Congressional Research Service
Informing the legislative debate since 1914

Millennium Challenge Corporation: Overview and Issues

Updated October 3, 2019

Congressional Research Service
https://crsreports.congress.gov
RL32427

CRS REPORT
Prepared for Members and
Committees of Congress

Congressional Research Service
Informing the legislative debate since 1914

SUMMARY

RL32427

October 3, 2019

Nick M. Brown
Analyst in Foreign Assistance and Foreign Policy

Millennium Challenge Corporation: Overview and Issues

The Millennium Challenge Corporation (MCC) provides economic assistance through a competitive selection process to developing nations that demonstrate positive performance in three areas: ruling justly, investing in people, and fostering economic freedom. From the outset, Congress has been integrally involved with MCC's creation, mandate, operations, and budgets.

Established in 2004, MCC provides foreign assistance that differs in several respects from U.S. aid through other agencies, including

- a competitive process that rewards countries for past actions measured by objective performance indicators;
- a pledge to insulate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent;
- a mission to seek poverty reduction through economic growth, not encumbered with multiple sector objectives;
- a requirement to solicit program proposals developed primarily by qualifying countries with broad-based civil society involvement;
- the responsibility of recipient countries to implement their own MCC-funded programs, known as compacts;
- a compact duration limited to five years, with funding committed up front;
- continuous data collection before, during, and long after a compact to quantify and assess project impact; and
- an emphasis on public transparency in every aspect of agency operations.

Congress authorized MCC in P.L. 108-199 (January 23, 2004). From 2004 to 2019, MCC has signed 37 grant agreements, known as compacts, with 29 countries, targeting poor but well-governed states with good prospects for poverty reduction through economic growth. MCC is now a well-established component of U.S. foreign assistance, with several countries having completed two compacts. The 115th Congress passed legislation that facilitates MCC entering into multicountry regional compacts (P.L. 115-167). Though MCC funding was originally envisioned at $5 billion annually, Congress has appropriated about $900 million annually for MCC activities since FY2011, including $905 million in FY2019 (P.L. 116-6).

Key policy issues for Congress associated with MCC include the level of funding to support MCC programs, the interpretation and application of MCC compact results data, sustainability of MCC-supported projects, and corruption concerns.

Contents

Introduction 1
Structure and Organization 2
MCC Programs 3
MCC Compacts 3
Threshold Programs 4
MCC Compact Life Cycle 5
Country Selection Process 5
Candidate Country Identification 5
Determining Selection Criteria and Methodology 6
Selection for Compact Eligibility 7
Compact Development 8
Compact Implementation 12
Compact Closure and Evaluation 13
Compact Suspension and Termination 13
Recent Developments 14
MCC Advisory Council 14
Economic Advisory Council 14
Country Selection—FY2019 15
Anticipated Compacts in FY2019-2020 15
Funding Trends 16
Selected Issues for Congress 17
Expanding MCC Compact Partnership Arrangements 17
Multicountry Regional Compacts 17
Subnational Partnerships 18
Subsequent Compacts 18
Interagency and Private-Sector Partnerships 19
Candidate Country Income Categories 19
Compact Evaluation 21
Impact Measurement 23
ERR Forecasting 23
Indirect Impacts 24
Ensuring Sustainability 25
Corruption 25
Economic Growth and Poverty Reduction 26
Outlook 27

Figures

Figure 1. Millennium Challenge Corporation Organizational Chart 3
Figure 2. Active MCC Compacts by Region 3
Figure 3. MCC Compacts by Sector 4
Figure 4. MCC Compact Selection Process 5
Figure 5. Candidate Funding Eligibility Process 6
Figure 6. Compact Development Process 8

Figure 7. MCC Appropriations, FY2004 to FY2020 16
Figure 8. Candidate Countries by MCC Income Status 21

Tables

Table 1. Compact-Eligible Countries: FY2019 15

Appendixes

Appendix A. Past and Active MCC Compacts at a Glance 28
Appendix B. Active Compact Descriptions 31
Appendix C. Active Threshold Programs 34
Appendix D. MCC Performance Indicators FY2019 35

Contacts

Author Information 35

Introduction

The Millennium Challenge Corporation (MCC), established in 2004, arose out of a widespread frustration with then-existing foreign aid programs. It represented a significant change in the way the United States delivered economic assistance. MCC is based on the premise that economic development succeeds best if it is linked to free market economic and democratic principles and policies and where governments are committed to implementing reform measures to achieve such goals. The MCC concept differs in several respects from past and current U.S. aid practices at other agencies, including

- a competitive process that rewards countries for past actions measured by objective performance indicators;
- a pledge to insulate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent;
- a mission to seek poverty reduction through economic growth, not encumbered with multiple sector objectives;
- a requirement to solicit program proposals developed primarily by qualifying countries with broad-based civil society involvement;
- the responsibility of recipient countries to implement their own MCC-funded programs, known as compacts;
- a compact duration limited to five years, with funding committed up front;
- continuous data collection before, during, and long after a compact to quantify and assess project impact; and
- an emphasis on public transparency in every aspect of agency operations.

Congress approved the new initiative in January 2004 in the Millennium Challenge Act of 2003 (Division D of P.L. 108-199).[1] It established MCC as a government entity separate from the Departments of State and the Treasury and from the U.S. Agency for International Development (USAID).[2] The original proposal to create MCC, made by President George W. Bush in a speech on March 14, 2002, differed from previous aid efforts in its intended scope, envisioned as a large agency with annual funding of $5 billion when fully established. Although annual MCC funding has never come close to reaching $5 billion, Congress has closely followed MCC implementation since its inception. Unlike funding for USAID, for which Congress plays an integral role in allocation decisions, congressional interest in MCC has focused on ensuring that the agency's unique decisionmaking approach toward establishing MCC programs is optimally structured.

[1] When first proposed and in its early years, funding was described as a Millennium Challenge Account, managed by MCC. Today, both the program and the funding account in the foreign operations budget are more commonly known by the name of the managing entity, MCC. For a more in-depth discussion of the original MCC proposal and issues debated by Congress in 2003, see CRS Report RL31687, *The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative* by Larry Nowels (out of print; available to congressional clients from the author upon request).

[2] The decision to house the initiative in a new organization was one of the most contested issues in early congressional deliberations. The George W. Bush Administration argued that because the initiative represents a new concept in aid delivery, it should have a "fresh" organizational structure, unencumbered by bureaucratic authorities and regulations that would interfere in effective management. Critics, however, contended that if the initiative was placed outside the formal U.S. government foreign aid structure, it would lead to further fragmentation of policy development and consistency. Some believed that USAID, the principal U.S. aid agency, should manage the program, while others said that it should reside in the State Department. At least, some argued, the USAID Administrator should be a member of the MCC Board, which had not been proposed in the initial Administration request.

As it carries out its funding and oversight responsibilities, the 116th Congress may consider MCC funding, country selection, MCC partnering models, upcoming compacts, and several methodological issues. Congress may also evaluate the effects of the African Growth and Opportunity Act and Millennium Challenge Act Modernization Act (AGOA and MCA Modernization Act, P.L. 115-167), which enacted several reforms affecting MCC operations.

Structure and Organization

A Chief Executive Officer (CEO) heads the agency, reporting to a Board of Directors that is chaired by the Secretary of State. The Board oversees MCC and makes selections for compacts and threshold programs. In addition to the Secretary of State, the Board is composed of the Secretary of the Treasury (currently serving as vice chair), the USAID Administrator, the U.S. Trade Representative, the MCC's CEO, and four individuals from the private sector appointed by the President drawn from lists submitted by congressional leaders.[3] Five departments work under the CEO (see **Figure 1**), managing country selection, compact development, and compact management. Compact countries themselves staff and implement the compacts through entities known as "Millennium Challenge Accounts" (see "Compact Implementation," below). MCC headquarters currently employs 285 full-time equivalent staff, with an additional 31 in compact countries.[4]

The Millennium Challenge Act established MCC as a "wholly government-owned corporation," and its organizational structure bears noteworthy similarities to a corporation.[5] MCC operates under the authority of a Board of Directors rather than a single administrator. MCC's creators envisioned compacts as a "business-like contract."[6] Congress also authorized it to provide assistance "notwithstanding any other provision of law" except the Millennium Challenge Act itself, making the agency relatively independent of existing legislative mandates and other bureaucratic restrictions upon other aid agencies.[7] At the same time, in practice, many of MCC's operations are much the same as any other federal agency—MCC calls itself an independent government agency, and it is directly overseen by the Executive Office of the President and Congress. Thus, while some aspects of MCC operations are quite different from other agencies, those differences derive more from specific legislative provisions than its legal identity as a corporation.

[3] Under the authorization legislation, one nomination each is made by the House and Senate majority and minority leaders. As of September 2019, MCC has four private-sector Board members—Mike Johanns, the former Senator from Nebraska, serving his second term; Susan M. McCue, President of Message Global, also serving her second term; Alexander Crenshaw, a former congressman from Florida, serving in his first term; and George Marcus of California, also serving in his first term on the Board. First terms run three years and second terms run two years.

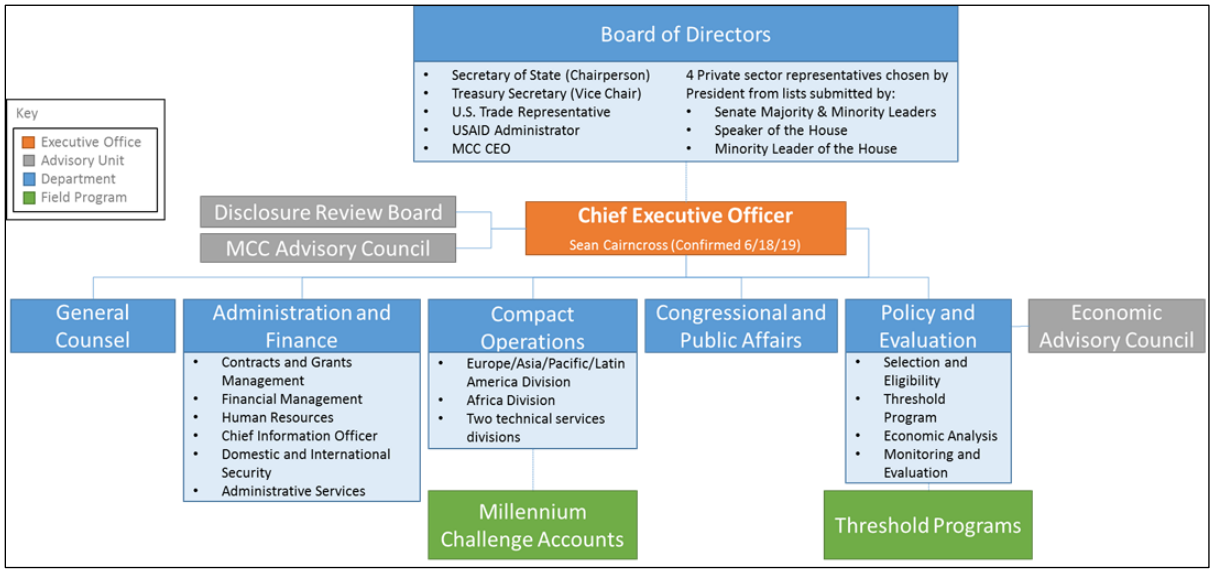
[4] MCC, *Agency Financial Report, Fiscal Year 2018*, p. 10.

[5] 31 U.S.C. §9101(3)), §614(e) of P.L. 108-199.

[6] U.S. Congress, Senate Committee on Foreign Relations, *The Millennium Challenge Account: A New Way to Aid*, 25, 108th Cong., 1st sess., March 4, 2003, S. HRG. 108-25 (Washington: GPO, 2003), p. 3.

[7] 22 U.S.C. §7704(a), §605 of P.L. 108-199.

Figure 1. Millennium Challenge Corporation Organizational Chart



Source: CRS, adapted from https://www.mcc.gov/about/org-chart.

