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Summary

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.

Established in 2004, the MCC differs in several respects from past and current U.S. aid practices

- the competitive process that rewards countries for past actions measured by objective performance indicators;
- its mandate to seek poverty reduction through economic growth, not encumbered with multiple sector objectives;
- the requirement to solicit program proposals developed solely 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;
- the expectation that compact projects will have measurable impact; and
- an emphasis on public transparency in every aspect of agency operations.

On February 12, 2018, the Trump Administration issued its FY2019 budget request, including $800 million for the MCC, a cut of $105 million (-11.6%) from FY2018-enacted levels.

On March 23, 2018, the Consolidated Appropriations, 2018 (P.L. 115-141) was signed into law, providing $905 million for the MCC, the same level as in FY2017.

Congress authorized the MCC in P.L. 108-199 (January 23, 2004). Since that time, the MCC has signed 33 grant agreements, known as compacts, with 29 countries, including with Madagascar (calendar year 2005), Honduras (2005), Cape Verde (2005), Nicaragua (2005), Georgia (2005), Benin (2006), Vanuatu (2006), Armenia (2006), Ghana (2006), Mali (2006), El Salvador (2006), Mozambique (2007), Lesotho (2007), Morocco (2007), Mongolia (2007), Tanzania (2008), Burkina Faso (2008), Namibia (2008), Senegal (2009), Moldova (2010), Philippines (2010), Jordan (2010), Malawi (2011), Indonesia (2011), Cape Verde II (2012), Zambia (2012), Georgia II (2013), El Salvador II (2014), Ghana II (2014), Benin II (2015), Liberia (2015), Morocco II (2015), Niger (2016), Cote D'Ivoire (2017), and Nepal (2017).

MCC issues include the level of funding to support MCC programs, the results of MCC compacts, sustainability, and corruption concerns.

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Most Recent Developments

On April 9, 2018, the Senate approved H.R. 3445, the African Growth and Opportunity Act and Millennium Challenge Act Modernization Act, which authorizes the MCC to conduct regional compacts. The legislation was approved by the House on January 17, 2018.

On April 3, 2018, the MCC Board approved a $35 million threshold program for Togo that will focus on reform in information and communication technology and land tenure. In approving the program, the Board directed the 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.

On March 23, 2018, the Consolidated Appropriations Act, 2018 (P.L. 115-141), was signed into law, providing $905 million for the MCC, the same level as in FY2017.

On February 12, 2018, the Trump Administration issued its FY2019 budget request, including $800 million for the MCC, a cut of $105 million (-11.6%) from FY2017-enacted levels.

On December 19, 2017, the MCC Board selected Timor-Leste to develop a compact and The Gambia for a threshold program. It also reselected Burkina Faso, Lesotho, Mongolia, Senegal, Sri Lanka, and Tunisia to continue developing their compacts.

Introduction

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

- a competitive selection process that rewards countries for their commitment to free market economic and democratic policies as measured by objective performance indicators;
- the pledge to segregate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent;
- a mandate to seek poverty reduction through economic growth, not encumbered with multiple sector objectives or congressional directives;
- the requirement to solicit program proposals developed solely 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;
- the expectation that compact projects will have measurable impact; and
- an emphasis on public transparency in every aspect of agency operations.

The original proposal, made by President George W. Bush in a speech on March 14, 2002, also differed from previous aid efforts in the size of its commitment to reach an annual level of $5 billion within a few years, an aim never even approximately met.

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 the MCC as an independent government entity separate from the Departments of State and the Treasury and from the U.S. Agency for International Development (USAID).[2] The MCC headquarters staff level is currently about 286, with a total of 26 additional U.S. direct hire employees in compact countries.[3] The agency is headed by a Chief Executive Officer (CEO), a post currently awaiting a Trump Administration nomination. A Board of Directors oversees the MCC and makes the country selections. It is chaired by the Secretary of State and composed of the Secretary of the Treasury, the USAID Administrator, the U.S. Trade Representative, the Corporation's CEO, and four individuals from the private sector appointed by the President drawn from lists submitted by congressional leaders.[4]

Since its inception, Congress has closely followed MCC implementation. The 115th Congress may consider MCC funding, a possible reauthorization, and operational issues.

MCC Country Selection Process

One of the distinctive features of the 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.

Country selection moves chronologically through a number of steps: candidate countries are identified, eligibility criteria are formulated and applied, compact and threshold program-eligible countries are selected. Elements in this process are discussed below.

Identification of Candidate Countries for Funding Purposes

The pool of possible candidate countries is limited by the authorizing statute to those falling under the threshold for the World Bank's classification for upper-middle income countries.[5] For

[1] When first proposed and in its early years, the initiative was known as the Millennium Challenge Account. Today, both the program and the funding account in the foreign operations budget are more commonly known by the name of the managing entity, the 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 debated issues during early congressional deliberations. The 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.

[3] MCC, *Agency Financial Report, Fiscal Year 2017*, p. 10.

[4] Under the authorization legislation, one nomination each is made by the House and Senate majority and minority leaders. Currently, there is one serving private sector Board member—Mike Johanns, the former Senator from Nebraska, serving his first term. There are three vacancies for which two nominations were made on April 14, 2018 — for a second term for Susan M. McCue, President of Message Global, and a first term for Alexander Crenshaw, a former congressman from Florida. First terms run three years and second terms run two years.

[5] The MCC draws on World Bank income data published in the July preceding the MCC's August report identifying candidates for the following fiscal year. There is a lag in data collection: the July 2017 World Bank report, for example, provides 2016 data that are used in the FY2018 MCC candidacy and compact-eligibility process.

FY2017, this limit is a Gross National Income (GNI) per capita of $3,955. As a result, the pool of possible candidates is 83 countries for FY2018.[6]

Apart from the necessity to be under the income ceiling to be broadly considered for candidacy, income level status—in particular, the division of candidate countries between lower income and lower-middle income—is important in both the financing and competitive selection processes and, since FY2012, has been treated differently in each case. See "Weighing Country Performance" below for competitive performance selection discussion.

For funding purposes, a country's income level is important because, under the MCC legislative authority, no more than 25% of compact assistance in a fiscal year is available for lower-middle-income country compacts, severely limiting the possibility that such countries can be funded and therefore discouraging the MCC Board from selecting them.

The high annual volatility of a country's income level data—resulting in shifting from one income level to another—has also added some uncertainty.[7] Countries moving from one income level to another had no predictable path to compact eligibility. Both the Philippines (FY2009) and Indonesia (FY2009) were first selected when they were low-income countries; a year later they transitioned to lower-middle income and were subject to the lower-middle-income funding cap. This abrupt shift was viewed by the MCC as extremely disruptive to a smoothly functioning compact development process. A further concern is the diminishing pool of well-governed candidates eligible for the larger amount of lower-income funding as more countries have been transitioning into the lower-middle level.

To address this recurring issue of income category change, appropriators, beginning with the FY2012 State, Foreign Operations appropriations legislation, and, most recently, Division J of the Consolidated Appropriations Act, 2017 (P.L. 115-131), extended by the Continuing Appropriations FY2018 (P.L. 115-56) to December 8, 2017, adopted language that, for purposes of funding eligibility, redefines the category of low-income countries from the previous definition of those with Gross National Income (GNI) per capita below the World Bank's International Development Association (IDA) eligibility ceiling of $1,905 (in FY2018) to one that encompasses the bottom 75 countries in the low- and lower-middle-income level rankings.[8] The remaining countries below the World Bank's cut-off ceiling for lower-middle-income countries

[6] The practice has been that a shift to upper-income status excludes a country from consideration for new programs, unless the MCC Board had selected that country as compact eligible in a previous year (when the country qualified as lower-middle income or below) and is able to fund the program using that previous year's funds. Countries such as Namibia in FY2008, Jordan in FY2012, and Georgia in FY2017 that changed to upper-middle-income status while their compacts were ongoing are unaffected by this rule, because they were selected and signed compacts prior to their change in status. However, Mongolia, selected for second compact development in FY2015, moved to upper-middle-income status in FY2016, prior to signing of its second compact. While the MCC Board considered it eligible, Congress, in the FY2016 State, Foreign Operations appropriations (Division K of P.L. 114-113), asked the Government Accountability Office (GAO) to provide its assessment of this practice. In a September 20, 2016, opinion, the GAO concluded that a country's income status at the beginning of the selection process determines the availability of MCC appropriations for that country's compact. In other words, not only would Mongolia as an upper-middle-income country still be eligible for a compact because it was selected when it was lower-middle income, but funding for that compact could be derived from any fiscal year. It should be noted that Mongolia, in FY2017, fell back into the lower-middle-income status and now would be eligible for MCC support in any case.

[7] An example of the limitations of determining eligibility based on variable factors like income level is the Philippines. The Philippines was selected for compact eligibility as a low-income country in FY2008 (and signed a compact based on that status in 2010), moved from low-income to the lower-middle-income level in FY2010, then returned to low-income status in FY2011, and again to lower-middle-income status in FY2012, where it has remained since.

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

($3,955 GNI per capita in FY2017) are defined as lower-middle in MCC terms. Applied in FY2018, 74 countries are considered for MCC funding purposes as low income and 9 countries are considered lower-middle income (versus 52 and 31, respectively, under the old definition).[9]

Seeking to further ensure stability and predictability for candidate countries that might be transitioning in and out of different income levels, the FY2017 appropriations language requires that countries that move from low income to lower-middle income or vice versa be treated as though they are in their former classification for that fiscal year and two succeeding years.[10] MCC believes this legislation provides for a graduated transition for countries rather than the abrupt change in status that characterized the previous process.

In addition to the income ceiling, under the MCC authorization, countries may be candidates only if they are not statutorily prohibited from receiving U.S. economic assistance. For FY2018, eight countries are excluded for this reason. Many had been barred in prior years as well.[11]

In August 2017, the MCC transmitted to Congress its annual notification of candidate countries for FY2018.[12] For funding purposes, the revised version listed 66 low-income countries (from the original pool of 74, after excluding prohibited countries) and 9 lower-middle-income countries.

