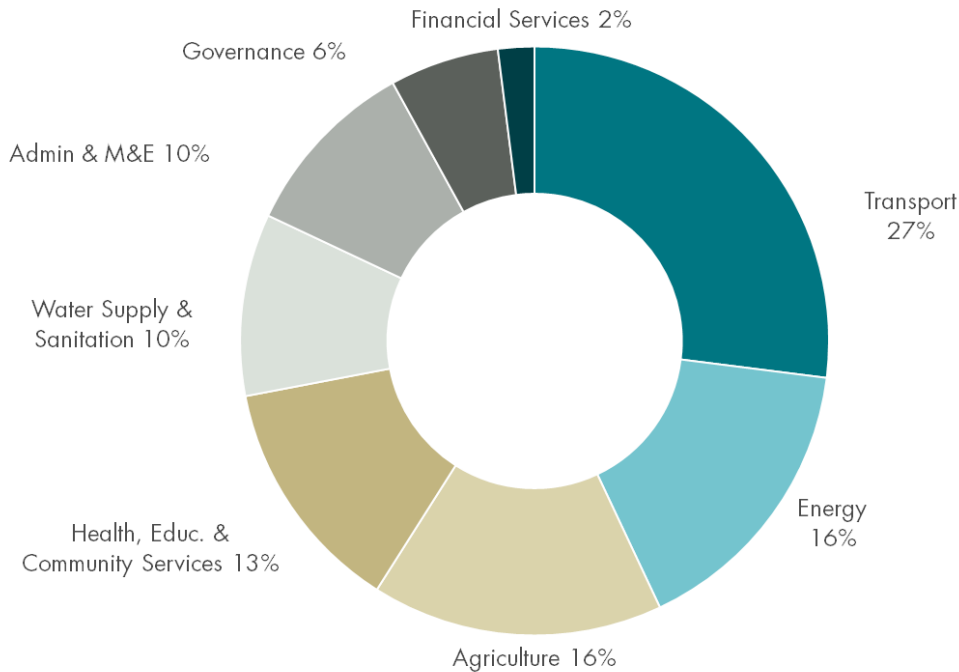


Table 2: Compacts, as of January 2017<sup>24</sup>

Year Signed	Country <sup>25</sup>	Compact Total (USD millions)
<b>2005</b>	Madagascar	110
	Honduras	215
	Cabo Verde	110
	Nicaragua	175
	Georgia	395
<b>2006</b>	Benin	307
	Vanuatu	66
	Armenia	236
	Ghana	547
	Mali	461
<b>2007</b>	El Salvador	461
	Mozambique	507
	Lesotho	363
	Morocco	698
<b>2008</b>	Mongolia	285
	Tanzania	698
	Burkina Faso	481
<b>2009</b>	Namibia	305
	Senegal	540
<b>2010</b>	Moldova	262
	Philippines	434
	Jordan	275
<b>2011</b>	Malawi	351
	Indonesia	600
<b>2012</b>	Cabo Verde II	66
	Zambia	355
<b>2013</b>	Georgia II	140
<b>2014</b>	Ghana II	498
	El Salvador II	277
<b>2015</b>	Benin II	375
	Liberia	257
	Morocco II	450
<b>2016</b>	Niger	437
<b>Total</b>	<b>33</b>	<b>11,700</b>

Table 3: Threshold Programs, as of January 2017<sup>26</sup>

Year Signed	Country <sup>27</sup>	Compact Total (USD millions)
<b>2005</b>	Burkina Faso	13
	Malawi	21
<b>2006</b>	Albania	13
	Tanzania	11
	Paraguay	35
	Zambia	23
	Philippines	21
	Jordan	25
	Indonesia	55
<b>2007</b>	Ukraine	45
	Moldova	25
	Kenya	13
	Uganda	10
	Guyana	7
	Sao Tome and Principe	9
	Kyrgyz Republic	16
<b>2008</b>	Niger	23
	Peru	36
	Rwanda	25
	Albania II	16
	Paraguay II	30
	Liberia	15
	Timor-Leste	11
<b>2009</b>	Honduras	16
	Guatemala	28
<b>2010</b>	Sierra Leone	44
	<b>Total</b>	<b>26</b>