MCC Programs

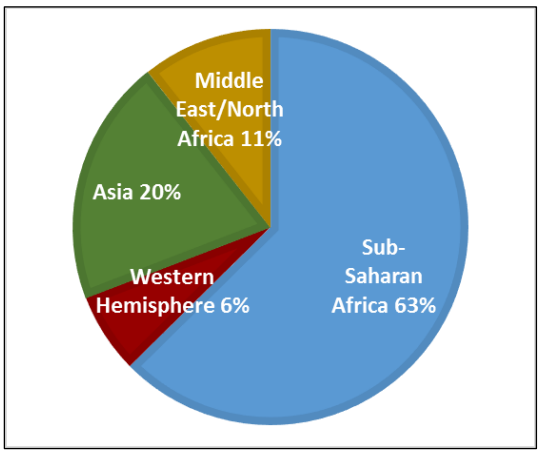
MCC operates two types of assistance programs: a long-term, large-scale investment in a country-implemented set of projects, known as a compact, and a short-term, more narrowly defined effort to help prepare possible candidates for compact eligibility, termed a threshold program.

MCC Compacts

MCC compacts are five-year grant agreements, proposed and implemented by well-governed countries. Compacts aim to achieve poverty reduction through economic growth by targeting the principal "binding constraints to growth" in an economy. To date, the MCC Board has approved 37 compacts in 29 countries worth more than $13 billion. As of September 1, 2019, seven countries are implementing compacts—Benin, Côte d'Ivoire, El Salvador, Ghana, Liberia, Morocco, and Niger (see **Appendix B** for descriptions). As with other U.S. foreign assistance programs, much of U.S. assistance is directed toward Sub-Saharan Africa (**Figure 2**).

Figure 2. Active MCC Compacts by Region

(% of dollar value as of March 2019)



Source: CRS calculations from MCC CBJ FY2020.

Distinctively among U.S. aid agencies, MCC projects to date have emphasized infrastructure. Since its creation, MCC has built nearly 1,900 miles of roads, laid almost 3,000 miles of power lines, built or rehabilitated over 800 educational facilities, and installed nearly 1,200 water access points (**Figure 3**).[8] MCC's focus on infrastructure is made feasible by the size of MCC

[8] https://www.mcc.gov/sectors. Data as of September 1, 2019.

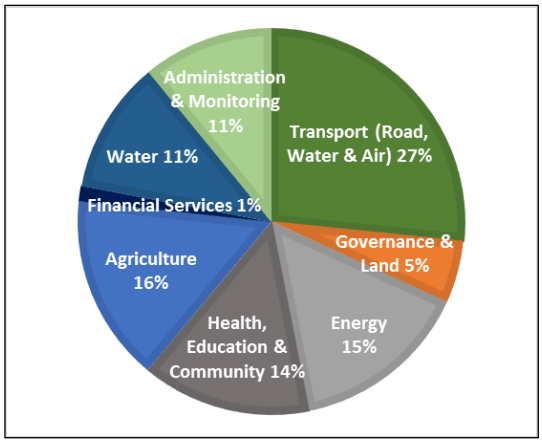
compacts and the up-front commitment of funding. These projects typically prioritize linking markets, whether building a ring road around a capital city or upgrading a national electrical grid. MCC's energy sector investments often pair power generation or transmission enhancements with a regulatory reform initiative to make utility providers more responsive to market forces. Such programs have been a key component of the Power Africa initiative.[9]

Threshold Programs

In addition to compacts, MCC has supported "threshold" programs—smaller, shorter (usually two- to four-year) programs designed to assist promising candidate countries to become compact eligible. These programs have often been administered through USAID in the past. As of March 2019, 31 threshold programs worth a total of over $600 million had been awarded across 29 countries, with an average program size of $23.86 million. Twelve of those countries have subsequently received compacts. Currently, Guatemala, Sierra Leone, Togo, and Kosovo are actively implementing threshold programs (see **Appendix C** for descriptions).

Figure 3. MCC Compacts by Sector

(% of cumulative dollar value since FY2004)



Source: MCC Congressional Budget Justification (CBJ) FY2020.

Threshold programs originally addressed shortcomings in a country's qualifying indicators—many focusing on corruption, the most common cause of a failing scorecard. At the request of Congress, MCC conducted an extensive review of its threshold programs. Rather than individual indicators, threshold programs since 2011 have targeted the broader policies affecting a country's scorecard performance through programs oriented on potential binding constraints to growth. MCC argues this gives valuable evidence of a country's proficiency implementing MCC programs.

Several restrictions exist on threshold programs. The African Growth and Opportunity Act and Millennium Challenge Act Modernization Act (AGOA and MCA Modernization Act, P.L. 115-167) permanently capped threshold program funding at 10% of total MCC appropriations.[10] That act also made permanent a restriction on award of new threshold programs for countries that are not candidates for that fiscal year, a prohibition MCC had argued against in recent budget presentations as an undue constraint on its programming. Appropriations measures since FY2014 (P.L. 113-76) have also prohibited countries that have completed compacts in the past from having a threshold program. MCC and some outside observers have criticized this restriction, citing Madagascar, a former compact country, as a good threshold program candidate given scorecard improvements in recent years.

[9] For further information on the U.S. Power Africa initiative, see CRS Report R43593, Powering Africa: Challenges of and U.S. Aid for Electrification in Africa, by Nicolas Cook et al.

[10] In past years, caps had been fixed at 5% or 10% in annual appropriations measures.

MCC Compact Life Cycle

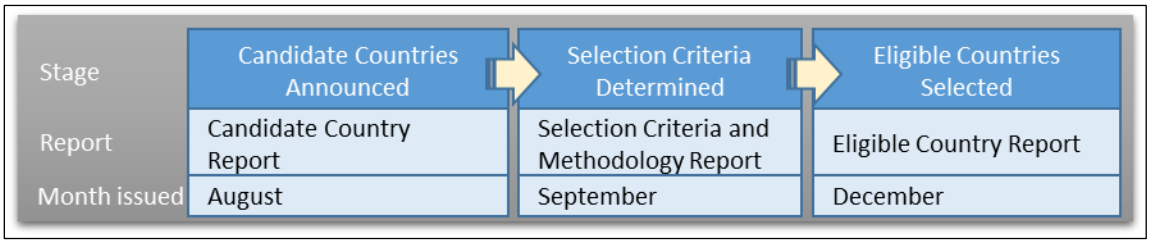
MCC implements a consistent process for all country compacts, consisting of four principal stages: candidate country evaluation for eligibility; compact development; implementation; and compact closure. The process kicks off annually with the country selection process.

Country Selection Process

One of the distinctive features of MCC is the manner in which it selects the countries that receive its assistance. No other aid agency, U.S. or foreign, has adopted a similar methodology for the allocation of aid resources.[11]

Each step in country selection has a corresponding congressionally mandated report: candidate countries are identified, eligibility criteria are formulated and applied, and compact and threshold program-eligible countries are selected (**Figure 4**). These reports document decisions made in each stage of this process, on a roughly consistent timeframe annually. Elements of this process are discussed below.

Figure 4. MCC Compact Selection Process



Source: CRS, adapted from MCC, *Congressional Budget Justification FY20*, March 2019, p. 12, https://www.mcc.gov/resources/doc/cbj-fy2020.

Candidate Country Identification

The first stage of the selection process is to determine the pool of candidate countries for assistance (**Figure 5**). To be a candidate, a country must

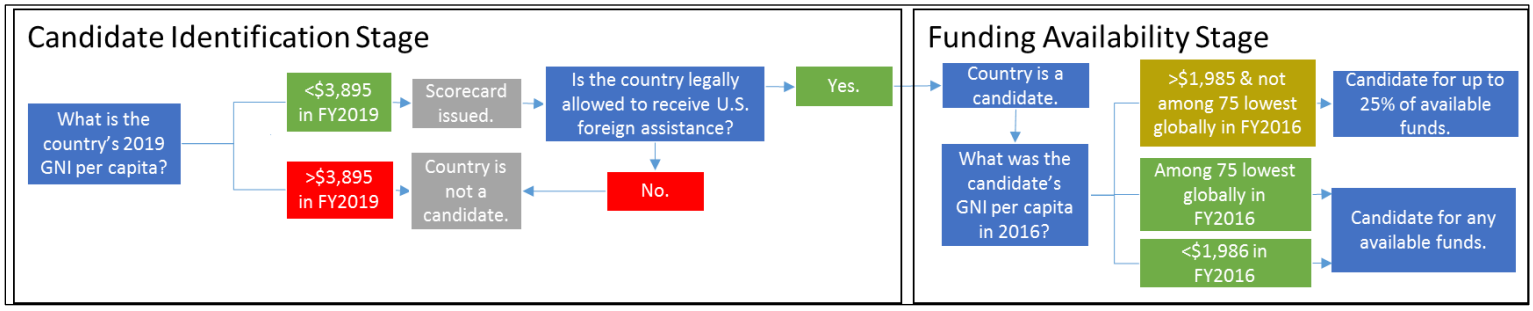
1. Be among the less developed countries of the world as classified by the World Bank in its classifications for that year, defined as either
   a. Fitting the low-income or lower-middle-income category that year (for FY2019, this limit is a Gross National Income [GNI] per capita of $3,895),[12] or
   b. Be among the 75 lowest per capita income countries as classified by the World Bank; and

[11] USAID's recently launched Journey to Self-Reliance framework bears some similarities to MCC's selection indicators. Unlike MCC's selection process, USAID is not using such indicators to select or disqualify countries for aid eligibility.

[12] MCC draws on World Bank income data published in the July preceding MCC's August report identifying candidates for the following fiscal year. There is a lag in data collection: the July 2018 World Bank report, for example, provides 2017 data that are used in the FY2019 MCC candidacy and compact-eligibility process.

2. Not be subject to legal prohibitions on foreign assistance.[13]

Figure 5. Candidate Funding Eligibility Process



Source: CRS, adapted from MCC, *Report on Countries That Are Candidates for Millennium Challenge Account Eligibility for Fiscal Year 2019 and Countries That Would Be Candidates but for Legal Prohibitions*, September 5, 2018.

The Millennium Challenge Act denotes two categories of candidate countries: low income and lower middle income. Lower-middle-income countries may only receive up to 25% of total MCC compact funding for a given fiscal year, to ensure most funding is directed toward reducing extreme poverty. While candidate countries are identified based on the World Bank's income classification data for that fiscal year, the test for the 25% funding restriction in most cases is based on the candidates' GNI per capita from three fiscal years prior (for FY2019, the FY2016 GNI per capita applies).[14] Congress enacted this provision to allow greater funding predictability.[15] A country is considered low income if it meets either of two criteria:

1. Fell into the World Bank's classification for low income (for FY2019, the FY2016 GNI per capita applies—$1,986 or less); or
2. Among the 75 lowest per capita income countries as classified by the World Bank.

Because the World Bank now classifies fewer than 75 countries as low income, the second criterion alone currently applies. Accordingly, these qualifications have reclassified many lower-middle-income countries to low income (see "Candidate Country Income ," below).

Determining Selection Criteria and Methodology

After candidate country identification, MCC reviews the criteria and methodology for selecting countries for MCC programs. The selection criteria are a key statement of MCC development priorities, as they ultimately drive which countries will receive an MCC program. MCC's authorizing legislation provides the measures on which countries should be evaluated in three categories:

[13] Various types of aid restrictions apply to these countries. Legislation specifically prohibits aid to the governments of Cuba, Sudan, Syria, and North Korea. Notwithstanding these and other restrictions, each country remains eligible for humanitarian assistance from the United States.

[14] An exception to this is if a country becomes a candidate that fiscal year due to a decline in its GNI per capita over the past year to below the upper-middle-income threshold. For those countries, their income classification for that fiscal year would apply, regardless of its status three fiscal years prior.

[15] The provision has been included in annual appropriations measures since FY2010 and was made permanent in the 2018 AGOA and MCA Modernization Act (P.L. 115-167).

- **Ruling justly**—promoting democratic governance, fighting corruption, maintaining transparency, protecting property rights, respecting human rights, and creating an enabling environment for civil society.
- **Investing in people**—providing quality health care and primary education, reducing child mortality, promoting the protection of biodiversity, and taking other opportunities to promote an educated and healthy population.
- **Economic freedom**—fostering enterprise and entrepreneurship, promoting engagement in global trade, strengthening market forces, and respecting worker rights.[16]

MCC has identified 20 indicators to quantify these characteristics, sourced from a variety of international institutions, universities, think tanks, and advocacy organizations. See **Appendix D** for a full list.