Identification of Countries for Compact Selection Purposes

With regard to the selection process that determines compact eligibility, it is MCC practice that low-income countries "compete" with other low-income countries and lower-middle-income countries with other lower-middle-income countries. The original income level definitions in the MCC authorization still apply, not those introduced in FY2012 for funding purposes.[13] The eight countries excluded from candidacy due to legislative prohibitions on assistance are included in the pool of competing countries strictly for comparative performance purposes. In the FY2018 selection process, there are 46 low-income candidate countries, (excluding the 6 low-income aid-prohibited countries) competing with each other, and 29 lower-middle-income countries (excluding 2 aid-prohibited countries) competing with each other, a total of 75 candidate countries from which compact-eligible countries may be chosen.

[9] 74 in FY2018, instead of 75, because Georgia leapt from low income to upper-middle income in recent years, and application of the legislative provision that holds countries at their income status for three years leaves a gap. Georgia's return this year as a lower-middle-income country does not affect this rule.

[10] In an early version of this provision, the FY2010 Consolidated Appropriations Act (P.L. 111-117, H.R. 3288, Division F) 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. The compact for Indonesia, transitioning to lower-middle in FY2010 when it was reselected, was therefore funded as though in the low-income group.

[11] Various types of aid restrictions apply to these countries for FY2018. For Zimbabwe, legislation bans assistance to the central government until the rule of law has been restored. For Burma, assistance is prohibited until measurable progress is made in human rights and democratic governance. Legislation specifically prohibits aid to the governments of Sudan, Syria, and North Korea. Notwithstanding these and other restrictions, each country remains eligible for humanitarian assistance from the United States.

[12] MCC, *Report on Countries that are Candidates for Millennium Challenge Account Eligibility for Fiscal Year 2018 and Countries that would be Candidates but for Legal Prohibitions*, August 16, 2017.

[13] For scorecard performance assessments, low income is defined as below the World Bank's IDA eligibility ceiling and lower-middle income is defined as between the IDA ceiling and below the Bank threshold for upper-middle-income countries. The MCC's 75 country low-income definition is for funding availability purposes only.

Determining Selection Criteria and Methodology

The MCC provides assistance to developing nations through a competitive selection process, judged by country performance in three areas

- Ruling justly—promoting good governance, fighting corruption, respecting human rights, and adhering to the rule of law.
- Investing in people—providing adequate health care, education, and other opportunities promoting an educated and healthy population.
- Economic freedom—fostering enterprise and entrepreneurship and promoting open markets and sustainable budgets.

Country selection is based largely, *but not exclusively*, on a nation's record, measured by performance indicators related to these three categories, or "baskets" (see **Appendix D**). Indicators may be a straightforward single measure of a country's rate of inflation—one reflection of good economic policies—or may be a combination of data points forming an index of surveys and expert opinions on the quality of public service, civil servant competency, a government's ability to plan and implement sound policies, which together "measure" government effectiveness. MCC is constrained somewhat in measuring performance by the public availability of appropriate, comparable, and consistent data on every country.

Pursuant to reporting requirements set in the MCC legislation, each year the Corporation sends to Congress an overview of the criteria and methodology that would be used to determine the eligibility of the candidate countries in that fiscal year.[14] The choice of criteria on which to base the eligibility of countries for MCC programs is one of the most important elements in MCC operations. They are a key statement of MCC development priorities, as they ultimately determine which countries will receive U.S. assistance. Perhaps of equal significance, raising indicator scores has become a prominent objective of some developing countries in what former CEO Danilovich called the "MCC effect."[15] Countries seeking eligibility are said to be moving on their own to enact reforms and take measures to improve performance scores that would enable them to meet MCC criteria. (See the "Compact Outcomes and Impact" section for further discussion of the MCC effect.)

Periodically, the MCC introduces new indicators and modifies or replaces old ones in an effort to improve their quality and identify indicators better reflecting congressional intent. Beginning with the FY2005 selection process, for example, the MCC lowered the inflation rate threshold from 20% to 15%, making it somewhat more difficult to pass this test (only 6 of the 63 candidate countries failed this test for FY2004). For FY2006, the MCC replaced a "country credit rating" with a new indicator on the "cost of starting a business" that it believed had a stronger correlation with economic growth and was a measurement that might encourage governments to take action in order to improve their scores. Since the initial use of the indicator "days to start a business," MCC candidate countries had introduced many business start-up reforms, the results of which were reflected in a lowered median for this category. MCC officials hoped that adding an indicator for the "cost of starting a business" would stimulate additional policy improvements. In FY2008, the MCC collapsed the "days to start a business" and "cost of starting a business" indicators into one "business start-up" indicator.

[14] Most recently, *Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2018*, September 27, 2017.

[15] MCC Public Outreach Meeting, February 15, 2007.

In addition to criteria originally proposed by the Bush Administration, lawmakers in the 2004 MCC authorizing legislation included four other matters on which to evaluate a country's performance. These relate to the degree to which a country recognizes the rights of people with disabilities; respects worker rights; supports a sustainable management of natural resources; and makes social investments, especially in women and girls. For each of these, the MCC sought to use supplemental data and qualitative information to inform its decisions on compact eligibility. The latter two factors led to the development of new indicators. In FY2005, an indicator measuring girls' primary education completion rates replaced a broader measure used in FY2004 that did not disaggregate primary education graduation by gender. In FY2008, two indicators assessing a country's commitment to policies that promote sustainable management of natural resources were adopted.

In September 2011, the MCC Board adopted for the FY2012 process perhaps the most significant changes to its selection methods since the agency was established. These continue to be applied in FY2018. The MCC modified or added new indicators under all three baskets. Under the Ruling Justly basket, a "freedom of information" indicator, including a measure of efforts to restrict internet content, replaced the "voice and accountability" indicator. Under Investing in People, a measure of "natural resource management" was split into two indicators, one focusing on "natural resource protection" that assesses whether countries are protecting up to 10% of their biomes, and the other on "child health," which captures the earlier indicator's data on access to improved water, sanitation, and child mortality. The indicator on girls' education was amended solely for lower-middle-income countries to weigh the number of female students enrolled in secondary school, rather than those completing primary school, which remains the indicator for low-income countries. Two new indicators were added to the Economic Freedom category of performance measures. An "access to credit" indicator reflects the importance of credit in stimulating private sector growth. A "gender in the economy" indicator measures a government's commitment to promote equal economic legal rights for both men and women.

Weighing Country Performance

Shortly after release of the performance criteria, the MCC publishes a scorecard of candidate country performance.[16] Sometime later, the MCC Board meets to select countries eligible to apply for compact assistance.

For most performance indicators, each country is judged against its peers in its income group, requiring a score just above the median to pass that indicator. For several of the indicators, there is an absolute threshold that must be met in order to pass that indicator. The absolute threshold indicators include an "inflation rate" under 15%, "political rights" requiring a score above 17, "civil liberties" requiring a score above 25, and, for lower-middle-income countries only, an "immunization coverage" of above 90%.

Countries are required to pass at least half of the total number of indicators—10 of the 20 indicators (see **Appendix D** for a complete list of the performance indicators). Of the 10, two "hard hurdles" must be passed to qualify: the "control of corruption" indicator and either one of two democratic rights indicators—the "civil liberties" indicator or the "political rights" indicator. Requiring passage of a democratic rights indicator may weed out countries that achieved eligibility only to have their compact programs suspended or terminated when their governments failed to meet governance performance standards, the most common cause of suspension or termination. Finally, to avoid concerns that a country could achieve compact eligibility with a

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

passing performance in only two of the three baskets, the MCC Board set the requirement that countries must pass at least one indicator in each basket.

The MCC Board is guided by, but not entirely bound to, the outcome of the performance indicator review process; Board members can apply discretion in their selection. Performance trends, missing or old data, and recent policy actions might come into play during selection deliberations. For countries being considered for second compacts, the history and success of implementation of the first compact is a significant factor.

Because it is MCC practice to judge the performance of countries within their income status cohort, countries that move from one year to the next from low-income to lower-middle-income status may be affected negatively by being compared to countries longer established at a higher level of development**.** Seeking to mitigate the negative consequences of income change on the selection process, in September 2009, the MCC Board announced that henceforth, for countries that move from low to lower-middle-income status, it would consider their performance relative to both their old income group and the newer one for a period of three years. But it only does this as supplemental information and, to date, has only considered the previous status of those countries it is considering for reselection.

Just because a country passes the requisite number of qualifying indicators does not mean that it will be selected for compact eligibility. This can be due to a variety of reasons, not least of which is the limited funding available to support compacts. The MCC Board is not required to give a reason for its selections and only occasionally offers one. Most often it appears that a country has passed the requisite number of qualifying indicators but is not selected because it scores very poorly—perhaps in the lowest 25th percentile—in one or more of the remaining indicators. For example, in FY2005, the Philippines passed 13 of the then-16 indicators, but was not made eligible, because it scored "substantially below" the median on tests for health expenditures and fiscal policy, and more recent trends indicated the fiscal policy situation was deteriorating further.[17] In FY2006, Bhutan and Vietnam passed enough hurdles but were not chosen based on very low scores on political rights and civil liberties; Uganda passed 12 of the 16 indicators and did not fall significantly below the median on the other four, but was not selected for unexplained reasons.

