



Citizen-Centered Approaches  
to State and Market



# Economic Tools Mapping

**MILLENNIUM CHALLENGE CORPORATION (MCC)**

Market Building Initiative: A Program with the Aspen Institute

**Institute for State Effectiveness**

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## Overview

Established in 2004, the Millennium Challenge Corporation (MCC) is an innovative, independent U.S. foreign aid agency that is aiming to reduce global poverty. MCC aims to deliver smart U.S. foreign assistance by focusing on good policy, country ownership, and developmental results. Towards this end, MCC forms partnerships with some of the world's least developed countries, who are demonstrably committed to: good governance, economic freedom, and investment in their citizens.

MCC provides these well-performing countries with large-scale grants to fund country-led solutions for reducing poverty through sustainable economic growth, complementing other U.S. and international development programs. All MCC programs are characterized by<sup>1</sup>:

- i) **Competitive selection:** Before a country can become eligible to receive assistance, MCC's Board examines its performance on 17 independent and transparent policy indicators and selects compact-eligible countries based on policy performance.
- ii) **Country-led solutions:** MCC requires selected countries to identify their priorities for achieving sustainable economic growth and poverty reduction. Countries develop their MCC proposals in broad consultation within their society. MCC teams then work in close partnership to help countries refine a program and build targeted projects to achieve objectives.
- iii) **Country-led implementation:** MCC administers the Millennium Challenge Account (MCA). When a country is awarded a compact, it sets up its own local MCA accountable entity to manage and oversee all aspects of implementation. Monitoring of funds is rigorous and transparent, often through independent fiscal agents.

## Structure

MCC is managed by a chief executive officer, who is part of the nine-member Board of Directors. The Secretary of State, the Secretary of the Treasury, the U.S. Trade Representative, and the USAID Administrator serve on the board along with four private sector representatives. There are two primary types of MCC grants overseen by these administrators: compacts and threshold programs. Compacts are large, five-year grants for eligible countries that pass MCC's eligibility criteria for the purposes of funding specific programs targeted at reducing poverty and stimulating economic growth.<sup>2</sup> Threshold Program agreements are contracts between the United States and a nearly eligible country through which MCC provides small amounts of financial assistance for targeted policy and institutional reform efforts.<sup>1</sup> USAID has administered all but one threshold program and is responsible for day-to-day program management. The MCC is committed to evaluating threshold programs to ensure accountability to its stakeholders. At a minimum, the independent program evaluation must: identify program outputs and outcomes, assess efficiency and effectiveness of the threshold program, provide lessons learned that may be applied to similar projects, and assess the likelihood that results will be sustained over time.

## Rules

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<sup>1</sup> MCC Fact Sheet, <http://www.mcc.gov/documents/press/factsheet-2010002014709-mccataglance.pdf>

<sup>2</sup> MCC Website, 2011. <http://www.mcc.gov/pages/about>

The selection of countries as eligible for MCC assistance is a decision by MCC's Board of Directors. Transparency regarding the process and criteria that govern selection of country partners and that inform the Board's eventual decisions is a hallmark of the MCC model. For a country to be selected as eligible for an MCC assistance program, it must demonstrate a commitment to just and democratic governance, investments in the people of a country, and economic freedom as measured by 17 different policy indicators. The MCC uses a four-step process for eligibility: i) identify candidate countries, ii) publish selection criteria and methodology for country selection and accept public comment, iii) issue candidate country scorecards, and iv) select countries eligible for MCC program assistance.<sup>3</sup>

### *Criteria*

MCC uses a variety of indicators in eligibility consideration. This includes the use of rigorous methodology and objective data. Indicators include the following 17 criteria used to determine country eligibility for MCC program assistance: civil liberties, political rights, voice and accountability, government effectiveness, rule of law, control of corruption, immunization rates, public expenditure on health, girls' primary education completion rate, public expenditure on primary education, business start up, inflation, trade policy, regulatory quality, fiscal policy, natural resources management, and land rights and access.<sup>4</sup>