Selection for Compact Eligibility

Shortly after release of the performance criteria, MCC publishes a scorecard for each candidate country's performance.[17] The MCC Board then selects countries eligible for a compact, typically at its December quarterly meeting. MCC subjects candidate countries to three tests against its indicators. Countries must pass the following, at a minimum:

1. One of the two Freedom House democratic rights indicators (Political Rights or Civil Liberties);
2. The World Bank/Brookings "Control of Corruption" indicator; and
3. Ten of the twenty indicators, including at least one indicator in each of the three categories.[18]

For most performance indicators, a candidate passes if it scores above the median for its income group. Countries compete with each other based on the World Bank's annual income classifications for low income and lower middle income, not based on the categories for funding described above.[19]

A passing scorecard does not automatically grant compact eligibility. The MCC Board also considers funding availability and a compact's probable impact on poverty reduction, and could select one country over another primarily because it has more impoverished citizens.[20] Additionally, MCC has argued that scorecards alone are incomplete portraits of a country's policies and performance. Data collection can lag country selection by a year or longer, and statistical sampling challenges or changing country sentiment (rather than substantive performance changes) could confound some indicator scores. A country's position vis-à-vis its peers may thus fluctuate considerably from year to year without any significant change in the

[16] Defined in 22 U.S.C. 7706(b).

[17] See MCC website, https://www.mcc.gov/who-we-fund/scorecards.

[18] This generally, with some exceptions, means performing better than the median within a country's income group. An exception, for example, is the immunization target, which requires at least 90% immunization among children to pass, regardless of the median country's performance.

[19] While the World Bank uses the income classifications of "low income" and "lower middle income," MCC describes these groups as "lower income" and "higher income" internally, because of the classifications based on the 75 poorest countries described above.

[20] MCC, *2019 Country Scorebook*, November 5, 2018, p. 2, https://www.mcc.gov/content/uploads/reference-2018001216201-fy2019-scorebook-wr.pdf.

country's policies. Candidates may perform poorly against new criteria they did not anticipate, or when institutions measuring performance refine or revise their indicators.

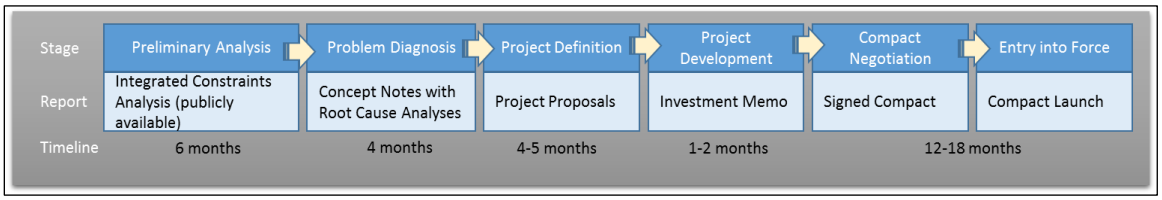
To account for these potential shortcomings, the MCC Board may consider performance trends, new data, anecdotal evidence, and recent policy actions. While Cabo Verde was rated very poorly in trade policy in FY2005, the Board selected it due to its significant progress in World Trade Organization (WTO) accession. Conversely, the Philippines was not selected that year due to especially low health expenditures and poor fiscal policy performance.[21] In 2011, the Board reevaluated Georgia's failure on the immunization indicator after discovering that it was partially driven by a vaccine shortage there. MCC especially considers the performance of past programs for countries seeking follow-on programs.

MCC's open selection process often leads to public scrutiny of decisions. In FY2007, the MCC Board's selection of Jordan elicited an outcry from several outlets, including Freedom House, who had urged the MCC Board to automatically disqualify nondemocracies from compact eligibility.[22] In FY2014, some complained about Benin's and Sierra Leone's failure on the corruption indicator, arguing that their mild dip in performance could simply be statistical noise.[23]

Compacts often take years to develop, and countries must be reselected for eligibility each year to continue compact development. The Board has thus deselected countries to signal commitment to high performance standards, but some have retained eligibility as the Board waited to see if worsening performance was temporary. Deterioration in democratic governance caused the Board to suspend Tanzania's eligibility in 2016,[24] and Ukraine, Sri Lanka, Bolivia, Timor-Leste, and the Gambia have each had compact development suspended due to scorecard performance or operating environment challenges. On the other hand, the Board reselected Liberia and Morocco in FY2014 despite failing scorecards, and was validated when they passed in later years. Such reselection is not necessary for countries already implementing compacts (see "Compact Suspension and Termination," below).

Compact Development

Figure 6. Compact Development Process



Source: CRS, derived from MCC, *Compact Development Guidance*, February 24, 2017, https://www.mcc.gov/resources/pub-full/guidance-compact-development-guidance.

[21] Comments by Paul Applegarth, then MCC CEO, at a State Department Foreign Press Center Briefing, November 9, 2004.

[22] Freedom House, "Millennium Challenge Corporation Should Hold Countries to Higher Standards of Democratic Governance," November 2, 2006, http://www.freedomhouse.org; Sheila Herrling, Steve Radelet, and Sarah Rose, "Will Politics Encroach in the MCA FY2007 Selection Round? The Cases of Jordan and Indonesia," Center for Global Development, October 30, 2006, http://www.cgdev.org.

[23] Sarah Rose, "Explaining the MCC Board's (Non) Decision to Benin and Sierra Leone Could Be Awkward," Center for Global Development, December 11, 2013, https://www.cgdev.org/blog/explaining-mcc-boards-non-decision-benin-and-sierra-leone-could-be-awkward.

[24] MCC Press Release, "The Gambia Suspended from Participation in MCC Compact Program," June 15, 2006.

Once declared eligible, countries may initiate research on their binding constraints to growth, propose projects to MCC, and ultimately negotiate the contours of their compact agreement. The process to develop a compact, from eligibility to compact launch, is expected to take two to three years (**Figure 6**). Only those compact proposals that demonstrate a strong relationship between the project, economic growth, and poverty reduction are to receive funding. With limited funding available for multiple eligible countries, compact development, like the selection process, is competitive.

A country begins development by mobilizing a **Compact Development Team**, which initiates a **constraints analysis** that identifies the most severe hindrances to economic growth. Since 2006, MCC has used a "Growth Diagnostics" approach to the constraints analysis (see text box). Unlike USAID program design, which is typically led by mission staff, the partner country government usually houses the Compact Development Team. The complexity of the Growth Diagnostics framework, however, often leads countries to staff the team with external experts trained in the growth diagnostics methodology. Governments also often designate a ministry or senior official to coordinate compact development and act as a point of contact with MCC. In many cases, such high-level political commitment to the program helps propel compact development forward.

Growth Diagnostics

The growth diagnostics model, conceptualized in a 2005 paper by Harvard economists Ricardo Hausmann, Dani Rodrik, and Andres Velasco, concentrates on the policy reforms necessary to achieve growth. It is predicated on the idea that wholesale policy transformation into a Western-style market economy may be excessively burdensome and even counterproductive for poor countries. Such a one-size-fits-all approach could weigh down the policy agenda with a long list of complex reforms of dubious relevance. According to this theory, a country should instead conduct a diagnostic assessment to prioritize challenges to a country's development. The paper proposes a systematic analysis of the business environment to identify **binding constraints**—bottlenecks to economic growth that, if alleviated, could significantly improve economic returns to private investment and accelerate economic growth. The paper theorizes that the principal cause of economic growth is robust private investment and entrepreneurship, which in turn may be constrained by either high cost of finance or low returns to economic activity. While MCC was the first major donor agency to use this approach, it has since been used by other agencies such as USAID, notably in the Partnership for Growth initiative during the Obama Administration.[25]

Underscoring country ownership and public engagement embodied in the Millennium Challenge Act, countries conduct significant **public consultation and stakeholder engagement**, especially with civil society and the business community. These engagements can be quite intensive. The Namibia team, for example, identified 500 issues through nationwide public discussions, narrowing them down to a handful over time.[26] Burkina Faso's consultations reportedly included 3,100 people in all of its 13 regions.[27]

The constraints analysis narrows the compact scope to a few high-impact constraints. The Compact Development Team then expands in size to carry out deeper **root cause analyses** of each binding constraint, leading to **concept papers** centered on resolving the subject constraint. MCC provides feedback throughout to keep the compact within MCC parameters. Unlike the constraints analysis, root cause analyses may involve a variety of methodologies.

[25] See e.g. Joint USG-GoG technical team, *Ghana Constraints Analysis (Partnership for Growth)*, State Department, August 2011, pp. 1-3, https://2009-2017.state.gov/documents/organization/202533.pdf.

[26] Namibia anecdote provided through CRS interviews with MCC.

[27] Rebecca Schutte, *Burkina Faso Field Report*, Center for Global Development, July 2009.

The Compact Development Team then develops these concept papers into one or several **compact project proposals**, which lay out a strategy to resolve or alleviate a binding constraint. In aggregate, these proposals often exceed MCC's budget capacity, forcing further prioritization. Tanzania reportedly initiated compact negotiations with a package worth $2 billion; the elimination of irrigation and education proposals shrunk the cost to $700 million. Namibia's $415 million initial proposal was whittled down to $305 million by eliminating irrigated agriculture and roads projects.

609(g) Assistance

To assist in compact development and implementation, MCC often funds start-up activities prior to compact launch under Section 609(g) of its authorizing statute. These may include baseline surveys, feasibility studies, environmental and social assessments, fees for fiscal and/or procurement agents, and the like.

While acknowledging that compact project proposals will vary, MCC expects each to address certain matters, including

- an overview of the country including principal binding constraints;
- a clear rationale for the project with a narrowly defined problem statement connected logically to a primary project objective, and indicators of project success in the near to long term;
- a description of the proposed project capturing its work components, potential approaches, geographic targeting and context, benefits and beneficiaries, and a program budget;
- a plan for implementation addressing policy and institutional reforms the government will commit to implementing (known as "policy guarantees"), well-positioned potential public and private partners, and the expected sustainability of the project; and
- the technical considerations, economic rate of return methodology, social and gender impact, private business impact, and donor coordination opportunities available under the project.[28]

[28] These components are based on the MCC Project Proposal template available at https://www.mcc.gov/resources/doc/guidance-cdg-template-mcc-compact-project-proposal. Congress may consider the extent to which these features align with the required elements of a country compact as detailed in Section 609 (b) of the Millennium Challenge Act.

MCC conducts an initial assessment on all submitted project proposals, followed by a due diligence review that closely examines all aspects of the proposal. MCC also completes an **economic rate of return (ERR) analysis** at this stage, measuring the total economic benefit anticipated for direct project beneficiaries against total projected compact expenses. MCC requires a minimum ERR of 10% over a 20-year time horizon from compact launch, although MCC has occasionally approved projects below that threshold (see "ERR Forecasting" and "Indirect Impacts," below). As MCC conducts its due diligence, staff concurrently work with the Compact Development Team to refine program elements.

Calendar Year	Signed MCC Compacts
2005	Madagascar, Honduras, Cabo Verde I, Nicaragua, Georgia I
2006	Benin I, Vanuatu, Armenia, Ghana I, Mali, El Salvador I
2007	Mozambique, Lesotho, Morocco I, Mongolia
2008	Tanzania, Burkina Faso, Namibia
2009	Senegal I
2010	Moldova, the Philippines, Jordan
2011	Malawi, Indonesia
2012	Cabo Verde II, Zambia
2013	Georgia II
2014	Ghana II, El Salvador II
2015	Benin II, Liberia, Morocco II
2016	Niger
2017	Côte d'Ivoire, Nepal
2018	Mongolia II, Senegal II
2019	n/a (Sri Lanka Board approved but not signed)

Finally, MCC negotiates a **final compact agreement** prior to its approval by the MCC Board. The compact is signed but does not enter into force until supplemental agreements on disbursements and procurement are reached.[29] MCC follows international treaty procedures for its compacts, which allows MCC to authorize launch only once it determines the conditions necessary to initiate the compact have been met.[30]

Because of the difficulty of completing a large, complex program within a fixed five-year time span, MCC has increasingly extended the time between compact approval and entry into force in order to front-load planning activities such as feasibility studies and project design. In Burkina Faso, for example, one analyst noted that the passage of a full year between signing and entry into force combined with early action on staff and planning allowed an estimated 60% of procurement to be initiated before entry into force.[31]

Withholding of compact implementation also serves as a key incentive to encourage countries to carry out the policy guarantees referenced above. To enforce such guarantees, MCC incorporates them as "conditions precedent" to entry into force of compact agreements. MCC has exhibited considerable patience during this phase to ensure countries are committed to the compact requirements. Average duration of this preimplementation phase was 6 months in MCC's first five years. It has risen to 14 months, on average, since 2009.