At times, countries have been deemed compact eligible without meeting a sufficient number of qualifying factors or with weak scores in some qualifying areas. In most such cases, the MCC Board takes into consideration recent policy changes or positive trend lines. For example, in FY2004, the program's first year, several countries (Georgia, Mozambique, and Bolivia) were selected despite having failed the so-called "pass-fail" corruption indicator. Mozambique, which failed on corruption and each of the four "investing in people" indicators, was chosen based on supplemental data that were more current than information available from the primary data sources. This evidence, the Board felt, demonstrated Mozambique's commitment to fighting corruption and improving its performance on health and education. In FY2004, Cape Verde scored poorly on the "trade policy" indicator, but the Board took into account the country's progress towards joining the World Trade Organization and implementing a value added tax to reduce reliance on import tariffs. Lesotho did not score well on the measurement for "days to start a business." The MCC Board, however, took note of Lesotho's creation of a central office to facilitate new business formation and saw positive performance on other factors related to business start-ups. In FY2011, Georgia was invited to submit a proposal for a second compact despite failure in the "investing in people" basket; supplemental information attributing an

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

insufficient score in immunization rates to a temporary shortage of one vaccine helped the Board toward a positive decision.

Even prior to its selection in FY2007, the possible choice of Jordan had come in for severe criticism from some quarters. Freedom House, the organization whose annual Index of Freedom is drawn upon for two of the "ruling justly" indicators, had urged the MCC Board to bypass countries that had low scores on political rights and civil liberties. It argued that countries like Jordan that fell below 4 out of a possible 7 on its index should be automatically disqualified. Jordan, however, did well on three of the other indicators in this category. Several development analysts further argued that Jordan should not be selected, because it is one of the largest recipients of U.S. aid, has access to private sector capital, and is not a democracy.[18] In selecting Jordan, the MCC Board appears not to have been swayed by these arguments.

The Board has, at times, selected a country and then, in future years, and prior to approval of a compact, de-selected it if its qualifying scores worsened or other factors interceded. Although the Gambia was selected in FY2006, its eligibility for MCC assistance was suspended by the MCC Board in June 2006 because of "a disturbing pattern of deteriorating conditions" in half of the 16 qualifying factors. Among the problems cited in this case were human rights abuses, restrictions on civil liberties and press freedom, and worsened anticorruption efforts.[19] For the 2008 selection process, the MCC Board eliminated Sri Lanka because of the resurgent civil strife that would make a compact problematic. In the FY2009 selection round, the Board decided not to reselect several countries that had been eligible in previous years—Bolivia, Timor-Leste, and Ukraine. In FY2008 and FY2009, both Ukraine and Timor-Leste failed the corruption indicator. Timor-Leste, in addition, failed the "investing in people" basket in those years. Bolivia, however, had passed its indicator test in every year. A hold put on MCC consideration of Bolivia's compact proposal in FY2008 and its exclusion from eligibility in FY2009 appeared likely due to the political tensions existing between it and the United States rather than its performance in development-related matters. In the FY2014 selection round, both Benin and Sierra Leone were not reselected for compact eligibility, because they failed the "control of corruption" indicator. In the FY2016 round, Tanzania, selected in FY2013, 2014, and 2015, was suspended from further consideration of a second compact due to a pattern of behavior that put in question its adherence to democratic principles.

Some countries have remained eligible despite failing performances in years following their selection. For example, Indonesia, selected in FY2009, failed the corruption indicator, half the indicators, and the investing in people basket in FY2010 and FY2011 when it had moved up to the lower-middle-income level. It remained compact eligible and signed a compact in 2011, because Congress allowed it to be judged and funded as a lower-income country, in which case it passed the selection requirements. In FY2014, the Board continued the eligibility of Liberia and Morocco, although both failed slightly more than half the 20 indicators (11). While compact development could go forward, the Board indicated that it expected both to pass the scorecard before a compact would be approved. And both did pass in FY2015 and FY2016.

Except in certain extreme circumstances, described in the "Compact Suspension and Termination" section below, countries that are already implementing compacts are generally

[18] 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.

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

unaffected by a decline in performance indicators. Nine of the 19 countries implementing compacts as of December 2010 would not have qualified in the FY2011 selection round. Up to that point, Georgia and Vanuatu had failed three years in a row; Armenia, El Salvador, Mali, and Mozambique had failed four years in a row. Morocco had failed for five years straight.[20] Since then, this picture has changed; only 2 of 16 active compacts would have failed in December 2011, 5 of 15 in 2012, 3 of 10 in 2013, and 2 of 11 in 2014. In 2016, only Indonesia of 11 compact countries failed the FY2017 indicators, and, in 2017, only El Salvador of 12 signed compact countries failed the FY2018 indicators.

In not strictly following the rule of the performance indicators, the MCC has argued that the indicators themselves are imperfect measures of a country's policies and performance. The indicators often suffer from lag time, reflecting when the raw data were derived as much as a year or more previously. A country's position vis-à-vis its peers may also fluctuate considerably from year to year without reflecting any significant change in the country's policies. Countries following reasonable policies may fall behind the performance criteria when other countries are improving faster—thereby raising the bar. A shift in position from the low income to lower-middle-income group can similarly alter a country's scores as it competes with countries more likely to achieve better indicators than ones in the lower income group. They may also fail when new criteria are introduced which countries have not had an opportunity to address and when institutions measuring performance refine or revise their indicators.

Country Selection—FY2018

In its FY2018 selection round on December 19, 2017, the MCC Board chose Timor-Leste and reselected Sri Lanka and Tunisia as eligible to develop their first compacts. It also reselected Burkina Faso, Lesotho, Mongolia, and Senegal as eligible to develop second compacts. The Board selected The Gambia for a threshold program.

Table 1. Compact-Eligible Countries: FY2018

Low-Income Countries	Lower-Middle-Income Countries
Burkina Faso II	Mongolia II
Lesotho	Sri Lanka
Senegal II	Tunisia
Timor-Leste	

Timor-Leste had been selected in FY2017 for a threshold program. Its positive scorecard performance since then led the Board to elevate it to compact status. In FY2017 Mongolia, first reselected for a second compact in FY2015, had failed its "control of corruption" indicator, and the Board had consequently noted that it expected Mongolia to improve its performance in this aspect prior to compact agreement. Mongolia passed this hurdle in FY2018. Lesotho had been made eligible in FY2015, but a decision on its FY2016 status was deferred at the December 2015 Board meeting pending the addressing of governance concerns, a situation continued in FY2017. In the meantime, Lesotho had been allowed to develop a compact, although no new financial resources were being provided to help them in this regard. Its improved performance on the FY2018 scorecard led the Board to restore its eligibility.

[20] For further discussion, see Casey Dunning, Owen McCarthy, and Sarah Jane Staats, Center for Global Development, *Round Eight of the MCA*, December 3, 2010.

At its December meeting, the Board noted that the government of the Philippines had decided not to move forward with a second compact. The Philippines was made eligible in FY2016, but the Board deferred reselection in FY2017 pending a review of concerns regarding the rule of law and civil liberties. It failed the "control of corruption" indicator in FY2018.

MCC Programs

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

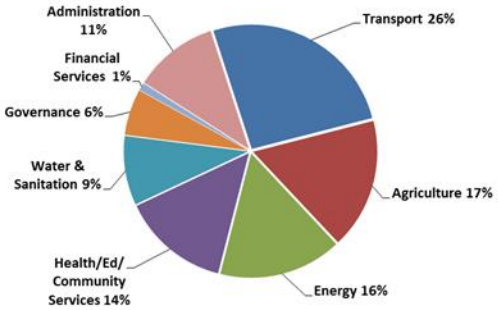
MCC Compacts

MCC compacts are grant agreements, five years in length (the MCC authorization limit), proposed and implemented by countries selected by the MCC Board. To date, the MCC Board has approved 33 compacts in 27 countries worth more than $11.7 billion. Details of each active compact and major developments in their implementation are provided in **Appendix B**. Currently, compacts are fully operating in 9 countries—Benin II, El Salvador II, Georgia II, Ghana II, Liberia, Malawi, Morocco II, Niger, and Zambia—and will enter into force in two more within the next two years—Cote d'Ivoire and Nepal.

Projects to date have emphasized infrastructure. As of September 2017, 26% of MCC cumulative compact funding was in the transport sector, mostly roads; 17% was targeted on agriculture; 16% on energy; 14% on health, education, and community services; 9% on water supply and sanitation; 6% on governance; and 1% on financial services, and 11% was used for the administration and monitoring of programs. The sub-Saharan Africa region has always represented the bulk of MCC spending. Counting just the 12 active compacts as of March 2018, 59% of compact funding is going to sub-Saharan African countries, 9% to North Africa and the Middle East, 3% to the countries of the former Soviet Union, 6% to Latin America, and 23% to Asia and the Pacific.

Figure 1. MCC Programs, by Sector

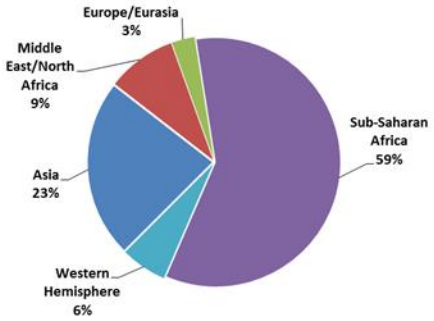
(% of cumulative dollar value since FY2004)



Source: MCC CBJ FY2019.

Figure 2. Active MCC Compacts, by Region

(% of dollar value as of March 2018)



Source: MCC.

Since its inception, the MCC has designed guidelines and procedures for project development and implementation that are followed by all MCC compact countries. These are described below.

Compact Development

Once declared as eligible, countries may prepare and negotiate program proposals with the MCC. The process to develop a compact, from eligibility to signing, is expected to take about 27 months. Only those compact proposals that demonstrate a strong relationship between the proposal and economic growth and poverty reduction will receive funding. With limited funding available and multiple countries eligible, compact development, like the selection process, is competitive.

While acknowledging that compact proposal contents likely will vary, the MCC expects each to discuss certain matters, including a country's strategy for economic growth and poverty reduction, impediments to the strategy, how MCC aid will overcome the impediments, and the goals expected to be achieved during implementation of the compact; why the proposed program is a high priority for economic development and poverty reduction and why it will succeed; the process through which a public/private dialogue took place in developing the proposal; how the program will be managed and monitored during implementation and sustained after the compact expires; the relationship of other donor activities in the priority area; examples of projects, where appropriate; a multiyear financial plan; and a country's commitment to future progress on MCC performance indicators.