## Endnotes

1. For more on MCC and country selection, see Sarah Rose and Franck Wiebe, “Focus on Policy Performance MCC’s Model in Practice,” MCC Monitor Analysis, MCC at 10 (Center for Global Development, January 27, 2015).
2. For more on MCC and country ownership, see Sarah Rose and Franck Wiebe, “Focus on Country Ownership: MCC’s Model in Practice,” MCC Monitor Analysis, MCC at 10 (Center for Global Development, January 27, 2015).
3. Committee on Homeland Security and Governmental Affairs, “United States Government Policy and Support Positions,” (US Government Publish Office, December 1, 2016).
4. Millennium Challenge Corporation, “Agency Financial Report Fiscal Year 2016,” (Millennium Challenge Corporation, 2016).
5. U.S. Congress, “Millennium Challenge Act of 2003,” Pub. L. No. 108–199, § Division D (2003).
6. U.S. Department of State, “Congressional Budget Justification - Foreign Assistance Summary Tables (2012-2017),” (U.S. Department of State, 2016).
7. Most MCC funds support programs in low-income countries since the agency is limited to spending 25 percent of funds in lower-middle-income countries. U.S. Congress, Millennium Challenge Act of 2003.
8. This count excludes countries barred by law from receiving US assistance. Millennium Challenge Corporation, “Report on Countries That Are Candidates for Millennium Challenge Compact Eligibility for Fiscal Year 2017 and Countries That Would Be Candidates but for Legal Prohibitions,” (Millennium Challenge Corporation, August 23, 2016).
9. Millennium Challenge Corporation, “Guide to the Indicators and the Selection Process, FY2015,” (Millennium Challenge Corporation, October 9, 2014).
10. The board must also consider the amount of funds available to MCC when making eligibility determinations.
11. Rose and Wiebe, “Focus on Country Ownership,” January 27, 2015.
12. Curt Tarnoff, “Millennium Challenge Corporation,” CRS Report (Congressional Research Service, January 11, 2017); Sarah Rose and Franck Wiebe, “An Overview of the Millennium Challenge Corporation,” MCC Monitor Analysis, MCC at 10 (Center for Global Development, January 27, 2015).
13. Tarnoff, “Millennium Challenge Corporation”; Rose and Wiebe, “Focus on Country Ownership,” January 27, 2015.
14. This shift came as a result of a self-assessment that found the original objective of the threshold program was technically unrealistic. Many eligibility indicators tend to be very broad in scope (e.g., “control of corruption”) and are not appropriate for capturing the progress of more narrow programmatic interventions.
15. Millennium Challenge Corporation, “MCC’s Use of Evidence and Evaluation,” Millennium Challenge Corporation, June 6, 2014.
16. Esther Pan, “FOREIGN AID: Millennium Challenge Account,” Backgrounder, (May 28, 2004).
17. Millennium Challenge Corporation, “About MCC,” Millennium Challenge Corporation, 2017.
18. Rose and Wiebe, “Focus on Country Ownership,” January 27, 2015.
19. Millennium Challenge Corporation, “MCC’s Use of Evidence and Evaluation.”
20. Publish What You Fund, “2016 U.S. Brief,” Aid Transparency Index (Publish What You Fund, 2016).
21. Sarah Rose, “Regional and Sub-National Compact Considerations for the Millennium Challenge Corporation,” MCC Monitor (Center for Global Development, September 4, 2014).
22. Rose and Wiebe, “Focus on Country Ownership,” January 27, 2015.
23. Tarnoff, “Millennium Challenge Corporation.”
24. Tarnoff, “Millennium Challenge Corporation.”
25. Countries in italics denote active compacts.
26. Tarnoff, “Millennium Challenge Corporation.”
27. Countries in italics denote active threshold programs.





## US Foreign Assistance Agency Briefs

US foreign assistance plays a critical role in furthering our security and economic interests, and is an important expression of American values and a manifestation of US global leadership. As the political climate shifts, it is increasingly important to understand the nuances of each development agency's role and comparative advantage within the broader and complex US assistance apparatus.

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2055 L St NW, Fifth Floor  
Washington, DC 20036  
202.416.4000

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