[29] Details on each of the negotiated compacts can be found at the MCC website: http://www.mcc.gov.

[30] MCC follows the Vienna Convention on the Law of Treaties in interpreting its legal relationship with compact partners. Compacts are not, however, submitted to the Senate for ratification. U.S. Government Accountability Office, *Memo to Congress: Millennium Challenge Corporation—Availability of Appropriations for Compacts*, B-327672, September 20, 2016, p. 5, https://www.gao.gov/assets/680/679868.pdf.

[31] Rebecca Schutte, Center for Global Development, *Burkina Faso Field Report*, July 2009, p. 1.

Compact Implementation

Upon entry into force, the total compact value is obligated and the five-year clock begins to tick. Typically the local entity that conducted compact development segues into the compact management and oversight body. This "accountable entity," usually known as the Millennium Challenge Account (MCA), assumes responsibility for compact oversight, accountability, and management. Environmental, gender, and social requirements embedded in the compact agreement are its responsibility as well. Held to a strict five-year timetable and limited budget, responsibly managing the MCA is a daunting challenge for most developing countries. For many countries, setting up, staffing, and then launching the MCA is time-consuming and difficult, sometimes causing implementation delays. The MCA itself may take a variety of forms, including a unit within an executive office, a parastatal reporting to a government ministry, or a standalone entity overseen by the government. Government and nongovernment officials usually sit on its board, including representatives of civil society.

As perhaps the most important aspect of compact implementation, MCC procurement and financial management processes demonstrate how MCC works to build government capacity through development project implementation and maintains accountable oversight of U.S. funds. Building the government's capacity to oversee or conduct such duties directly is a core aim of MCC's country-led approach. The MCA includes fiscal and procurement agents, though these duties are often contracted out, at least initially. MCA-Namibia, for example, initially outsourced its procurement to a contractor but later established an internal MCA-staffed procurement office once capacity improved.

To counter corruption, build capacity, and achieve the maximum value for the cost of goods and services, MCC-approved rules feature transparent, competitive bidding from all firms, regardless of national origin. Distinctively for a U.S. government agency, compact procurement processes are based on World Bank procedures, not U.S. federal acquisition requirements or the compact country's own rules. Procurements are generally fixed-price, placing the burden on contractors to complete work at the agreed price. Bid evaluations must include an assessment of price reasonableness, and MCC vets all procurement decisions. These procedures have occasionally led to broader adoption of these procurement practices. Cabo Verde now applies the MCA's process to all public procurements, and Honduras maintained its MCA program management unit to manage other donor-funded programs.[32]

MCC itself has a relatively small staff located in-country, including a resident country director and a deputy, as well as an engineer for infrastructure-focused compacts. MCC is to sign off on all major implementation milestones, including each funding disbursement. To reduce the risk of corruption, MCC transfers funds to the MCA only after confirming satisfactory contractor performance, and international contractors are paid by the U.S. Treasury directly.

As projects are implemented, events may require that changes be made to compact plans.[33] In 2007 and 2008, for example, the convergence of a depreciating U.S. dollar and rising costs for infrastructure project equipment and material caused a funding shortfall against agreed-on objectives. At least six projects were scaled back or supplemented by financing from other sources. In 2010, such increased costs drove the reallocation of nearly $40 million for a Ghana transportation project, while the scope of a rural water supply project in Mozambique was cut

[32] Marco Bogran, Acting General Director, MCA-Honduras, and Ariane Gauchat, Associate Director, MCC, *MCC Hosts Public Event: Lessons Learned from MCC's First Compacts*, February 22, 2011, pp. 9 and 32.

[33] For more details, see Office of Audit for the MCC, *Review of the Millennium Challenge Corporation's Compact Modifications*, M-000-12-006-S, July 16, 2012.

nearly in half. MCC is trying to manage its compacts more adaptively through frequent portfolio reviews and identification of high-risk projects, a recognition that revisions are natural over five-year timelines.

Compact Closure and Evaluation

Following compact completion, independent teams conduct evaluations on each compact component, all of which MCC publishes. Since ERRs forecast benefits over a 20-year time horizon, evaluations continue for as long as five years after the end of a compact to assess the trajectory of project benefits. MCC carries out two types of evaluations. Impact evaluations are more rigorous and resource-intensive, focusing on changes directly attributable to project interventions against the original ERR. Performance evaluations, on the other hand, simply evaluate whether the project proceeded consistent with its originally envisioned scope, raising questions about program design, results, and management as considerations, not as findings. MCC holds a reputation for extensive use of evaluation, having completed 32 impact evaluations and 51 performance evaluations as of August 2019.[34] The decision to choose an impact evaluation over a performance evaluation may depend on whether expected accountability and learning is worth the extra cost.

Compact Suspension and Termination

On more than one occasion, MCC has suspended or terminated programs for failure to maintain performance against the selection criteria. Such actions are especially consequential, as they signal MCC's resolve to penalize violations of its performance standards.

Section 611(a) of the Millennium Challenge Act of 2003 provides that, after consultation with MCC's Board of Directors, the CEO may suspend or terminate assistance in whole or in part if the CEO determines that a country participates in activities counter to U.S. national security interests, has a pattern of behavior that contradicts the criteria that originally made the country eligible, or fails to uphold its compact responsibilities.[35] All compacts state that MCC may terminate the compact if the government engages in a pattern of action inconsistent with selection criteria. Other restrictions in statute or appropriations guidance may also lead to a program's termination. For example, countries that have undergone a coup are restricted from foreign assistance, including MCC candidacy or program implementation.[36]

MCC may take any of four actions in response to perceived performance violations. MCC can issue a warning or hold on a program, often as a precaution and without Board approval. Additionally, the MCC Board may go further and approve program suspension or termination. The MCC Department of Policy and Evaluation conducts a review in all cases, but the Board does not uniformly follow its recommendation.

MCC has suspended or terminated threshold programs in Yemen (2005) and Niger (2009) due to deteriorating selection criteria performance, and in Mauritania (2008) after a coup triggered automatic aid prohibitions. Compacts in Nicaragua and Honduras were each partially terminated due to governance concerns, and the Armenia compact was also put on hold for similar reasons in

[34] Data provided by MCC. Further information available at https://www.mcc.gov/our-impact/independent-evaluations. MCC evaluations typically encompass only individual projects within a compact, most compacts being composed of several projects. This is why there are more evaluations than there are compacts.

[35] MCC, *MCC Policy on Suspension and Termination*.

[36] Most recently, §7008 in the State, Foreign Operations Appropriations, FY2019 (P.L. 116-6, Division F).

2008, though the Board did not suspend it. Coups in Madagascar (2009) and Mali (2012) each led to wholesale termination.

Recent Developments

As MCC celebrates its 15th anniversary in 2019, its compact pipeline appears reasonably predictable, and its implementation model receives regular praise among the donor community. Several developments over the past several years continue to impact the agency. In 2016, MCC released a five-year strategy entitled *NEXT: A Strategy for MCC's Future*, which continues to steer the agency's internal agenda.[37] The strategy reviewed and reaffirmed the MCC model and the principles on which that model is based. It also established several priority goals to enhance MCC operations, including more private-sector engagement, strengthened policy reform efforts, accelerating data-driven decisionmaking, and improving agency performance.

The Senate confirmed Sean Cairncross as CEO of MCC on June 18, 2019, filling a position that had been staffed by a succession of acting CEOs since the departure of Dana Hyde at the end of the Obama Administration. The installment of a permanent leader may accelerate certain agency priorities such as developing regional compacts, launching pending compacts, and clarifying agency positions on several issues (see "Selected Issues for Congress," below).

Perhaps most consequentially, the AGOA and MCA Modernization Act (P.L. 115-167) became law in 2018, making it easier for MCC to enter into multicountry regional integration compacts as well as requesting a study on the desirability and feasibility of subnational MCC programs. The law also added new considerations for selection criteria, eligibility determinations, and compact implementation.

MCC has also established two new advisory councils: the MCC Advisory Council, created in 2016; and the Economic Advisory Council, created in 2018. MCC's Board of Directors selected countries for compact eligibility in December 2018, and multiple countries continue to progress toward Board approval of their compacts. MCC also received its FY2019 appropriations, and the President submitted a request to Congress for FY2020 funding (**Figure 7**).

MCC Advisory Council

The MCC Advisory Council was created in 2016 to advise on MCC partner country developments and emerging development trends; it convenes at least twice a year. At its most recent meeting in June 2019, the Council advised MCC to raise its profile among private-sector partners and other donors, engage the private sector earlier in compact development to secure buy-in and input, and identify new strategies to engage nontraditional partners such as institutional investors and private foundations.[38]

Economic Advisory Council

In 2018, MCC announced the establishment of the Economic Advisory Council, which is meant to advise MCC leadership and the Department of Policy and Evaluation on emerging research in

[37] Available on the MCC website at https://www.mcc.gov/resources/pub/next.

[38] MCC, *Letter from Advisory Council to CEO Sean Cairncross*, June 24, 2019, https://www.mcc.gov/content/uploads/correspondence-062419-letter-from-advisory-council-to-ceo-sean-cairncross.pdf.

development economics.[39] The Council convened for its first meeting on June 7, 2019.[40] The discussion topics included

- evaluating the impact of country-wide economic growth upon poverty reduction;
- leveraging private capital through blended finance, including through the new Development Finance Institution; and
- developing analytical approaches to regional compact development.

The next meeting is scheduled to occur in October 2019.

Country Selection—FY2019

In its December 2018 quarterly meeting, the MCC Board of Directors selected five West African countries with ongoing or upcoming compacts—Benin, Burkina Faso, Côte d'Ivoire, Niger, and Ghana—to explore development of MCC's first multicountry regional compact. The Board also made three new countries eligible, and it selected four countries to continue developing compacts (**Table 1**).

Table 1. Compact-Eligible Countries: FY2019

Newly Eligible	Continuing Eligibility
Indonesia	Burkina Faso
Kosovo	Lesotho
Malawi	Timor-Leste
West Africa Regional Compact	Tunisia

Indonesia was commended for eight consecutive years of improvement on the corruption indicator and the scorecard overall, as was Malawi for its consistent high performance across all indicators. These countries were considered to have met the high standards required of countries pursuing a second compact. While the Board often seeks a longer trend of high performance than the two years for which Kosovo has passed its scorecard consecutively, the Board noted that, as one of the poorest countries in Europe, a compact there could make a significant impact. This would be Kosovo's first compact.

Two countries were selected for threshold programs. Ethiopia was selected in recognition of its reform-oriented new Prime Minister, Abiy Ahmed, and the Solomon Islands was selected despite failing 11 of the 20 indicators, due to its strong historical performance.

Anticipated Compacts in FY2019-2020

MCC expects that as-yet unobligated funds combined with FY2018 and FY2019 appropriations will support compacts in several of the existing pool of compact-eligible countries. Board consideration is likely to occur in FY2019 for the following compacts:[41]

- **Sri Lanka**. Sri Lanka's $450 million compact will target traffic management, modernization of the bus system, development of logistics facilities, establishing

[39] Millennium Challenge Corporation, "Establishment of MCC Economic Advisory Council and Call for Nominations," 83 *Federal Register* 44911, September 4, 2018.

[40] MCC, *Economic Advisory Council Meeting Minutes*, April 15, 2019, https://www.mcc.gov/resources/doc/report-april-2019-economic-advisory-council-meeting-minutes.

[41] Based on author consultations with MCC.

a national land information system, and enhancing mapping, surveying, and titling of land.

- **Burkina Faso II**. A $304 million compact is expected to focus on the high cost and poor quality of energy, with feasibility studies and other research ongoing throughout FY2019.
- **Tunisia**. A constraints analysis found three issues that will be the focus of an estimated $292 million compact: excessive market controls of goods and services, excessive labor market regulations, and water scarcity.