Countries designate an entity, usually composed of government and nongovernment personnel, to coordinate the formulation of the proposal and act as a point of contact with the MCC. In many cases, a high level of political commitment to the program—country leadership identifying themselves closely with the success of the compact—helps propel compact development forward and continues into implementation.

One of the first steps in the compact development process is the undertaking by the compact-eligible country, possibly in conjunction with MCC economists or consultants, of an analysis of the principal constraints to economic growth and poverty reduction. This report seeks to identify the binding constraints that "are the most severe root causes that deter households and firms from making investments of their financial resources, time, and effort that would significantly increase incomes."[21]

Underscoring the MCC concept of "country-ownership" and the requirement of broad public participation in the development of MCC programs embodied in MCC authorization language, the compact development entity typically launches nationwide discussions regarding the scope and purpose of the MCC grant, with meetings held at the regional and national level that include representation of civil society and the business community. In Namibia, the National Planning Commission charged with developing the compact identified 500 issues as a result of public

[21] MCC, *Compact Development Guidance*, January 2012, p. 15.

discussions held throughout the country on the question "What will unlock economic development in your region?", narrowing them down to 77, and then just to several.[22] Burkina Faso's consultations reportedly included 3,100 people in all 13 regions.[23]

Calendar Year	Signed MCC Compacts
2005	Madagascar, Honduras, Cape 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	Cape Verde II, Zambia
2013	Georgia II
2014	Ghana II, El Salvador II
2015	Benin II, Liberia, Morocco II
2016	Niger
2017	Cote D'Ivoire, Nepal

Public consultation combined with analysis of constraints to growth helps focus a country on the range of sectors and possible activities that might go into a compact proposal. Concept papers are developed around many of these ideas. During each step in the development process, the MCC provides feedback to keep the country within MCC parameters.

The eventual results of these public deliberations and concept papers are compact proposals. These proposals often exceed MCC's budget capacity, forcing a process of further prioritization and elimination. Tanzania reportedly suggested a package worth $2 billion; with the elimination of irrigation and education options, they were able to bring it down to $700 million. Namibia's first proposal, at $415 million, was whittled down to $305 million by eliminating irrigated agriculture and roads projects.

Proposals are developed by a country with the guidance of and in consultation with the MCC. To assist in compact development, the MCC may, under Section 609(g) of its authorizing statute, provide so-called precompact development grants to assist the country's preparatory activities. Among other things, these grants may be used for design studies, baseline surveys, technical and feasibility studies, environmental and social assessments, ongoing consultations, fees for fiscal and/or procurement agents, and the like. For example, in June 2009, the MCC provided Jordan with a precompact development grant of $13.34 million, not counted as part of the final compact. It was used for feasibility studies and other assessments for water and wastewater projects.

One feature of compact proposals is the requirement that sustainability issues be addressed. In the case of road construction, this might mean provisions committing the government to seek to establish transport road funds, a fuel levy, or some other tax to pay for road maintenance in future. For example, as a condition of its compact, Honduras increased its annual road maintenance budget from $37 million to $64 million.[24]

Once a proposal is submitted, the MCC conducts an initial assessment, then, on the basis of that assessment, launches a due diligence review that closely examines all aspects of the proposal, including costs and impacts, to see if it is worthy of MCC support. Included in the review is an economic analysis assessing anticipated economic rates of return for the proposed projects and

[22] Tanzania and Namibia examples in this section are based on author interviews.

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

[24] MCC, *Policy Reforms Matter*, September 9, 2010.

estimating the impact on poverty reduction. At the same time, MCC staff work with the country to refine program elements. Finally, the 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.[25]

When the compact enters into force the clock begins to tick on compact implementation and the total amount of funds proposed for the compact is formally obligated (held by the U.S. Treasury until disbursed). Because of the difficulties encountered in trying to undertake a complex set of projects within a set five-year time span, MCC has increasingly sought to front-load many planning activities prior to compact signing or entry-into-force, including feasibility studies and project design, which in the case of infrastructure can be a lengthy process. Usually, the first year of operations is consumed by contract design and solicitation for services. In the case of Burkina Faso, however, 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.[26]

Compact Implementation

Typically, by the time of compact signing, the local entity that was established as point of contact during program development segues into the compact management and oversight body, the "accountable entity" usually known as the MCA. Its board is usually composed of government and nongovernment officials, including representatives of civil society. The government representatives are usually ministers most closely associated with compact project sectors. The MCA itself may take a variety of forms. In Tanzania, it was a government parastatal established by presidential decree under the Ministry of Finance. In Namibia, it was a separate unit within the ministry-level government National Planning Commission.

MCA staff will include fiscal and procurement agents, in many cases duties contracted out and in some cases, where the capacity is available, undertaken in-house. In the case of Namibia, for example, procurement started as a contracted function, and, when capacity improved, the contractor was replaced by an MCA-staffed procurement office. The MCA is also responsible for ensuring that accountability requirements concerning audits, monitoring, and evaluation take place. Environmental, gender, and other social requirements embedded in the compact agreement are its responsibility as well. Held to a strict five-year timetable and limited budget, the MCA faces a daunting challenge for most developing countries. For many countries, the process of getting the MCA set up, staffed, and operating was very time-consuming and difficult, in some cases causing delays in implementation.

As, perhaps, the most important aspect of compact implementation, MCC procurement processes are a good example of how the MCC is building government capacity at the same time that it provides development project assistance and maintains accountability oversight for the use of U.S. funds. In the course of implementing compacts, the MCA signs hundreds of contracts each year to procure equipment, construct infrastructure, or obtain technical expertise. Under MCC rules, compact procurement processes are based on World Bank procedures, not U.S. federal acquisition requirements or the compact country's own rules. 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. According to the MCC, between October 2010 and December 2016, companies from 90 countries

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

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

have won MCC-funded procurement contracts, with U.S. firms winning the most, roughly 12% of the total value of contracts.[27]

MCC-supported procurements are fixed-price contracts, putting the burden on the contractor to get the work done to meet the agreed price. The MCC has a set of standards and guidelines for all its project contracting. The MCC requires that procurements are preceded by a price reasonableness analysis to ensure that bids are realistic. An independent evaluation panel is selected for each discrete procurement, with all members requiring MCC approval to ensure that appropriate technical expertise is represented. The panel's report is also vetted by the MCC.

Reportedly, several countries have adopted this methodology for their procurements. Cape Verde is applying it to all public procurements. Honduras said it would maintain the program management unit to deal with projects funded by other donors and would apply MCC guidelines for procurement.[28]

The MCC itself has only a very small staff located in-country, composed chiefly of a Resident Country Director and a deputy. To assist in oversight of infrastructure projects, which account for more than half of MCC activities, MCC will often hire an independent engineering consultant. Close cooperation and guidance is also provided by MCC Washington headquarters expert staff at all points of implementation, on procedure as well as on sector technical support. MCC has to sign off on all major steps during implementation, including each disbursement. To reduce the risk of corruption, funding is transferred periodically and directly to contractors following a determination that project performance has continued satisfactorily. An appealing feature of MCC contracts to international contractor firms is that payment is made by the U.S. Treasury, not the compact country.

Following completion of a compact, the MCC conducts impact or performance evaluations using independent evaluators. Evaluations are conducted on each project component within a compact. Results of the evaluations are made public. For closed compacts, as of December 22, 2017, 61 evaluations (39 performance and 22 impact) had been completed and 58 (34 performance, 23 impact, and one to be determined) were planned or ongoing.[29]

As projects are implemented, events may require that changes be made to compact plans.[30] In 2007 and 2008, for example, the convergence of a depreciating U.S. dollar and rising costs for the machines and material necessary for the many infrastructure projects conducted by MCC meant that MCC projects were faced with having less funding than envisioned to meet the agreed-on objectives. At the time, at least six projects were scaled back from original plans or supplemented by financing from other sources. In 2010, increased costs due to design changes and higher construction costs led to the reallocation of nearly $40 million for a Ghana transportation project. A reallocation of project resources was made unnecessary when bids on Tanzania's rural roads came in higher than budgeted, because the Tanzanian government committed funds to make up for the shortfall. The number of boreholes to be drilled under a rural water supply project in

[27] Data provided by MCC to CRS, December 12, 2016. As of September 2010, the MCC procurement guidelines prohibit contracts with state-owned enterprises (SOEs), except in the case of educational, research, and statistical units of government not formed for a commercial purpose. The chief stated reason for making the change was to ensure a level playing field for competing firms. Up to then, $400 million of MCC contracts had gone to SOEs, mostly Chinese-owned.

[28] 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.

[29] Data provided by MCC to CRS, *Current Evaluation Pipeline*, December 22, 2017.

[30] 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.

Mozambique was reduced from 600 to 300-400 because the amount allocated for construction was insufficient. Although the MCC is trying to address potential changes by requiring more frequent portfolio reviews and early identification of high-risk projects, projects planned for a five-year life span are likely to undergo revision at some point. Changes in country policy performance, however, are less foreseeable and may carry more serious consequences. These are discussed below.

Compact Suspension and Termination

Throughout the entire process from candidacy to eligibility through development and implementation of a threshold program or compact, countries are expected to maintain a level of performance on the criteria reasonably close to that which brought them to their MCC threshold or compact-eligible status. On more than one occasion and for a variety of reasons, MCC programs have been suspended or terminated.

Section 611(a) of the Millennium Challenge Act of 2003 provides that, after consultation with MCC's Board of Directors (Board), the CEO may suspend or terminate assistance in whole or in part if the CEO determines that (1) the country or other entity receiving MCC aid is engaged in activities which are contrary to the national security interests of the United States; (2) the country or entity has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of the country or entity; or (3) the country or entity has failed to adhere to its responsibilities under its compact. This policy applies to MCC assistance provided through a compact, for compact development and implementation, and assistance through a threshold agreement.[31] All compacts contain language providing that MCC may terminate the compact if the government engages in a pattern of action inconsistent with the criteria used to determine the eligibility of the country for assistance. This is the standard compact language that has been cited in most, if not all, prior MCC compact terminations.