### *Maintaining Compact Eligibility*

Selection for eligibility initiates a multi-year partnership dedicated to pursuing economic growth and poverty reduction through the development and implementation of a compact. MCC monitors the policy performance of compact eligible countries throughout a one year period. Once a country is selected as eligible, MCC expects it to continue its reform process and seek to maintain and improve its overall policy performance on the indicators. The Millennium Challenge Act does not require MCC to reassess eligibility annually for countries with compacts, but eligible countries that have not yet signed a compact are reselected each fiscal year during the time it takes to develop their compact. A country remains eligible for MCC funds from the fiscal year in which it was chosen unless funds from that fiscal year are exhausted or the Board suspends the country from eligibility.<sup>5</sup>

### **Financing**

The MCC pool of funds is allocated by the U.S. Congress on an annual basis and the amount varies by year. In 2007, the amount allocated was \$2 billion, which was the highest to-date.<sup>6</sup> MCC provides the grants on a case by case basis, dependent upon the aforementioned criteria. The average amount granted to nation for their development needs since 2005 is \$189 million, with the minimum being \$6.7 million (provided to Guyana in 2007 via the threshold program) and the maximum being \$678 million (provided to Tanzania in 2008 via the compact program).<sup>7</sup> Economic rate of return data is made public via the MCC website.

### **Operations and Outcomes**

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<sup>3</sup> Guide to the MCC Indicators and Selection Process, <http://www.mcc.gov/documents/reports/reference-2010001040503- fy11guidetotheindicators.pdf>

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> MCC Funding Statistics, 2007: [http://en.wikipedia.org/wiki/Millennium\\_Challenge\\_Corporation](http://en.wikipedia.org/wiki/Millennium_Challenge_Corporation)

<sup>7</sup> Page CRS-18 <http://fpc.state.gov/documents/organization/70295.pdf>

Over \$29 million have been disbursed in agricultural loans over the 7 years of operation.<sup>8</sup> The MCC states that more than 87,000 farmers have been trained and more than 12,000 hectares of land are under production. More than 3,362 kilometers of roads are under design, and road construction is underway.

### **Box 1- MCC Nicaragua Rural Business Development Project**

In 2006, MCC started implementing a five-year, \$113.5 million compact with the Government of Nicaragua. This included an investment of \$32.9 million in the Rural Business Development Project (RBD), which was executed by MCA Nicaragua (MCA-N), the local entity implementing Nicaragua's MCC Compact. The RBD Project worked with over 8,500 producers and targeted key productive sectors in western Nicaragua such as livestock (dairy), agricultural production (vegetables, grains and roots), and forestry.

MCA-N carried out a value chain analysis of these key sectors to identify the main constraints to increased productivity. Based on the analysis, MCA-N developed promotion strategies for the different sectors that included a variety of small-scale infrastructure, technology transfer (drip irrigation, good agricultural practices, utilization of improved product varieties, improved livestock management), capacity building for producers' cooperatives, and marketing support. Each of these interventions was demand-driven and based on business plans presented by each of the beneficiaries.

MCA-N supported 1,635 milk producers, of whom 33 were women, with on-farm training and capacity building services to improve the management of livestock.

The Compact co-invested with farmers in 12 new Milk Collection Centers, which are equipped with cooling tanks and labs to test the milk quality; prior to the Compact, there was only one Milk Collection Center in the region.

Based on preliminary data provided by the implementer, the project resulted in productivity gains as milk production increased on average from 2.14 liters/cow/day to 2.86 liters/cow/ day, representing a 33 percent increase.

See: <http://www.mcc.gov/pages/countries/program/nicaragua-compact>

#### ***Further Resources***

- MCC Methodology- <http://www.mcc.gov/pages/selection>
- MCC Country Coverage- <http://www.mcc.gov/pages/countries>
- MCC Impact Evaluation- <http://www.mcc.gov/pages/results/impacts>
- Issue Briefs, Working Papers, Annual Reports- <http://www.mcc.gov/pages/about/reports>

<sup>8</sup> MCC Website, 2011. <http://www.mcc.gov/pages/about>