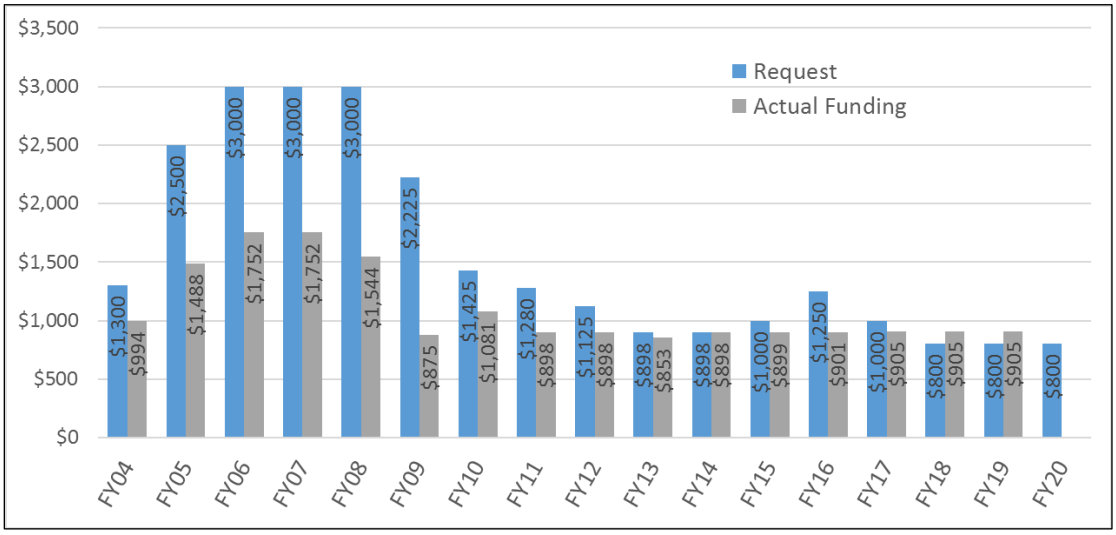
Funding Trends

When MCC was first proposed, it was expected that, within a few years, the level of funding would ramp up to about $5 billion per year. MCC appropriations have never reached that level.

Both the Trump Administration's requests and enacted congressional appropriations have remained constant since FY2018. The Trump Administration requested an 11.6% cut to $800 million for FY2018, FY2019, and FY2020. Each year, Congress has responded by matching the $905 million appropriations from FY2017, including in the Consolidated Appropriations Act, 2019 (P.L. 116-6), enacted on February 15, 2019. FY2020 appropriations have yet to be enacted.

Figure 7. MCC Appropriations, FY2004 to FY2020

(current USD in millions)



Source: Congressional Budget Justifications.

Notes: Actual funding reflects enacted appropriations minus rescissions. FY2013 was the last year for which a rescission was implemented. FY2020 funding is not shown as it is not yet finalized.

While MCC has not seen significant budget increases in recent years, proposed cuts have been relatively modest compared to other foreign assistance programs. The Trump Administration's most recent proposed cut of 11.6% compares against an overall cut to the foreign operations budget of 24% for FY2020. Given the Administration's stated focus on supporting friends and allies, MCC's compact selection process, which assesses democratic principles and free market values in awarding aid, may have been a factor driving this decision. Additionally, given the relatively few earmarks Congress typically assigns to MCC compared to other assistance

channels, the Administration may prefer programming through MCC, as the executive branch has greater independent control over funding allocations.

Selected Issues for Congress

Over MCC's 15 years of operation, a variety of policy issues have received congressional attention. Recurring issues tend to relate to the broad categories of partnering structure, compact selection methodology, project sustainability and effectiveness, strategic focus, and corruption.

Expanding MCC Compact Partnership Arrangements

MCC's 2016 NEXT strategy lays out several new partnership priorities, which remain ongoing items in the MCC agenda today. The strategy envisions expanding partnerships to include multicountry compacts, working with local governments, expanding public and private partnerships, and strengthening relationships with other U.S. government agencies.[42]

Multicountry Regional Compacts

MCC has advocated to Congress for easing constraints on regional, multicountry compacts for over a decade.[43] MCC has argued that economies of scale and tighter trading relationships made possible by such programs may lead to higher returns on MCC investments. MCC described the Honduras compact's transportation project, for instance, as strengthening trade ties under the CAFTA-DR trade agreement, but the compact's refurbishing of highways stopped abruptly at Honduras's border.[44] The most promising opportunities for multicountry compacts have been among countries already implementing bilateral compacts, but the Millennium Challenge Act prohibited MCC from awarding two compacts to a country concurrently.[45] The AGOA and MCA Modernization Act removed this prohibition, and the MCC Board directed the exploration of a regional compact among five countries in West Africa at its December 2018 meeting.

Regional compacts still depend on the coincidence of fellow eligible countries in the region and on available funds. During implementation, a single misbehaving country could force termination of a compact with a community of otherwise high performers, although the pressure among partners to uphold MCC values may help mitigate this risk. The partner entity for such compacts may also be problematic. While MCC is authorized by law to provide assistance to subnational governments or nongovernmental entities, it is unclear whether MCC could partner with a transnational governmental organization such as the West African Economic and Monetary Union.[46] These entities typically do not have enforcement powers, and MCC may struggle to coordinate compliance with a complex set of policy requirements across multiple national governments in only five years.[47] Congress may consider whether additional congressional

[42] MCC, *NEXT: A Strategy for MCC's Future*, February 2016, p. 35, https://www.mcc.gov/resources/pub-pdf/next.

[43] MCC, *Congressional Budget Justification, FY2009*, p. 35, https://assets.mcc.gov/content/uploads/2017/05/mcc-fy09-cbj.pdf.

[44] MCC, *Honduras Compact Summary*, June 2005, p. 3, https://assets.mcc.gov/content/uploads/2017/05/061305b_honduras_compact_summary.pdf.

[45] §609(k) of P.L. 108-199.

[46] §605(c) of the Millennium Challenge Act, as amended.

[47] Sarah Rose, *Regional and Sub-National Compact Considerations for the Millennium Challenge Corporation*, Center for Global Development, September 4, 2014, https://www.cgdev.org/publication/regional-and-sub-national-compact-considerations-millennium-challenge-corporation, pp. 1-3.

guidance is needed to advise on the underlying intent of revisions in the AGOA and MCA Modernization Act. Congress may also seek to provide input regarding the selection process, such as whether non-eligible countries can take part in such multicountry compacts.

Subnational Partnerships

MCC currently works on a bilateral basis with individual national governments. Some, including former MCC CEO Dana J. Hyde, have suggested that, in certain cases, poverty reduction could be better addressed at more local levels through regional or subregional governments.[48] The Millennium Challenge Act allows for such assistance to "regional or local government units," but the act requires the MCC Board to identify and evaluate countries, not regions, for compacts.[49] Thus a particularly impoverished region of an otherwise wealthy country would not be a candidate, nor could the Board easily select a promising region of an otherwise dysfunctional country. There are several methodological barriers. MCC's selection indicators are typically only reported at the national level, especially for the corruption and democratic governance hurdles that are the chief causes of scorecard failure. Sensitivities over sovereignty may also arise if MCC is perceived to bypass a national government to partner with a local government.[50] The AGOA and MCC Modernization Act ordered a report on the matter,[51] but its findings are not publicly available as of September 2019. Congress may advise on the findings of that report after they are released.

Subsequent Compacts

As MCC moved into its second decade of implementation, many of its original compact partners were awarded second compacts. MCC states that it holds second-compact candidates to a significantly higher standard, taking into account whether the previous compact was well-implemented. A similar group of countries tends to pass its scorecards each year, meaning past customers of MCC are frequently future ones. Four of MCC's seven current active compacts are the partner country's second, as are two of the three that have been signed and are awaiting launch.

MCC CEO Cairncross stated at a discussion at the Center for Strategic and International Studies on August 14, 2019, that MCC is not looking for third compact opportunities in the near term.[52] There currently appear to be relatively few prospects for third-compact countries—Georgia and Cabo Verde are the only two candidates that passed their FY2019 scorecards and have already completed two compacts. However, with several countries nearing completion of their second compacts, the issue of third compacts is likely to emerge. It is unclear whether MCC will hold such third compact countries to an even higher standard, as well as whether synergies will be sought with the efforts of prior compacts. As the number of suitable countries for a first compact declines, Congress may consider whether to revise eligibility criteria to expand the candidate pool, increase compact size among the remaining candidates, or award concurrent bilateral

[48] Dana J. Hyde, Cabinet Exit Memo, *MCC: Modernizing the Fight Against Poverty*, January 5, 2017.

[49] §605(c) identifies the entities eligible for assistance, while §606 and §607 define the selection process.

[50] Sarah Rose, *Regional and Sub-National Compact Considerations for the Millennium Challenge Corporation*, Center for Global Development, September 4, 2014, https://www.cgdev.org/publication/regional-and-sub-national-compact-considerations-millennium-challenge-corporation, pp. 3-5.

[51] §208 of P.L. 115-167

[52] Cairncross, Sean, and Daniel Runde. "A Discussion with Millennium Challenge Corporation's CEO Sean Cairncross." Discussion, Center for Strategic and International Studies, August 14, 2019, https://www.csis.org/events/discussion-millennium-challenge-corporations-ceo-sean-cairncross.

country compacts. Congress may also wish to monitor whether MCC's standing practice of more rigorously evaluating countries with past compacts aligns with congressional preferences.

Interagency and Private-Sector Partnerships

In addition to new models for partnering with its core clientele through compacts, MCC has sought new approaches to partner with the private sector. Congress has expressed support in the past for such initiatives, particularly involvement of the U.S. private sector. As MCC experiments with new partnering models, Congress may evaluate whether such practices are integrating best practices from across government, and may evaluate whether involvement of private interests could subvert government objectives.

"Blended finance," one such model, pools public and private-sector funding into structured investments in a country. MCC has experimented with several blended finance approaches, including providing active input to the ongoing emergence of the International Development Finance Corporation (IDFC) last year (Division F of P.L. 115-254). In addition, MCC grant facilities have attracted cofunding from private-sector partners in renewable energy projects in Indonesia and Benin and industrial zone developments in Morocco.

MCC is also working to advance public-private partnerships in several compact countries. The Côte d'Ivoire compact is to provide advisory support for a logistics center partnership between trucking companies and the government, and the Benin compact is advising on the design of a partnership for new solar energy plants there. Furthermore, MCC is working on two major programs involving cofinancing with local private and governmental entities: in Kosovo, to enhance commercial banks' project-based lending, and in El Salvador, to catalyze a pipeline of private investment. Finally, although MCC is unable to issue loans itself, the agency may seek to leverage lending instruments through the IDFC and USAID to attract private-sector resources with the intent of enhancing ongoing program activities.

Through these efforts, MCC is working as a conduit for investment to enhance a country's credit capacity over the long term, by either utilizing other agencies' tools or directly brokering private investment opportunities through compact activities. As MCC partners with new donors and private enterprises, these tools may further proliferate. MCC typically calculates only the direct outcomes of its investments. Should private capital and the work of other agencies play a growing role in MCC activities, MCC may become a facilitator or catalyst for other investors rather than a direct implementer. Methodological challenges may emerge surrounding attribution of development outcomes to compact activities, affecting ERR calculations.

Candidate Country Income Categories

MCC income categories have elicited concerns about the agency's ability to target extreme poverty in well-governed developing countries. Congress establishes these categories through appropriations guidance and statutory requirements. The decisions by Congress to mandate a 25% cap on funding to lower-middle-income countries and prohibit candidacy to upper-middle-income countries have each guided annual selections. Congress may seek to evaluate the consequences of these decisions in the context of changing geographic concentrations of poverty, to determine if the resulting MCC resource allocations are maximizing its impact upon global poverty. Congress may also seek to take action to optimize predictability in the compact award process against often-volatile annual income changes.