In addition, all countries at all points of the process are affected by certain strictly applied foreign assistance restrictions in the Foreign Assistance Act of 1961 and in annual appropriations legislation. For example, restrictions on aid to countries whose governments are deposed by a military coup prevent countries from being considered for MCC candidacy, eligibility, or continued threshold or compact implementation.[32]

Application of legislative restrictions varies according to circumstances. The MCC has four steps available to it as responses to any perceived violations of its performance rules. It may warn a country of its concerns and potential consequences. It may place a program or part of a program on hold. These actions are both preliminary steps that can be taken by management without immediate concurrence of the Board. The two further steps, suspension and termination, must be made by the Board of Directors.

In all cases when some possible violation of MCC standards has been brought to the attention of the agency, the MCC Department of Policy and Evaluation conducts a review of the evidence and presents it with a recommendation to the Board. The Board does not uniformly follow the recommendation made. If a determination is made to hold, suspend, or terminate, it may be further determined to affect a whole or only part of the compact.

The MCC has suspended or terminated programs in the following cases:

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

[32] Most recently, §7008 in the State, Foreign Operations Appropriations, FY2016 (P.L. 114-113, Division K).

- Threshold programs have been suspended in Niger (December 2009, reinstated in June 2011), due to undemocratic actions taken by its leadership contrary to the MCC's governance criteria; suspended in Yemen (November 2005, reinstated February 2007, but never implemented) due to a pattern of deterioration in its performance criteria; and terminated in Mauritania (2008) due to aid prohibitions on governments deposed by a coup.
- Compact eligibility was suspended in the Gambia (June 2006) because of "a disturbing pattern of deteriorating conditions" in half of the 16 qualifying factors. Eligibility for a second compact for Tanzania, expected to have been worth $473 million, was suspended (March 2016) due to governance concerns.[33]
- Portions of compacts have been terminated in Nicaragua (June 2009), because of the actions of the government inconsistent with the MCC eligibility criteria in the area of good governance; and in Honduras (September 2009), because of an undemocratic transfer of power contrary to the Ruling Justly criteria. The compact in Madagascar was terminated due to a military coup (May 2009). In Armenia (2008), MCC put a hold on a portion of the compact due to poor performance in a range of governance indicators, but the Board did not formally vote to suspend. The Mali compact, put on operational hold in March 2012 after a military coup, was terminated in August 2012.
- In March 2012, the MCC Board suspended the Malawi compact. This followed the placing of an operational hold on the Malawi compact in July 2011, only a few months after the compact was signed, both steps taken as a result of a pattern of actions by the Malawi government "inconsistent with the democratic governance criteria" of the MCC. The Malawi suspension was lifted in June 2012 when democratic behavior significantly improved.

The number of holds, suspensions, or terminations suggests that the MCC takes seriously its legislative mandate by moving to address violations of its performance standards. These prior instances of MCC program suspension and termination indicate that the MCC is most likely to apply Section 611(a) in response to an undemocratic transfer/retention of power, a violation of the Ruling Justly eligibility criteria. Despite these efforts by MCC, observers have noted instances in the past in which MCC has not taken action to restrict eligibility to countries with questionable records on political rights and civil liberties, for instance Jordan.[34] And, as noted above, a number of compact countries have failed one or more of their qualifying indicators for one or more years in a row during the period of compact implementation without serious consequences.

Anticipated Compacts in FY2018-2019

The 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.

[33] The December 2015 MCC Board meeting deferred a decision on reselection of Tanzania for compact eligibility, raising governance concerns stemming from a 2015 election in which the Zanzibar governing party nullified election results after the opposition won. Concerns were also raised regarding Tanzania's use of a Cybercrimes Act of 2015 to limit freedom of expression and association. In March 2016, Tanzania held a new election in Zanzibar that was deemed unrepresentative.

[34] Freedom House, Press Release, "Millennium Challenge Corporation Should Hold Countries to Higher Standards of Democratic Governance," November 2, 2006, available at http://www.freedomhouse.org/template.cfm?page=70&release=435; 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.

According to the MCC, Board consideration is likely to occur in FY2018 for the following compacts:

- **Mongolia II.** Mongolia's expected $350 million compact is expected to focus on a range of water-related issues: increasing water supply and delivery, industrial water reuse, and associated regulatory reform. It is likely to be considered by the Board by early summer 2018.
- **Senegal II**. Senegal's compact, estimated at $480 million, will focus on energy infrastructure, including power transmission and distribution and access in rural areas. It will likely be taken up by the Board in September 2018.
- **Sri Lanka**. Sri Lanka's anticipated $450 million compact is targeting transportation and land access issues. It will improve the traffic management system, modernize the bus sector, provide logistics facilities, establish a national land information system, and improve mapping, surveying, and titling of land. The compact is expected to be considered in early FY2019.
- **Burkina Faso II**. MCC anticipates that a $304 million compact will be approved with Burkina Faso before June 2019 that will focus on the high cost and poor quality of energy and the country's low-skilled workforce.
- **Tunisia**. A constraints analysis found three issues that will be the focus of an estimated $292 million compact expected to be considered before June 2019: excessive market controls of goods and services, excessive labor market regulations, and water scarcity.

Threshold Programs

In addition to compacts, the MCC has supported "threshold" programs—smaller, more short-term (two to three years) programs designed to assist promising candidate countries to become compact eligible.

Up to 2010, threshold programs addressed shortcomings in a country's qualifying indicators—most focusing on corruption concerns, as this pass/fail indicator prevented numerous candidates from compact eligibility. In 2010, the threshold program underwent an extensive review in part because some Members of Congress and others had raised questions regarding its efficacy; an explanatory statement accompanying the FY2009 Omnibus appropriations suggested that an assessment of the programs be undertaken before more were approved.[35] Accordingly, the MCC did not select any new countries for threshold eligibility for FY2010 and did not request funding for the program in its FY2011 budget.

The MCC announced a new approach to these programs in September 2010. Now threshold programs focus less on specific qualifying indicator scores and more on resolving policy constraints to economic growth that are preventing countries from becoming compact eligible. According to the agency, these allow MCC to begin work on reforms in problem sectors that would likely be among those addressed in compact projects, and they initiate a relationship in which the MCC can better judge a country's capacity to implement a possible compact in the future.

[35] It was variously argued that two years is insufficient time to alter the indicators; that some countries passed the indicators before the threshold program could begin; that, by funding reform to improve an indicator, the threshold program undermined the principle that countries should themselves be responsible for reform and MCC eligibility; and that programs should focus on better preparing countries to implement compacts rather than on enabling them to qualify for eligibility.

Congress provided in the MCC authorizing legislation that not more than 10% of 2004 MCC appropriations could be used for such purposes (§616 of P.L. 108-199). Subsequent foreign operations appropriations made 10% of new MCC appropriations available for threshold assistance, but, since the FY2012 appropriations, including FY2016 (and carried forward under the FY2017 continuing appropriations), 5% has been made available for this purpose each year. In its FY2017 budget presentation, the MCC argued for restoration of the 10% cap to allow for more flexibility and a stronger threshold effort.

The FY2014 appropriations (P.L. 113-76) contained two new provisions, both repeated in FY2016 (P.L. 114-113), specifically affecting threshold program eligibility. One prohibits a threshold program for countries that have already had a compact program. This provision is viewed by some as an after-the-fact response to the threshold eligibility granted Honduras for FY2012. Its program was signed in August 2013. In its FY2017 budget presentation, the MCC opposed this language, noting that, where a second compact may not be appropriate, such programs may be preferable to no engagement. Some observers note that Madagascar, a former compact country (terminated due to a coup in 2009) would be a good candidate for a threshold program, having passed the FY2017 scorecard but not yet considered ready for a full compact. The appropriations provision, however, prohibits a threshold program for Madagascar at this time.

Recent appropriations acts also prohibit a new threshold program for any country not currently a candidate country. Tunisia, which had been granted threshold eligibility in September 2011, graduated to upper-middle-income status by FY2014 and, therefore, did not qualify as a candidate country then. If it were not for this appropriations language, Tunisia might have received a threshold program funded with FY2011 appropriations, the year of its selection. In its FY2017 budget presentation, the MCC argued for elimination of this provision, as it restricts the agency's authority. (In FY2017, Tunisia has returned to lower-middle-income status and has been granted compact eligibility.)

As of April 2018, 29 threshold programs worth a total of over $600 million have been or were being conducted in 27 countries, two of which received second programs. Of those countries that have completed programs, Indonesia, Liberia, Moldova, Burkina Faso, Jordan, Malawi, the Philippines, Tanzania, and Zambia have received compacts. Funding levels for threshold programs differ, ranging from $6.7 million for Guyana to $55 million for Indonesia. Currently, only Honduras, Guatemala, Sierra Leone, Togo, and Kosovo are actively receiving threshold assistance (see **Appendix C**). Currently, The Gambia is the only threshold-eligible country.