As the world has gotten wealthier, MCC's pool of low-income candidate countries has steadily diminished. Concurrently, the high volatility of countries' income levels has led to annual

apprehension about their candidacy for compact funding. In past years, countries in the midst of compact development might have suddenly lost eligibility as they were unexpectedly reclassified to a higher income classification. MCC viewed these abrupt shifts as extremely disruptive to a smoothly functioning compact development process. Three recent developments may impact this uncertainty and the Board's funding flexibility:

1. The GAO in 2016 issued an opinion that a country's eligibility for funding should be based on the income status it held in the fiscal year for which the Board selected it for eligibility, rather than being updated annually.[53] This allows a country to lock in its candidacy status upon selection, so it need not rely on annual reselection as had been past practice.
2. The AGOA and MCA Modernization Act requires that MCC apply candidate countries' income classifications from three fiscal years prior. In the FY2019 round, then, MCC classified countries based on their income status in FY2016.[54] This allows countries to forecast when their income classification will change and plan compact development accordingly, rather than discovering a sudden change in income status each fiscal year. This change only affects classification between low-income and lower-middle-income status. If an FY2018 candidate moved to upper-middle-income status in FY2020, it would not be a candidate country in FY2020 unless already selected for eligibility by the Board in a prior year.
3. The AGOA and MCA Modernization Act also makes permanent a provision in annual appropriations laws since FY2013 to allow the 75 lowest-ranked countries by GNI per capita to be classified as low income for funding purposes. Since FY2013, this change has dramatically reduced the pool of candidates subject to the 25% cap on lower-middle-income country funding (see "Candidate Country Identification," above).[55] In FY2019, 25 countries were moved from lower middle income to low-income status as a result of this provision. As global prosperity has expanded, the number of low-income candidates for MCC compacts has declined. Furthermore, the relative paucity of well-governed low-income countries has created strains on the Board's funding decisions. Over half the global population living in extreme poverty reside in lower-middle-income countries, so limiting compact funding to those countries might have constrained MCC's capacity to target the extreme poor while also forgoing promising national government conduits to target those populations.[56]

[53] U.S. Government Accountability Office, *Memo to Congress: Millennium Challenge Corporation—Availability of Appropriations for Compacts*, B-327672, September 20, 2016, https://www.gao.gov/assets/680/679868.pdf. Importantly, this opinion found that these countries were eligible for funding from any fiscal year, not just the fiscal year in which eligibility was granted. Prior to this GAO finding, appropriations for FY2010 (P.L. 111-117) allowed those transitioning countries already selected in FY2009 to maintain their candidacy for eligibility and, if reselected, draw on the same source of funds as when they were first selected.

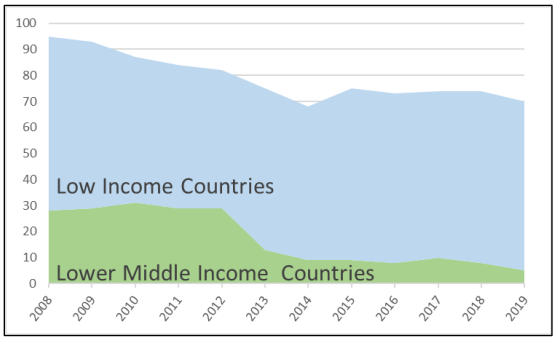
[54] This made permanent a provision that had been in annual MCC appropriations since FY2016.

[55] Note that the IDA eligibility figure differs from the standard World Bank classification of low-income countries.

[56] World Bank, *Poverty and Shared Prosperity 2018: Piecing Together the Poverty Puzzle* (Washington, DC: World Bank), p. 29, https://openknowledge.worldbank.org/bitstream/handle/10986/30418/9781464813306.pdf.

These changes have significantly expanded the low-income pool, but they do not apply to the upper-middle-income threshold (**Figure 8**). While the GAO opinion allows a selected country to remain eligible throughout compact development even after shifting to upper-middle-income status, the legislative changes discussed above only affect the barrier between low- and lower-middle-income status.[57] Mongolia and Tunisia, each of which has shifted between low income and upper middle income in recent years, remained eligible only on the basis of the GAO opinion.[58] This fixed income ceiling on MCC candidacy may not strongly correlate to where poverty is. For instance, Mongolia's income ballooned in the early 2010s in part due to booming prices for the country's large deposits of coal, copper, and oil, which tend to have limited impact upon livelihoods of the extremely poor.[59] In years when a country passes across this income line, then, it may lose candidacy without a significant reduction in poverty, though it may conversely have a greater resource base with which to combat that poverty. In practice, though, such fluctuations often reflect changes to a country's wealth on paper with little impact on country resources available to fight poverty in practice.

Figure 8. Candidate Countries by MCC Income Status



Source: MCC Candidate Country Reports.

Notes: For FY2019, 65 countries were classified lower income, and 5 were lower middle income.

Some recommend that MCC remove or redefine this income exclusion.[60] Some suggest focusing on median household income instead of GNI per capita, since MCC's existing measurement, being an average, would not take account of the skew resulting from income inequality. On the other hand, the World Bank has historically used GNI per capita as the single measure of prosperity available for almost every country in the world. When establishment of MCC was debated in 2003, some in Congress reasoned that using the same metric as the World Bank would facilitate greater coordination of assistance with other donors. Many in the development community also expressed support for a metric that could not be politicized, and this metric was seen as a convenient, accessible measure that fit that objective at the time.

Compact Evaluation

MCC places considerable weight on demonstrating measurable results, a process that requires rigorous planning from the outset of the compact life cycle. Congress may scrutinize MCC results

[57] This has in the past reduced the low-income candidate country pool below 75 countries. In FY2016, for instance, Mongolia and Iraq each leapfrogged from low-income to upper-income status, removing them from the candidacy pool altogether. Because the low-income pool was the 75 poorest countries three years prior, but two of those countries had graduated from MCC candidacy, only 73 countries remained, of which 8 were legally restricted from funding altogether.

[58] More precisely, since the decision was made prior to the GAO opinion, MCC did not consider Mongolia a candidate for FY2016, but stated that it would still continuing work on a compact. The GAO opinion, issued after the FY2016 selection cycle, would seem to allow compact development even in the absence of candidacy for the FY2016 cycle.

[59] See CRS In Focus IF10926, *Mongolia*, by Thomas Lum and Ben Dolven, for further information on the Mongolian economy and U.S. relations.

[60] Sarah Rose, "When Rules Are Wrong: Time to Rethink How MCC Identifies Partner Countries," Center for Global Development, August 29, 2016.

reporting to ensure it aligns with the principles of the Foreign Aid Transparency and Accountability Act, passed in 2016 (P.L. 114-191). Appropriators may also evaluate MCC's impact compared to other U.S. foreign assistance entities when determining funding levels. A holistic understanding of the impact of MCC programming is critical in making such determinations.

MCC results measurement occurs in each of the three compact stages. MCC predicts an economic rate of return during compact development. During implementation, it collects data to establish and then monitor data against baselines. During project closure, it supports independent evaluations of achievements and releases findings to the public.

MCC considers itself a leader in results measurement. MCC reports that more than 80% of its completed projects will have a closeout ERR.[61] Other federal agencies do not implement return on investment calculations at such scale. MCC's 2016 NEXT Strategy emphasizes the need for MCC to continue refining its performance monitoring approach. This includes enhancing its data-gathering efforts, sharing its approach with other agencies, and continuing to pursue new methods for capturing project impact.[62] Collecting reliable data and attributing impact of project interventions has long been a challenging and contentious issue among donors, and MCC's experience may be instructive to Congress as it seeks to ensure accurate calculations of program impact across the U.S. foreign assistance portfolio.

MCC Monitoring and Evaluation: Key Terms

MCC monitors compact results and evaluates compact performance through three key categories of indicators: outputs, outcomes, and impacts.[63]

Output indicators are the most elementary indicators, tracking the most immediate work accomplished through a project: road mileage built, power lines laid, farmers trained, schools refurbished, and so on. MCC tracks these throughout program implementation and reports quarterly on progress made in achieving performance indicators.[64] In Burkina Faso, for instance, MCC's BRIGHT projects built 132 schools in as many target communities. These output indicators may signify how much work has been accomplished but indicate little on their own about the effectiveness of dollars spent. While MCC may track outputs to exhibit the volume of its work, MCC does not measure project success by such outputs.

Outcome indicators are the observed near-term results of project activities. Outcome indicators are the direct effects of project activities upon beneficiaries. Burkina Faso's 132 new schools, for example, were found to increase student enrollment in target communities by about 20%.[65]

Impact indicators are the long-term consequences of the project for project beneficiaries. For example, a postcompact evaluation determined that BRIGHT's impact on primary school completion rates 10 years after project launch was an increase of 13.5% among females and 8.8% among males. The projects also modestly reduced child labor over the same period.

Net benefit of the project is the economic benefit of project activities over a 20-year time horizon, minus the total money yielded if MCC invested the project funding at 10% annual returns over 10 years. BRIGHT was relatively expensive—the evaluation found that MCC would have generated $40,000 to $160,000 more economic benefit through investment than through the BRIGHT projects.

[61] CRS calculations, weighted by disbursed funds and omitting cancelled or terminated projects, from Sandra Ospina and Marissa Block, *2016 Report on Closeout ERRs*, MCC, June 2017, p. 3, https://www.mcc.gov/resources/doc-pdf/report-2016-report-closeout-errs.

[62] MCC, *NEXT: A Strategy for MCC's Future*, February 2016, p. 37, https://www.mcc.gov/resources/pub-pdf/next.

[63] Burkina Faso content is derived from Mikal Davis, Nick Ingwersen, and Harounan Kazianga, et al., *Ten-Year Impacts of Burkina Faso's BRIGHT Program*, Mathematica Policy Research, Washington, DC, August 29, 2016, pp. xiii-xxii.

[64] The Table of Key Performance Indicators can be found on each country compact's webpage.

[65] MCC Public Board Meeting, June 11, 2009. Mathematica Policy Research, Inc., *Impact Evaluation of Burkina Faso's BRIGHT Program*, March 2009.

Impact Measurement

Many of the challenges of measuring impact have been clear since MCC's first impact evaluations were published in October 2012. Examining farmer training projects in five compact countries, the evaluations found that while they could confirm increases in *farm* income, they could not allocate benefits for *household* incomes, due to reallocation of income sources or the difficulty of measuring household incomes. Similarly, while a 2013 assessment of a road construction compact in Georgia found increased industrial investment in nearby communities, no impact was found upon household incomes, possibly due to the short timeframe for change measurement (data were in some cases collected less than a year after road completion).[66] A 2012 GAO report questioned the quality of work on the Georgia compact,[67] and a separate report the same year questioned the data used to estimate beneficiary numbers on transportation projects. GAO cited inconsistent methodology across the projects, failure to update numbers based on new data, and errors in formulas.[68] MCC has stated these early experiences have helped it improve program design and impact measurement practices.[69]

MCC continues to refine its impact measurement practices, but MCC's implementing environment may inherently limit its impact measurement abilities. Given that a key MCC objective is to build countries' capacity to manage government responsibilities, some shortcomings in statistical collection could be irreducible. MCC has worked to standardize its practices, such as its new Star report, a unified document that describes the entire compact life cycle, from selection to final evaluation.[70]

ERR Forecasting

MCC consistently calculates economic rates of return where feasible, but its projections have historically been higher than outcomes.[71] MCC today consistently exceeds its 10% minimum for ERRs on average, but characteristics of past criticism remain. Three-quarters of compact ERRs decline from entry into force to compact closure, with a third falling below MCC's 10% threshold for investment.[72] This may suggest that overly optimistic ERR projections are a systemic challenge, not an occasional misstep. However, while data suggest that more recent compacts typically continue to fall below the original ERR projection, few projects fall below MCC's threshold for investment, particularly among currently ongoing compacts.[73]

---

[66] NORC at the University of Chicago, *Final Report, Samtskhe-Javakheti Roads Activity Impact Evaluation*, January 15, 2013, pp. 38, 41.

[67] GAO, *Millennium Challenge Corporation: Georgia and Benin Transportation Infrastructure Projects Varied in Quality and May Not Be Sustainable*, 12-630, June 2012.

[68] GAO, *Millennium Challenge Corporation: Results of Transportation Infrastructure Projects in Seven Countries*, 12-631, September 2012.

[69] See MCC, *Lessons from MCC's Investments in Roads*, November 2017, for a discussion of what MCC is learning from its evaluations and how it is using those lessons.

[70] The first Star Report was released in May 2019 for the Cabo Verde II Compact: https://www.mcc.gov/resources/doc/star-report-cabo-verde-ii.

[71] Government Accountability Office, *Millennium Challenge Corporation: Vanuatu Compact Overstates Projected Program Impact*, July 2007, GAO-07-909.

[72] Sandra Ospina and Marissa Block, *2016 Report on Closeout ERRs*, MCC, June 2017, p. 2, https://www.mcc.gov/resources/doc-pdf/report-2016-report-closeout-errs.

[73] https://www.mcc.gov/resources/doc/report-2016-report-closeout-errs, Figure 3.

Indirect Impacts

MCC occasionally accepts compact proposals with ERRs below investment threshold, though rarely. ERRs assess only the direct benefits of a compact to a defined set of beneficiaries. They do not account for the economy-wide benefits identified in the constraints analyses, which are broader in focus. MCC may determine that those indirect benefits are sufficient to justify the project despite thin margins with direct project beneficiaries, a determination Congress may wish to reevaluate. Such benefits may include the following:

- **Indirect and Economy-wide Impacts:** Some have expressed concern that MCC's focus on income generation may miss indirect benefits that may be more difficult to quantify.[74] For example, a program that enhances educational outcomes may deliver unimpressive income returns for direct beneficiaries (see text box). However, the better-educated populace that such a program produces may attract private investors' interest in a developing country broadly. Moreover, MCC projects are designed to resolve economy-wide binding constraints to growth identified through a growth diagnostic. A household-level tabulation of economic benefit may not capture the economy-wide change a compact is meant to induce.
- **Conditions precedent and institutional reforms:** Conditions precedent are the actions a partner country must complete before a compact can enter into force, often including policy reforms. MCC's growth diagnostics methodology focuses especially on such policy and institutional reforms, meaning that while compact activities may be dominated by infrastructure, the corollary reforms a compact requires may be equally or more consequential. GAO reports from the early 2010s reflect concern over sometimes ineffective enforcement of conditions precedent. For example, while MCC included a condition precedent for the Georgian government to maintain funding for road maintenance in its roads compact, GAO found that the government did not seem able to maintain the road.[75] The NEXT Strategy emphasizes MCC's intent to expand the systemic impact of partner government reforms, including on sustainability and corruption.[76] The Liberia compact illustrates a new model, potentially addressing past concerns: MCC under that compact will provide matching funds to establish a Road Fund Administration to ensure long-term upkeep of the national road system, ensuring country buy-in through the compact.
- **Capacity Building:** Similarly, MCC's "country ownership" model may create significant economic returns despite no measurable direct impact upon beneficiaries. Some countries, Cabo Verde and Honduras among them, have reportedly adopted the MCC procurement methodology for general use. Honduras has made its local MCA compact implementing institution permanent (as INVEST-Honduras) and made it responsible for managing infrastructure,

[74] MCC, *Economic Advisory Council Meeting Minutes*, April 2019, p. 5, https://www.mcc.gov/resources/doc-pdf/report-april-2019-economic-advisory-council-meeting-minutes.

[75] GAO, *Millennium Challenge Corporation: Georgia and Benin Transportation Infrastructure Projects Varied in Quality and May Not be Sustainable*, 12-630, June 2012, p. 33 and p. 47. Sustainability concerns have also been raised in 2012 MCC Office of the Inspector General reports regarding a fruit tree productivity project in Morocco and a Senegalese road project. See Office of the Inspector General, USAID, *Management Challenges Identified by the Inspector General, November 26, 2013*, in MCC, *Agency Financial Report, FY2013*.

[76] MCC, *NEXT: A Strategy for MCC's Future*, February 2016, p. 32, https://www.mcc.gov/resources/pub-pdf/next.

rural development, and food security donor funds.[77] Under an implementation principle similar to USAID's "country-led development," the Millennium Challenge Accounts, which are in-country entities rather than U.S. entities implementing overseas, may serve a capacity-building function and as embedded advocates for transparent procurement within compact country governments.

- **The "MCC Effect":** Former MCC CEO John Danilovich suggested that MCC has spurred some developing countries to improve their scorecard performance as a signal of their effective governance—a phenomenon he called the "MCC effect." Niger, for example, passed the Natural Resources Protection indicator in FY2013 as a consequence of establishing a large new protected area. H.Res. 294 and S.Res. 103, each passed in 2007, noted MCC's role encouraging Lesotho to adopt legislation improving the rights of married women. These results are reported only anecdotally, but if documented and measured appropriately, they might prove to be of significant development value.

Ensuring Sustainability

A key component of long-term impact is ensuring the sustainability of project benefits, particularly for MCC's many infrastructure investments that may crumble without regular maintenance. Congress may take interest in such sustainability considerations in evaluating whether MCC programs' focus on infrastructure reflects long-term development value. The USAID Office of Inspector General (OIG) has repeatedly pointed to sustainability concerns as among the top MCC management challenges in its annual letter to the agency.[78] In FY2017, for instance, OIG argued that training for water user associations under the Moldova compact was inadequate and untimely to support use of compact-funded irrigation systems. MCC responded that such allegations were based on dated fieldwork and highlighted sustainability training, postcompact technical support, and a commitment of $8 million by the government of Moldova to continue operation of the local compact implementing agency for an additional two years.[79] However, MCC's closeout ERR estimates a negative return, of -5.5%, on the Moldova compact investment, suggesting that sustainability is a key factor.[80]

Corruption

MCC's consideration of corruption in compact eligibility decisions and ongoing oversight has been a congressional priority, with bipartisan calls for MCC to find better data on governance and other measures of corruption.[81] Since compact countries spend most MCC dollars themselves, MCC takes several steps to safeguard the proper use of U.S. funds. Congress continually assesses whether such steps are adequate to safeguard taxpayer investments, and MCC works with Congress to refine its practices and minimize corrupt use of MCC funds.

---

[77] Sarah Rose, *Efficiency and Effectiveness: The Legacy of MCC's Investment in Honduras*, Center for Global Development (www.cgdev.org), February 5, 2018.

[78] The USAID Inspector General also takes responsibility for overseeing MCC. See Office of Inspector General, USAID, *Top Management Challenges, Fiscal Year 2018*, pp. 13-14.

[79] Office of Inspector General, USAID, *Top Management Challenges FY2017*, pp. 18-20; *MCC Management's Response to the Inspector General*, November 14, 2016, in MCC, Agency Financial Report FY2016, pp. 77-84.

[80] https://www.mcc.gov/where-we-work/program/moldova-compact.

[81] The report, *Progress Made to Strengthen the Application of the Control of Corruption Indicator*, was submitted in April 2016. Committee on Appropriations, House of Representatives, H.Rept. 115-253, p. 58.

First, MCC's corruption indicator "hard hurdle" adds confidence that partner countries perform better than the median on corruption measures. The MCC Board also looks beyond the scorecard for data about corruption prevalence. MCC has in past years admonished several countries previously granted eligibility, including Benin, Sierra Leone, Kosovo, and Tanzania, for poor performance on the corruption indicator. Most recently, MCC in FY2017 allowed Mongolia to remain eligible but required that it improve its score before a compact would be approved. Mongolia passed the indicator in FY2018.

During implementation, MCC requires all compacts to adopt World Bank procedures for procurement, such as bid confidentiality and cost reasonableness evaluations, and MCC reviews each decision made by a procurement entity. MCC also issues funds directly to contractors rather than through the government implementing entity to further reduce the risk of unscrupulous financial management. MCC argues that these strict operational procedures, coupled with tight oversight by MCC staff, builds recipient governments' capacity to reduce the risk of corruption in government.[82]

Economic Growth and Poverty Reduction

MCC's founding mission is to reduce poverty through economic growth, so the connection between growth and poverty reduction is key to its model. Other development organizations, notably including the World Bank, have refocused away from country-wide economic growth toward parallel goals of reducing poverty and growing incomes. As other donors have shifted their approach to poverty reduction, Congress may evaluate recent MCC analyses of the issue to determine whether such adjustments are justified for MCC as well. A 2014 MCC internal study determined that its central focus on economic expansion was an effective approach for achieving poverty reduction. The proportion of incomes generated by any economic expansion tended to be weighted toward the bottom two income quintiles—a feature especially true among MCC's selected countries.[83] Congress may nevertheless wish to assess whether targeting of economic growth sufficiently targets poverty, particularly in countries affected by high inequality.

The MCC Economic Advisory Council focused on this issue in its June 2019 meeting. Some members suggested that MCC's growth diagnostics methodology may focus unduly on economy-wide growth, and MCC may consider revising its techniques to encompass poverty reduction directly. Members noted the geographic nature of poverty, suggesting that MCC look at the regions most affected by poverty in determining project target areas. The Council also noted that income inequality may impact the relationship between economic growth and poverty reduction. Several suggested that MCC revise its institutional mandate to only focus on income generation among the poor, rather than economy-wide growth.[84]

[82] Nevertheless, corrupt and fraudulent practices may emerge in compact implementation. In its FY2018 annual management challenges letter to MCC (October 16, 2017), the USAID OIG pointed to the case of a product substitution and false billing scheme conducted by the supervisory engineering firm hired to oversee a $19.3 million construction project in Morocco. MCC, *Agency Financial Report, FY2017*, p. 75.

[83] Sandra Ospina, *Background Paper On Inclusive Growth Concepts in the Context of the Millennium Challenge Corporation*, Millennium Challenge Corporation, Washington, DC, April 2014, pp. 5-6, https://www.mcc.gov/content/uploads/2017/05/Background-Paper-Inclusive-Growth.pdf.

[84] MCC, *Economic Advisory Council Meeting Minutes*, April 2019, pp. 2-5, https://www.mcc.gov/resources/doc-pdf/report-april-2019-economic-advisory-council-meeting-minutes.

Outlook

With a new CEO in place and a number of legislative changes to the Millennium Challenge Act recently enacted, Congress may continue to monitor MCC's progress implementing its internal reforms. Recent changes in the development landscape may warrant further consideration of the MCC model, including how the agency interacts with the emerging IDFC, a restructured USAID, and a World Bank with new leadership. As the consensus about best practices for development programming continue to evolve, and the geography of poverty likewise shifts, Congress may progressively seek to reorient MCC's mandate and implementation approach to maximize U.S. development impact.

Appendix A. Past and Active MCC Compacts at a Glance

Country	Compact Signed	Compact Size (millions)	Entry Into Force	Compact Completion	Compact Focus
Armenia	Mar. 27, 2006	$236	Sept. 29, 2006	Sept. 2011	Agriculture/irrigation Rural roads
Benin I	Feb. 22, 2006	$307	Oct. 6, 2006	Oct. 2011	Land and property Financial services Judicial improvement Port rehab
Benin II	Sept. 9, 2015	$375	June 22, 2017	—	Electric power
Burkina Faso	July 14, 2008	$481	July 31, 2009	July 2014	Rural land governance Agriculture Roads Education
Cabo Verde I	July 4, 2005	$110	Oct. 17, 2005	Oct. 2010	Agriculture Transport/roads Private sector
Cabo Verde II	Feb. 10, 2012	$66.2	Nov. 30, 2012	Nov. 2017	Water and sanitation Land management
Côte d'Ivoire	Nov. 7, 2017	$524.7	—	—	Education/Transport
El Salvador I	Nov. 29, 2006	$461	Sept. 20, 2007	Sept. 2012	Education Transport/roads Small business/farm development
El Salvador II	Sept. 30, 2014	$277	Sept. 9, 2015	—	Investment climate reform Education Logistical infrastructure: road and border crossing
Georgia I	Sept. 12, 2005	$295	Apr. 7, 2006	Apr. 2011	Infrastructure/gas Transport/roads Agriculture/business
Georgia II	July 26, 2013	$140	July 1, 2014	July 2014	Education: infrastructure and training Education: workforce development Education: sci and tech higher ed
Ghana	Aug. 1, 2006	$547	Feb. 16, 2007	Feb. 2012	Agriculture Transport Rural development
Ghana II	Aug. 5, 2014	$498	Sept. 6, 2016	—	Electric power