Threshold countries are subject to the same performance rules as compact countries. Two countries—Mauritania and Yemen—have had their threshold eligibility terminated prior to program implementation, the former because of a coup and the latter due to deterioration in

qualifying indicators.[36] One country—Niger—had its active threshold program suspended as its governance performance deteriorated.[37]

MCC Strategy

On February 24, 2016, the MCC released a document entitled *NEXT: A Strategy for MCC's Future*.[38] The strategy reviews and reaffirms the MCC model and the principles on which that model is based. It also establishes several priority goals, including in the words of the MCC

- "Help countries choose evidence-based priorities in growth and poverty reduction strategies that reflect new learning and new opportunities." Among other action items, the MCC is promising to improve its analysis during compact development, including a constraints analysis that better assesses impacts on women and marginalized groups and incorporates public and private donors as partners in addressing constraints, and an economic analysis that considers regional integration opportunities. The MCC will also seek better integration of environmental and social factors in selection of poverty reduction strategies.
- "Strengthen reform incentives and accountability." The MCC plans to push for partner government reforms that will have greater systemic impact, including prioritizing those that support sustainability and address corruption. It will use the threshold program more as a tool for promoting reform.
- "Broaden and deepen public and private partnerships for more impact and leverage." The MCC is intent on exploring multicountry investments; working more with local governments, including subnational partnerships; and collaborating more with other U.S. government agencies. It also will seek to foster public-private partnerships, leverage more private sector involvement, engage more partnerships with foundations and corporations, and encourage U.S. companies to participate in compact procurements.
- "Lead on data and results measurement, learning, transparency, and development effectiveness." The MCC will work to improve its ability to measure systemic impacts and track gender and social inclusion goals. It will seek data to

[36] Mauritania, made eligible in 2007, saw its eligibility terminated in 2008, prior to development of a threshold program agreement, due to aid prohibitions on governments deposed by a coup. Yemen, made threshold eligible in 2004, was suspended by the Board in November 2005, as a result of a consistent "pattern of deterioration" in its policy performance on selection criteria. Following a series of government reforms, Yemen's threshold status was reinstated in February 2007 and a threshold agreement valued at $20.6 million was approved in September 2007. In October 2007, however, the chair and ranking Member of the Senate Foreign Relations Committee noted their concern regarding the Yemen decision, in particular noting that, while Yemen had made reforms, its performance indicators had not yet shown improvement. The Members emphasized that, even if the MCC moved forward with the Yemen threshold program, "such compromises should never extend to the Compact program itself." In the end, implementation was postponed on October 27, 2007, pending a review, and its program has never been resumed.

[37] In September 2009, the MCC Board warned that Niger appeared to be moving away from its reform agenda, jeopardizing its $23 million threshold program. Niger's threshold program was suspended in December 2009 due to "political events that were inconsistent with the criteria used to determine eligibility for MCC assistance," when President Tandja dissolved parliament and dismissed the constitutional court after it ruled that a referendum to extend his presidential term was illegal. See MCC Congressional Notification, December 17, 2009, available at http://www.mcc.gov/mcc/bm.doc/cn-121709-niger.pdf. As noted above, in June 2011, following Niger's return to democratic rule, MCC announced it would reinstate the Niger program, and, in March 2012, $2 million was approved to enable completion of education activities under the original agreement. Further work on the program ended when Niger was made compact eligible in December 2012.

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

accurately identify countries with high poverty rates. It will take steps to share its data-driven approach with other development organizations.

- "Maximize internal efficiency and productivity and maintain and motivate a world class, high functioning staff." The MCC promises to improve its efficiency and effectiveness, designing better compacts faster with stronger outcomes, by strengthening its staff and management capabilities.

Select Issues

Concerns regarding the MCC have been expressed at various points in time on its level of funding, its operations, and its ability to ensure project sustainability; aspects of procurement; and the risk of corruption. These and other issues are discussed below.

Funding

When the MCC was proposed, it was expected that, within a few years, the level of funding would ramp up to about $5 billion per year. For a variety of reasons, not least of which is the limitation on available funding for foreign aid more broadly, the MCC never achieved anywhere near that level of funding. In fact, in most years since the MCC was established, its enacted appropriation has been below the President's request.

Table 2. MCC Appropriations: FY2009-FY2019 Request

(in $ millions)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19 req
Request	2,225	1,425	1,280	1,125	898	898	1,000	1,250	1,000	800	800
Enacted Approp.	875	1,105	900	898	898	898	899	901	905	905	—
Post Rescission Approp.	871	1,081	898	898	853	898	899	901	905	905	—

Notes: P.L. 110-252 rescinded $58 million in FY2008 appropriation. P.L. 111-226 rescinded $50 million from unobligated amounts; MCC applied it to the 2004-2010 fiscal years. P.L. 112-10 includes an across-the-board 0.2% rescission in FY2011 appropriations. There was no rescission in FY2012. FY2013 level reflects both rescission and sequester. There was no rescission in FY2014, FY2015, and FY2016.

MCC Appropriations Request and Congressional Action for FY2018

On May 23, 2017, the Trump Administration issued its FY2018 budget request, including $800 million for the MCC, a cut of $105 million (-11.6%) from FY2017-enacted levels.

On July 24, 2017, the House Appropriations Committee reported its version of the FY2018 State, Foreign Operations, and Related Programs appropriations (H.R. 3362), providing $800 million for the MCC in FY2018, matching the Trump Administration request and $105 million less than it received in FY2017. On September 14, the House approved H.R. 3354, an omnibus appropriations act, including the State, Foreign Operations, and Related Programs appropriations (Division G), providing $800 million for the MCC in FY2018. On September 7, 2017, the Senate Appropriations Committee reported its version of the FY2018 State, Foreign Operations, and

Related Programs appropriations (S. 1780), providing $905 million for the MCC, equal to the FY2017 level and $105 more than the Administration request.

On March 23, 2018, the Consolidated Appropriations Act, 2018 (P.L. 115-141) was signed into law, providing $905 million for the MCC, the same level as in FY2017.

MCC Appropriations Request and Congressional Action for FY2019

On February 12, 2018, the Trump Administration issued its FY2019 budget request, including $800 million for the MCC, a cut of $105 million (-11.6%) from FY2018-enacted levels.

Expanding MCC Partner Options

In recent years, several proposals have been made to expand the MCC's range of possible partners and activities, all so that it may better meet its mandate of poverty reduction through economic growth. These options are discussed below.

Regional Integration and Concurrent Compacts

At its December 2014 meeting, the MCC Board stated its support for possible efforts by the agency to consider developing regionally oriented partnerships, especially in South Asia. Compacts addressing regional issues, MCC argues, could provide higher rates of return on MCC investments, benefitting from economies of scale and supporting trade between nations. To enable the possibility of working on a regional basis, the MCC proposed legislation in its FY2016, FY2017, and FY2018 budget presentations that would allow it to undertake concurrent compacts—more than one in an individual country at the same time. The agency argues that being able only to do one compact at a time, as the existing MCC authorization requires, is a major barrier to pursuing regionally oriented programs. Bills supporting the concept of regional-purpose compacts and containing the concurrent compact authorization language were introduced in the 114th Congress in both House and Senate—approved by the former, but not taken up by the latter. In the 115th Congress, H.R. 3445, the African Growth and Opportunity Act and Millennium Challenge Act Modernization Act, was approved by the House on January 17, 2018, and by the Senate on April 9, 2018.

The argument for concurrent compacts as a condition for regional programs is that, as compacts are *bilaterally based* and awarded to countries only rarely, the opportunity to initiate compacts at the same time in two contiguous countries is unlikely to arise. The most probable scenario for a compact that would address regional barriers to economic growth would be one in which country #1 already has a compact and another, contiguous country (country #2) is subsequently made compact eligible. At that point, it might be possible to then add another compact to country #1 while simultaneously developing a compact with a regional element in country #2. To add another compact to an existing compact country, concurrent compacts must be permitted.

Nepal, currently developing its first compact, is a possible candidate for a regional concurrent compact. Its close relationship with India—which passes the performance indicators, but has not been offered compact eligibility—opens the door to exploring power or transport sector themed compacts whose economic impact might be strengthened by having a regional element. Similarly, there are regional possibilities that might be explored with Cote d'Ivoire, Ghana, Benin, Niger, Senegal, and Burkina Faso in West Africa and with Malawi and Zambia, which are all currently compact eligible and at different stages of compact implementation or development.

A few further challenges remain. Development of regional compacts would still depend on the right timing and coincidence of contiguous countries. MCC's budget for multiple compact

activities is limited. The existence of a regional compact might raise the possibility that a misbehaving country's suspension or termination would also force suspension or termination of a compact benefitting the partner country with an unblemished policy performance record. In making regional compacts operational, the MCC reports that it would still have to find potential investments to be cost beneficial, countries would still have to want such investments to be made (and not just because MCC wanted to do them), and the investments would still have to address economic constraints to growth as do all other compacts.

Upper-Middle-Income Countries

Currently, upper-middle-income countries are excluded from participation in MCC programs by the MCC authorization. Yet, it is argued by observers in the development community that the relative wealth of upper-middle countries is not broadly shared and that the line between lower-middle-income and upper-middle is arbitrary.[39] The recent moves of both Mongolia and Tunisia back and forth across the line between lower- and upper-middle income highlight this problem. In the case of Mongolia, the MCC chose to continue working with Mongolia on its second compact despite its move to upper-middle status one year after selection for eligibility. Mongolia moved to upper-middle-income status due to the growth of its mining economy, a change that has hardly made a dent on its poverty. That Mongolia has, one year later, moved back to lower-middle status seems, in the view of some observers, to justify the MCC position. Some suggest that the income exclusion be redefined or removed and some other measure be used that will take into account the existence of significant poverty within relatively wealthier countries. On the other hand, when establishment of the MCC was debated in 2003, the development community argued that aid should be channeled to those countries in greatest need; the prohibition on upper-middle income and the funding preference given to low-income countries in the authorization legislation reflect that view.

Within-Country Regional or Sub-regional Partnerships

MCC currently works on a bilateral basis with individual country 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 of government—the regional or sub-regional level.[40] Such a move would require new authorization legislation. The MCC would also have to work out how to establish such partnerships in a way that would be acceptable to national governments.

Compact Outcomes and Impact

The MCC places considerable weight on demonstrating measurable results. During project development, it predicts a set of outcomes—using cost-benefit analyses and calculated economic rates of return—that helps determine which projects will be funded. During implementation, it gathers data to establish baselines and monitor performance. And, at project completion, it supports independent evaluations of achievements. It promises to release these findings to the public, regardless of the results, with the intention of improving the agency's performance in meeting its purpose of reducing poverty through economic growth.

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

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

Project Outputs. Foreign assistance programs have multiple levels of results, some more measurable than others. On the most elementary level, assistance program inputs—financing, technical expertise, construction, etc.—produce outputs. The MCC tracks these throughout program implementation and reports quarterly on progress made in achieving performance indicators.[41] Cumulatively from 2004 to September 2017, the agency claims that its programs have trained 330,814 farmers, built 772 educational facilities, completed 2,500 miles of roads, formalized 321,508 land rights, and constructed 2,683 miles of electricity lines, among other achievements.[42]

Project Outcomes. Some of these outputs have led to medium-term outcomes, such as an increase by 20,000 in the number of new registered businesses in Albania as a result of administrative reforms made in business licensing under its threshold program. An independent analysis of the Burkina Faso threshold program found that construction of 132 primary schools led to increased enrollment for both boys and girls by about 20% and for girls over boys by 5%.[43] Among the outcomes of its Port of Cotonou modernization project under the Benin compact, according to MCC, are annual savings of $2.1 million in dredging and maintenance costs and a decrease in average customs clearance time.[44]

Project Impact. The most important measure of MCC activity is the long-term impact compacts can have on poverty reduction through increased incomes among poor people—the legislative mandate of the agency. Independent postcompact impact evaluations are meant to explore the relationship between an MCC investment and such an outcome, if any, so as to provide lessons for future compacts.

Twenty-two independent impact evaluations of compact projects (and another four of threshold programs) have been completed as of December 2017, and another 23 of closed compact projects are planned or ongoing.[45] In addition, 39 performance evaluations of closed compact projects (and 7 of threshold programs) have been completed and another 34 are planned or ongoing. While impact evaluations focus on changes that are directly attributable to project interventions, performance evaluations review how the program was implemented and other questions related to program design, achievements, management, and operational decisionmaking. The decision to choose one type or the other may depend on whether expected accountability and learning is worth the extra cost of impact evaluations.

The first impact evaluations were published in October 2012. Examining farmer training programs conducted in five compact countries, the evaluations affirmed that the *average* of individual outputs anticipated for a country, such as the number of farmers trained and hectares under production with MCC support, met or exceeded their targets in all five cases (although for two countries a number of indicators had no targets). While the evaluations found increases in *farm* income in three countries—no measurements could be undertaken in a fourth country—in no case were they able to identify increases in *household* incomes. This finding may be due to a household reallocating other income sources to farming or because household income is too

[41] The Table of Key Performance Indicators can be found on the Monitoring and Evaluation page under each country compact listing.

[42] MCC, *Congressional Budget Justification, FY2019*, pp. 43-63.

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

[44] MCC, *Fact Sheet: MCC's Continuum of Results*, May 23, 2012.

[45] MCC data provided to CRS on December 26, 2017. 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.

difficult to measure. In any case, MCC is looking for alternative methods for measuring household income for application to future compacts.

A 2013 impact evaluation of road construction in Georgia found a significant increase in industrial investment in communities near the improved road, but no evidence of impact on household-level income, consumption, or utilization of health and education services. The varied reasons for the lack of impact suggest the difficulties of impact evaluation in general—these include a possible poor choice of comparison road; a too-short time frame for measuring change as the data were derived in some cases less than a year after construction; and a focus on beneficiaries living adjacent to the project road, whereas beneficiaries may live far from the roads where they transport their goods.[46] The MCC has indicated that these early impact evaluations have taught it to better design projects as well as future impact evaluations.[47]

The "MCC Effect." Above and beyond the standard measures of results, the MCC claims for itself an impact made by the MCC process itself. Under the so-called "MCC effect," countries are said to be establishing reforms in an effort to qualify under the 20 performance indicators. Yemen has been cited in this regard because, following its suspension from the threshold program in 2005, it approved a number of reforms to address indicators where its performance had lapsed (and subsequently was reinstated and then later suspended for different reasons). Niger passed the Natural Resources Protection indicator in FY2013 as a consequence of establishing a large new protected area. House- and Senate-approved resolutions in 2007 (H.Res. 294 and S.Res. 103) noted the role the MCC played in encouraging Lesotho to adopt legislation improving the rights of married women. It can also be argued that the establishment of local compact implementation mechanisms—the MCAs—has served a capacity-building function and influenced some governments' procurement policies. These extraordinary results are reported only anecdotally, but if documented and measured appropriately, might prove to be of significant development value.

Capacity Building. As discussed in the "Compact Implementation" section earlier in this report, one possible development effect of the MCC program that goes unmeasured arises from its operational model which promotes "country ownership" and country implementation of compacts. Some countries, Cape Verde and Honduras among them, have reportedly adopted the MCC transparent 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, rural development, and food security donor funds.[48]

GAO Observations. On occasion, GAO has reviewed and commented on the MCC record in predicting and achieving compact outcomes. A 2007 GAO report highlighted a concern that, in the case of Vanuatu, projected impacts had been overstated. The GAO noted that the MCC estimated a rise from 2005 per capita income in Vanuatu of about 15% ($200) by 2015 when the data suggest it would rise by 4.6%. Although the MCC stated that the compact would benefit 65,000 poor, rural inhabitants, the data, according to the GAO, did not establish the extent of benefit to the rural poor. Further, the MCC projections assumed continued maintenance of projects following completion, whereas the experience of previous donors is that such maintenance has been poor.[49] The MCC response was that, although there may be varying views

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

[47] 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.

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

[49] Government Accountability Office, *Millennium Challenge Corporation: Vanuatu Compact Overstates Projected*

on the degree of benefit, both agencies agree that the underlying data show that the compact would help Vanuatu address poverty reduction.[50]

A September 2012 GAO report called into question the quality of data used to determine beneficiary numbers in seven transportation projects in seven countries, pointing to mistakes made in formulas used, a failure to apply a methodology to all compacts, and a failure to update numbers in public documents.[51] A June 2012 GAO report questioned the quality of work done on a road construction project in Georgia and noted an array of problems that have kept part of a port constructed by MCC in Benin from full operability.[52] Sustainability concerns were raised for both projects (see below for discussion).

Ensuring Sustainability

An important factor in assessing the success of development assistance programs, one strongly emphasized by the MCC, is the extent to which assistance efforts are sustainable after donor support ends. This question is of particular significance in the case of the MCC as most of its assistance is in the form of infrastructure, which developing countries, historically, have had difficulty maintaining due to lack of funds for physical upkeep or lack of trained technical personnel for regular maintenance.

The MCC often conditions compact aid on country adoption of policy reforms that enhance sustainability. In Tanzania, for example, the government electric power services were required to reform their tariff schedules in order to fully recover their costs, and, in those countries with road projects, provisions have been included to ensure establishment or improvement of a road fund to pay for upkeep.

GAO reports in the period 2007 to 2012 on completed compacts, however, questioned the effectiveness of MCC sustainability efforts in the cases it examined. In Cape Verde, the road fund reportedly met only half of maintenance requirements, and water fees, established to fund infrastructure maintenance for the watershed and agricultural support project, were not being collected in one of the three watersheds. In Honduras, a required increase in the national road maintenance budget was believed to be insufficient to meet needs. Further, farm-to-market roads provided under the Honduras compact were the responsibility of municipalities that, reportedly, lacked equipment, expertise, and funds for road maintenance.[53] GAO noted that, while the MCC included conditions precedent in its compact with Georgia requiring the government to maintain a level of funding for road maintenance, the government "shows limited ability to keep the road operational and well maintained." It has also questioned the ability of Benin's port authority to operate key components.[54]

Program Impact, July 2007, GAO-07-909.

[50] Testimony of Rodney Bent before the House Committee on Foreign Affairs, Subcommittee on Asia, the Pacific, and the Global Environment, July 26, 2007.

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

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

[53] Government Accountability Office, *Millennium Challenge Corporation: Compacts in Cape Verde and Honduras Achieved Reduced Targets*, GAO-11-728, July 2011.

[54] 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

The USAID Office of Inspector General (OIG), which also acts in that capacity for the MCC, has repeatedly pointed to sustainability concerns as among the top MCC management challenges in its annual letter to the agency.[55] In FY2017, it made this case by suggesting that the MCC had not provided timely training for Moldovan water user associations to ensure sufficient experience operating and maintaining compact-funded irrigation systems. The MCC responded by noting that the OIG's views, about sustainability and other identified challenges, were reiterations of "old findings ... based on dated fieldwork." With regard to Moldova, the MCC listed a number of actions it had taken to build sustainability, including sustainability training provided to 11 water user associations the compact had established, postcompact technical support to the associations offered by USAID, 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.[56]

Corruption

The extent to which government efforts to combat corruption is a factor in MCC judgment of compact eligibility and in the implementation of compacts has long been an interest of Congress. Most recently, the statement of conferees of the FY2016 State, Foreign Operations appropriations required the MCC to submit a report on progress made to strengthen the application of the "control of corruption" indicator, and, in July 2017, the House Appropriations Committee called on the MCC to keep it informed of efforts to seek better data on governance and other measures of corruption.[57]

With developing countries themselves implementing MCC-funded programs, corruption is a major concern of the MCC, in the selection process, in threshold programs, and in compact implementation. Aiming to safeguard U.S. aid dollars, MCC programs are designed to prevent corrupt contracting. Among other things, MCC requires a transparent and competitive process and mandates separation of technical and financial elements of a bid. The MCC reviews each decision made by the procurement entity and must register approval for many of them, and it provides funds directly to contractors rather than through the government implementing entity. MCC argues that, in following this process, recipient governments learn how to do procurement in a corruption-free way.[58]

The degree to which a country controls corruption is one of the performance indicators that help determine whether a country should be eligible for compact funding. In fact, it is a "pass-fail" indicator. Passing the indicator, however, does not mean there is little or no corruption—an unrealistic expectation for most developing countries. It only demonstrates that a country's performance is above the median relative to other countries at the same economic level.