Country	Compact Signed	Compact Size (millions)	Entry Into Force	Compact Completion	Compact Focus
Honduras	June 13, 2005	$215	Sept. 29, 2005	Sept. 2010	Agriculture Transport/roads
Indonesia	Nov. 18, 2011	$600	Apr. 2, 2013	Apr. 2, 2018	Energy and resource management Health and nutrition Public procurement
Jordan	Oct. 25, 2010	$275.1	Dec. 13, 2011	Dec. 2016	Clean water and sanitation
Lesotho	July 23, 2007	$362.6	Sept. 17, 2008	Sept. 2013	Water sector Health sector Private sector
Liberia	Oct. 2, 2015	$257	Jan. 20, 2016	—	Power/Roads
Madagascar	Apr. 18, 2005	$110	July 27, 2005	terminated May 2009	Land titling/agriculture Financial sector
Malawi	Apr. 7, 2011	$350.7	Sept. 20, 2013	—	Electric power
Mali	Nov. 13, 2006	$460.8	Sept. 17, 2007	terminated Aug. 2012	Irrigation Transport/airport Industrial park
Moldova	Jan. 22, 2010	$262	Sept. 1, 2010	Sept. 2015	Agriculture Roads
Mongolia	Oct. 22, 2007	$285	Sept. 17, 2008	Sept. 2013	Transport/rail Property rights Vocational education Health
Mongolia II	July 27, 2018	$350	—	—	Water
Morocco	Aug. 31, 2007	$697.5	Sept. 15, 2008	Sept. 2013	Agriculture/fisheries Artisan crafts Financial serv/enterprise support
Morocco II	Nov. 30, 2015	$450	June 30, 2017	—	Job training/land productivity
Mozambique	July 13, 2007	$506.9	Sept. 22, 2008	Sept. 2013	Water and sanitation Transport Land tenure/agriculture
Namibia	July 28, 2008	$305	Sept. 16, 2009	Sept. 2014	Education Tourism Agriculture
Nepal	Sept. 14, 2017	$500	—	—	Electric power/transport
Nicaragua	July 14, 2005	$175	May 26, 2006	May 2011	Land titling/agriculture Transport roads
Niger	July 29, 2016	$437	Jan. 26, 2018	—	Irrigation Roads Agriculture

Country	Compact Signed	Compact Size (millions)	Entry Into Force	Compact Completion	Compact Focus
Philippines	Sept. 23, 2010	$434	May 25, 2011	May 2016	Revenue reform Community dev Road rehab
Senegal	Sept. 16, 2009	$540	Sept. 23, 2010	Sept. 2015	Roads Irrigation
Senegal II	Dec. 10, 2018	$550	—	—	Electric Power Government effectiveness
Tanzania	Feb. 17, 2008	$698	Sept. 15, 2008	Sept. 2013	Transport/roads, airport Energy Water
Vanuatu	March 2, 2006	$66	Apr. 28, 2006	Apr. 2011	Transport rehab Public works dept.
Zambia	May 10, 2012	$354.8	Nov. 15, 2013	—	Water supply and sanitation

Source: MCC.

Appendix B. Active Compact Descriptions

Descriptions and key developments in the 11 active Board-approved or signed compacts as of September 1, 2019, are provided below in alphabetical order. Not all have entered into force at this time. Compact funding totals include administrative and monitoring costs. These have been developed from compact descriptions on the applicable MCC country compact page.

Benin II

The $375 million compact is to focus entirely on electric power infrastructure and related policy reforms. Assistance is to go to the new regulatory authority ($41 million); to solar, thermal, and hydro generation facilities ($136 million); to distribution facilities ($110 million); and to off-grid access ($46 million). In addition, the government of Benin is contributing $28 million to the compact effort. *Entry into force: 6/22/2017.*

Côte d'Ivoire

The $525 million compact is expected to target constraints to growth in education and transport. A Skills for Employability and Productivity Project will seek to improve secondary education in two regions through school and teacher training facility construction and policy reform at the national level. It will also develop a new model of private-sector management of new technical and vocational education training. The Abidjan Transport Project will seek to improve mobility of goods and people by rehabilitating and maintaining four primary roads in the capital and improving infrastructure management skills and technical capacities for road planning and maintenance. *Entry into force: pending. Compact signed: 11/7/2017.*

El Salvador II

The $277 million second compact with El Salvador consists of three projects. One addresses constraints in the investment climate by developing an independent institution seeking regulatory improvement and will build the capacity of the government to partner with the private sector in public service delivery ($42.4 million). A second project is designed to focus on development of human capital, reforming education policy to increase school hours and strengthen the curriculum, and developing skills needed by the labor market ($100.7 million). The third project addresses infrastructure priorities related to commerce, including the expansion of an important roadway and border crossing improvements ($109.6 million). El Salvador will contribute $88 million to project implementation. *Entry into force: 9/9/2015.*

Ghana II

The $498 million compact is designed to address electric power problems through investments in power generation and distribution and reforms in power sector policy. Of the total, $190 million is conditional on the government making agreed-upon reforms. The introduction of private-sector participation is a significant requirement of the project. The Government of Ghana is expected to contribute at least 7.5% of total MCC funding toward compact implementation. *Entry into force: 9/6/2016.*

Liberia

The $257 million compact targets two constraints to economic growth—a lack of access to reliable and affordable electricity and inadequate road infrastructure. The energy project ($201.6

million) seeks to provide a new hydropower turbine to an existing facility, provide training to Liberia Electric Corporation employees, and help establish an independent regulator. The roads projects ($21.1 million) is intended to assist in the creation of five regional maintenance centers and a road fund administration to build sustainability and to provide technical assistance to build capacities in multiple aspects of road planning, maintenance, and policy development. *Entry into force: 1/20/2016.*

Mongolia II

This $350 million compact exclusively targets water supply challenges in the capital, Ulaanbaatar, with an additional investment commitment from the Government of Mongolia of up to $111.8 million. MCC analysis determined that the capital's demand could exceed supply as early as 2019, so MCC plans to target this constraint through investments in infrastructure alongside regulatory reforms. MCC anticipates an 80% increase in water supply due to project interventions. *Entry into force: pending. Compact signed: 7/27/2018.*

Morocco II

The $450 million second compact focuses on secondary education and workforce development and on land policy and implementation. The Education and Training for Employability project ($220 million) is intended to pilot a new model for educating a modern workforce in 90-100 secondary schools and support private-sector training centers for technical and vocational education. The Land Productivity project ($170.5 million) addresses industrial and rural land use issues and seeks to strengthen the enabling environment for investment. The Government of Morocco will contribute $67.5 million, 15% of the U.S. contribution, to compact implementation. *Entry into force: 6/30/2017.*

Nepal

The $500 million compact focuses on electric power and transport. An Electric Transmissions Project seeks to address the lack of adequate power by constructing 300 kilometers of high-voltage transmission lines and three substations. It also seeks to strengthen the Electricity Regulatory Commission and increase skills and capacity of power management and technical personnel. The Road Maintenance Project is designed to prevent further deterioration of roads and improve administration of road maintenance through technical assistance to the Department of Roads and attempting to increase government spending on road maintenance by matching spending annually for three years. *Entry into force: pending. Compact signed: 9/14/2017.*

Niger

The $437 million compact targets two economic constraints: the lack of water for productive uses and institutional and physical barriers to trade. An Irrigation and Market Access project ($254.6 million) is to focus on increasing agricultural productivity in two regions in the country. It seeks to rehabilitate and construct irrigation systems, establish a framework for land allocation, establish water user associations, build roads to improve market access, and promote policy reforms to facilitate these projects' success. A Climate-Resilient Communities project ($96.5 million) is intended to improve livestock value and sales through health and vaccination improvements and modernizing local market infrastructure, among other efforts. It is designed to also target agriculture through improved utilization of fertilizer and seeds, protection of watersheds from erosion, increased access to irrigation, and other activities. *Entry into force: 1/26/2018.*

Senegal II

MCC's $550 million compact with the Government of Senegal targets strengthening the power sector to meet growing demand. The compact is structured into three projects. One focuses on improving the transmission network in and around the capital of Dakar. A second is to expand electricity access in agricultural areas of the south and central regions, and a third addresses the overall governance of the sector. *Entry into force: pending. Compact signed: 12/10/2018.*

Sri Lanka

This $480 million compact consists of two projects. The first seeks to enhance the road and bus network in the Colombo metropolitan area and to reduce the cost of transport from the central region to the rest of the country. The second, focused on land reform, is to improve access to information on private land and underutilized state lands as a means of improving land market activity. *Compact signing pending approval of the compact agreement by the Government of Sri Lanka.*

Appendix C. Active Threshold Programs

Descriptions and key developments in the four active Board-approved or signed threshold programs undertaken by MCC as of September 1, 2019, are provided below in alphabetical order. Currently, three other countries—The Gambia, Ethiopia, and Solomon Islands—are eligible to develop threshold programs. Funding totals include administrative and monitoring costs. These have been developed from threshold program descriptions on the applicable MCC country pages.

Guatemala

The $28 million Guatemala threshold program, signed on April 8, 2015, has two elements. One $5.8 million effort seeks to increase government revenue by targeting corruption in tax and customs administration. A $19.7 million education project focuses on the quality of secondary education, addressing teacher skills and the effectiveness of technical and vocational education and training.

Kosovo

The $49 million Kosovo threshold program, signed on September 12, 2017, is designed to address two constraints to growth—an unreliable energy supply and weak rule of law. The energy project is designed to encourage use of nonelectric sources of heating and the development of finance mechanisms for independent power producers. The rule of law project seeks to make the judicial system more transparent. It also supports the innovative use of data to help civil society adopt a problem-solving role in partnership with government.

Sierra Leone

The $44.4 million Sierra Leone threshold program, signed on November 17, 2015, targets improved government delivery of water and electricity services, focusing on the Freetown area. The project is assisting the new independent Electricity and Water Regulatory Commission (EWRC) and is attempting to increase transparency and accountability in delivery of public services.

Togo

The $35 million Togo threshold program, approved by the MCC Board on April 3, 2018, is designed to focus on reform in information and communication technology (ICT) and land tenure. The ICT project is aimed at expanding public access to high-quality and affordable services by increasing competition, establishing independent regulation, and supporting a Universal Service Fund to help get internet and mobile services to remote parts of the country. The land project is planned to help formalize and legitimize land rights through implementation of a new Land Code and testing of methodologies at five sites for eventual rollout nationwide. In approving the program, the Board directed MCC to closely monitor citizen rights to freedom of expression and association in light of recent political unrest related to opposition to the president's possible bid for a third term in office and other matters.

Appendix D. MCC Performance Indicators FY2019

Ruling Justly	Investing in People	Economic Freedom
Control of Corruption Source: World Bank/Brookings World Governance Indicators (WGI)	**Public Primary Education Expenditure as % of GDP** Sources: UNESCO and National governments	**Inflation** Source: IMF World Economic Outlook
Civil Liberties Source: Freedom House	**Girls' Primary Education Completion Rate (For Lower-Income Countries)** Source: UNESCO **or** **Girls' Secondary Education Enrollment Rate (For Lower-Middle-Income Countries)** Source: UNESCO	**Fiscal Policy** Source: IMF World Economic Outlook
Political Rights Source: Freedom House	**Public Health Expenditure as % of GDP** Source: World Health Organization (WHO)	**Trade Policy** Source: The Heritage Foundation
Freedom of Information Source: Freedom House/Centre for Law and Democracy	**Immunization Rates: DPT and Measles** Source: World Health Organization (WHO) and U.N. Children's Fund (UNICEF)	**Regulatory Quality** Source: World Bank/Brookings WGI
Government Effectiveness Source: World Bank/Brookings WGI	**Child Health** Sources: Columbia Center for Int'l Earth Science Info Network (CIESIN) and Yale Center for Env. Law and Policy (YCLEP)	**Business Start-Up: Days and Cost of Starting a Business** Source: International Finance Corporation
Rule of Law Source: World Bank/Brookings WGI	**Natural Resource Protection** Sources: Columbia Center for Int'l Earth Science Info Network (CIESIN) and Yale Center for Env. Law and Policy (YCLEP)	**Land Rights and Access** Source: Int'l Fund for Agricultural Development (IFAD) and Int'l Finance Corporation
		Access to Credit Source: International Finance Corporation
		Gender in the Economy Source: World Bank

Source: MCC, *Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2019*, available at https://www.mcc.gov/resources/doc/report-selection-criteria-methodology-fy18.

Author Information

Nick M. Brown
Analyst in Foreign Assistance and Foreign Policy

Acknowledgments

An earlier version of this report was written by Curt Tarnoff, Specialist in Foreign Policy, who retired from CRS in April 2018. The author thanks Curt for his invaluable contributions to this product.

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.