As suggested in the discussion of country selection, the MCC Board does not depend on indicator scores alone to determine the selection process. These scores change from year to year, depending

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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*.

[55] See Office of Inspector General, USAID, *Top Management Challenges, Fiscal Year 2018*, pp. 13-14.

[56] 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.

[57] 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.

[58] Nevertheless, corrupt and fraudulent practices may emerge in compact implementation. In its FY2018 annual management challenges letter to the 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.

on fresh data and the relative scores of competing countries. Taking this into account, the MCC Board uses discretion by looking at a number of factors, including the many underlying data sources that make up indicators, as well as recent steps taken by the government in question to address corruption (or, in some cases, recent increased allegations of corruption). Accordingly, a country can be selected that technically falls near or below the median if mitigating factors occur. Alternatively, countries that pass the corruption indicator may be the subject of intense debate over incidences of alleged corruption. Because of data lags, countries passing the indicator may fail a year or two later, once a compact is in place. This can be true of all the indicators, particularly when a country "graduates" into a higher income category, thereby changing the medians. The MCC attempts to address this concern by looking for a pattern of behavior on the part of the government in order to judge the severity of any proposed corrective action.

In the FY2014 compact eligibility selection process, two countries that had been selected in FY2013—Benin and Sierra Leone—were dropped from compact consideration due to their failing grades on the "control of corruption" indicator. In its December 2014 meeting, the MCC Board issued a warning to Tanzania that, although reselected for a second compact, such a compact would not be approved unless its declining corruption score was reversed with "firm concrete steps."[59] At the September 2015 meeting, the Board noted that, unless Tanzania passed the corruption indicator, its compact would not be voted on. Tanzania passed the FY2016 scorecard; its reselection, however, has been suspended due to unresolved governance concerns, apart from those of corruption. In the FY2017 selection, a failing grade in corruption caused the Board to move Kosovo from its compact-eligible status to threshold eligible. Because Mongolia had demonstrated more consistent improvement over a number of years, its failure to pass the corruption indicator in FY2017 did not eliminate it from compact eligibility, but the Board still required an improvement in the score prior to actual compact approval. Mongolia passed the indicator in FY2018.

[59] MCC, *MCC Statement on Board of Directors' Discussion of Tanzania at the December 2014 Meeting*, December 10, 2014.

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	September 2011	Agriculture/irrigation Rural roads
Benin I	Feb. 22, 2006	$307	Oct. 6, 2006	October 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
Cape Verde I	July 4, 2005	$110	Oct. 17, 2005	October 2010	Agriculture Transport/roads Private sector
Cape Verde II	Feb. 10, 2012	$66.2	Nov. 30, 2012	November 2017	Water and sanitation Land management
Cote d'Ivoire	Nov. 7, 2017	$524.7	—	—	Education/Transport
El Salvador I	Nov. 29, 2006	$461	Sept. 20, 2007	September 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	April 7, 2006	April 2011	Infrastructure/gas Transport/roads Agriculture/business
Georgia II	July 26, 2013	$140	July 1, 2014	—	Education: Infrastructure and training Education: Workforce development Education: Sci and tech higher ed
Ghana	August 1, 2006	$547	Feb. 16, 2007	February 2012	Agriculture Transport Rural development
Ghana II	August 5, 2014	$498	Sept. 6, 2016	—	Electric power
Honduras	June 13, 2005	$215	Sept. 29, 2005	September 2010	Agriculture Transport/roads
Indonesia	Nov. 18, 2011	$600	April 2, 2013	April 2, 2018	Energy and resource management Health and nutrition Public procurement
Jordan	Oct. 25, 2010	$275.1	Dec. 13, 2011	December 2016	Clean water and sanitation
Lesotho	July 23, 2007	$362.6	Sept. 17, 2008	September 2013	Water sector Health sector Private sector

Country	Compact Signed	Compact Size (millions)	Entry Into Force	Compact Completion	Compact Focus
Liberia	Oct. 2, 2015	$257	Jan. 20, 2016	—	Power/Roads
Madagascar	April 18, 2005	$110	July 27, 2005	terminated May 2009	Land titling/agriculture Financial sector
Malawi	April 7, 2011	$350.7	Sept. 20, 2013	—	Electric power
Mali	Nov. 13, 2006	$460.8	Sept. 17, 2007	terminated August 2012	Irrigation Transport/airport Industrial park
Moldova	Jan. 22, 2010	$262	Sept. 1, 2010	September 2015	Agriculture Roads
Mongolia	Oct. 22, 2007	$285	Sept. 17, 2008	September 2013	Transport/rail Property Rights Voc. Education Health
Morocco	August 31, 2007	$697.5	Sept. 15, 2008	September 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	September 2013	Water and sanitation Transport Land tenure/agriculture
Namibia	July 28, 2008	$305	Sept. 16, 2009	September 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	January 26, 2018	—	Irrigation Roads Agriculture
Philippines	Sept. 23, 2010	$434	May 25, 2011	May 2016	Revenue reform Community dev Road rehab
Senegal	Sept. 16, 2009	$540	Sept. 23, 2010	September 2015	Roads Irrigation
Tanzania	Feb. 17, 2008	$698	Sept. 15, 2008	September 2013	Transport/roads, airport Energy Water
Vanuatu	March 2, 2006	$66	April 28, 2006	April 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 undertaken by the MCC are provided below in alphabetical order. Not all have entered into force at this time. Compact funding totals include administrative and monitoring costs.

Benin II

The five-year, $375 million compact will focus entirely on electric power infrastructure and related policy reforms. Assistance will 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.

Cote d'Ivoire

The five-year, $525 million compact targets 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.

El Salvador II

The $277 million, five-year second compact with El Salvador consists of three projects. One will address constraints in the investment climate by developing an independent institution seeking regulatory improvement and will build the capacity of government to partner with the private sector in public service delivery ($42.4 million). A second project will focus on development of human capital, reforming education policy to increase school hours and strengthen the curriculum, and would also address skills needed by the labor market ($100.7 million). The third project will meet identified infrastructure needs—expansion of an important roadway and border crossing improvements related to commerce ($109.6 million). El Salvador will contribute $88 million to project implementation.

Georgia II

The five-year, $140 million second compact would address education concerns in three ways. One project seeks to improve the quality of education through infrastructure improvements and training of educators ($76.5 million). A second project will focus on meeting labor market needs through skills development ($16 million). A third project will modernize the teaching of science, technology, and math ($30 million).

Ghana II

The five-year, $498 million compact addresses 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.

Liberia

The five-year, $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) will 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) will assist in the creation of five regional maintenance centers and a road fund administration to build sustainability and will provide technical assistance to build capacities in multiple aspects of road planning, maintenance, and policy development.

Malawi

The five-year, $350.7 million Malawi compact, signed in April 2011, focuses on just one sector—electric power. The program aims to reduce power outages, reduce costs to business and homes, and improve the economic environment. One element will upgrade and modernize generation and distribution capacity ($283 million); another will reform electric power supply institutions in the country ($25.7 million). In July 2011, the compact, which had not yet entered into force, was put on operational hold in response to concerns raised by several antidemocratic actions taken by the government, including suppression of the media and prevention of peaceful protests. In March 2012, the compact was suspended in view of the continuing pattern of actions "inconsistent" with good governance. On June 26, 2012, the MCC reinstated its compact with Malawi. A change in the country's leadership and subsequent steps to restore democratic society led the Board to change its position.

Morocco II

The five-year, $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) will 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.

Nepal

The five-year, $500 million compact focuses on electric power and transport. An Electric Transmissions Projects seeks to address the lack of adequate power by constructing 300 kilometers of high voltage transmission lines and three substations. It will also seek to strengthen the Electricity Regulatory Commission and increase skills and capacity of power management and technical personnel. The Road Maintenance Project will seek 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.

Niger

The five-year, $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) will 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) intends to improve livestock value and sales through health and vaccination improvements and modernizing local market infrastructure, among other efforts. It will similarly target agriculture through improved utilization of fertilizer and seeds, protection of watersheds from erosion, increased access to irrigation, and other activities.

Zambia

The $354.8 million, five-year compact focuses entirely on the water and sanitation sector in the Lusaka area. Most of the funds ($284 million) will be used to rehabilitate and improve infrastructure; other funds will go for strengthening management and policy controlling the water sector.

Appendix C. Active Threshold Programs

Descriptions and key developments in the four active Board-approved or signed threshold programs undertaken by the MCC are provided below in alphabetical order. Currently, one other country—The Gambia—is eligible to develop a threshold program. Funding totals include administrative and monitoring costs.

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.

Honduras

The three-year, $15.6 million Honduras threshold program, signed on August 28, 2013, aims to improve government financial management; help government provide services more efficiently and inexpensively by improving budget formulation and execution, procurement capacity, and management; and increase civil society oversight, among other efforts.

Kosovo

The $49 million Kosovo threshold program, signed on September 12, 2017, addresses two constraints to growth—an unreliable energy supply and weak rule of law. The energy project will 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 will also support 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, will 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 will 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 the 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 FY2018

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
Freedom of Information Source: Freedom House/Centre for Law and Democracy	**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
Government Effectiveness Source: World Bank/Brookings WGI	**Public Health Expenditure as % of GDP** Source: World Health Organization (WHO)	**Trade Policy** Source: The Heritage Foundation
Rule of Law Source: World Bank/Brookings WGI	**Immunization Rates: DPT and Measles** Source: World Health Organization (WHO) and U.N. Children's Fund (UNICEF)	**Regulatory Quality** Source: World Bank/Brookings WGI
Civil Liberties Source: Freedom House	**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
Political Rights Source: Freedom House	**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: Int'l Finance Corporation

Source: MCC, *Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2018*, available at https://www.mcc.gov/resources/doc/report-selection-criteria-methodology-fy18.

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