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THE MILLENNIUM CHALLENGE CORPORATION

AN OPPORTUNITY FOR THE NEXT PRESIDENT

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EXECUTIVE SUMMARY

The Millennium Challenge Corporation (MCC) is one of the brilliant innovations of the eight-year Bush presidency. It is brilliant because it was designed expressly to avoid the shortcomings that have plagued other aid programs for decades. It is innovative because no other aid agency has such a purposeful mandate, such operational flexibility, and such muscle.

The MCC started off on the wrong foot in 2004. New leadership a year later put the MCC back on track, but the federal government's severe budget constraints and the MCC's inability to show results could jeopardize the agency's existence.

The latest jockeying for the fiscal year 2009 budget serves as a sobering example. The Appropriations Subcommittee in the House of Representatives pushed back against an increase, recommending instead the same amount appropriated the year before ($1.54 billion), while the Senate appropriators offered $254 million, nearly $2 billion below the administration's request of $2.225 billion. The Obama administration and the new Congress will have an opportunity to give the Millennium Challenge approach a new lease on life that could enable it to achieve its potential as the world's most effective catalyst for economic growth.

The main complaints about the MCC are that it has disbursed only a small fraction of the funds appropriated to it by the Congress, and it has not yet produced any measurable results. These are not real problems. They reflect unrealistic expectations.

The biggest problem we see is risk aversion. Under pressure to prove it is not wasting taxpayer monies, the MCC has opted to use familiar techniques and partners, and to push for early results. These choices could ultimately doom the concept. Development is a messy process. Impatience is the chief enemy of effective development assistance. With highly visible domestic problems, such as our health care and financial systems, it is especially unhelpful to expect developing countries to achieve quick and efficient results.

The MCC has six features that make it special and worth reinforcing:

- *Rewarding good performance*. This much-touted approach alone justifies giving the MCC a chance to serve as a proof of concept.

- *Focusing on low-income countries*. As long as Congress continues to fund the MCC well below the $5 billion per year rate in President Bush's original proposal, this focus is sensible.

- *Using objective indicators to guide the selection process*. While the objective indicators have limitations that require the use of subjective judgment, they are the most innovative feature of the MCC and are the principal driver of the "MCC effect."

- *Achieving a high degree of country ownership*. The process of developing a compact proposal has set a new standard for developing a program that addresses the partner country's own priorities, has broad support, and enjoys the firm commitment of the government.

- *Having operational flexibility*. Congress has wisely chosen not to micromanage the MCC. This feature may be the most critical in making the MCC a successful experiment. Three sources of flexibility contribute to its effectiveness: lack of country and sector earmarks, authority to ignore barnacles (like the "Buy America" requirement and dozens of other provisions that have hobbled other foreign aid agencies), and the ability to commit its appropriated funds in future fiscal years—eliminating pressure to commit them prematurely to avoid losing them entirely.

- *Keeping staff small*. Much of the MCC's potential value will come from having experts who can help countries propose compacts that have minimal "overhead" costs. This feature may be at risk. Because of the types of projects the MCC has opted to support, pressures to add accountants and other experts in monitoring and evaluation are likely to intensify.

The MCC has one operational constraint that is seriously impairing its effectiveness: the provision in the MCC's authorizing legislation that limits the MCC to having only one active compact with a single partner country. It is impossible to be "transformative" in any country within five years. The MCC will fail if the American public and the Congress cannot see the necessity of supporting good performing countries for 10-20 years in order to achieve a sustainable transformation. The one-compact-per-country rule forces the MCC into packaging together activities that do not fit naturally, and to follow a stop-and-start pattern of activity. The ability to enter into concurrent compacts is the most important short-term fix for the MCC.

There are five less critical fixes that President-elect Obama could also seek to make the MCC more effective:

- *Governance*. Add at least three private sector members to the MCC Board of Directors, making the ex officio members non-voting members, letting the Board elect its own Chairman, and appointing a new CEO and senior vice presidents who are above partisan politics.

- *Innovation*. Actively seek compacts with public sector partners below the central government level, and with nongovernmental partners. Experiment with budget support linked to exceptional progress in a government program. Experiment with grants to leverage foreign investment.

- *Indicators*. Adopt a more sophisticated approach to selection so that having a score below the median is not given as much weight in considering compact eligibility for countries that have taken a large leap forward in overall performance.

- *Lower the limit on middle-income countries*. Assuming that the MCC's annual budget allocation returns to the $2 billion level or higher, remove the 25 percent limit on compact commitments to lower middle-income countries within each fiscal year.

- *Threshold program*. Instead of splitting funding and management responsibility for the Threshold program between the MCC and USAID, combine the responsibilities either in USAID or the MCC. If USAID is to be responsible, Congress should appropriate additional funds to support it or give it a priority ahead of other activities. If the MCC is responsible, the threshold program should be restructured to make it more consistent with the philosophy of the agency by funding activities that help good performers prepare to implement compacts instead of activities that help poor performers achieve better indicator scores.

Finally, there are two steps that Presiden-elect Obama could take to signal that he intends to utilize the MCC to its full potential:

- *A broader mandate.* Until the 1990s, USAID gave a high priority to promoting economic growth in its assistance activities (grants and loans, for budget/balance of payments support as well as project support). Currently there is no U.S. Government agency with the capacity to design and manage effective economic growth activities. In the context of moving MCC's budget allocation toward the $5 billion level in the original proposal, a case might be made for broadening the MCC's mandate to support economic growth activities in low-income countries and lower middle-income countries even when they do not qualify for a compact. This step would acknowledge that economic stagnation can be a major obstacle to good performance against the MCC's three core values. It would include authority to make loans and equity investments as well as grants. Operations along these lines would be distinct from what the Overseas Private Investment Corporation (OPIC) does for two reasons. First, the MCC would only undertake these operations in countries that are good performers or are making significant progress, while OPIC would continue to support sound projects by American investors without a direct link to country performance. Second, the MCC would have a larger "toolkit" that it could use innovatively, while OPIC would continue to operate with its limited set of tools.

- *FY 2010 budget request and appropriations.* A budget request below the FY 2009 level requested by President Bush ($2.25 billion) could be the kiss of death for the MCC. A request at the $2.5 or $3.0 billion level would signal the new administration's commitment to achieving the MCC's potential. To validate this move, Congress will have to appropriate for the MCC at least $2.0 billion in FY 2010.

THE PROMISE

President George W. Bush heralded the birth of the MCC on the eve of the U.N.'s Financing for Development Conference in Monterrey, Mexico, in March 2002.[1] His announcement came 14 months after his inauguration and six months after the terrorist attacks on September 11, 2001.

The Bush commitment substantially exceeded expectations for what the United States would put on the table at the Monterrey conference. At a level of $5 billion per year of *additional* funding, it represented no less than a 50 percent increase in official development assistance (ODA) from the United States, which at the time ranked next-to-last among the OECD member countries in ODA disbursements as a share of GNP, surpassing only Greece as a donor.

More remarkable than the size of the commitment was the nature of the commitment. It would not be more of the same. It would be different, better. It would reward good performance by focusing exclusively on poor countries implementing sound economic development and poverty reduction strategies, as reflected in objective indicators. It would achieve measurable results.

Conception turned out to be the easy part. The birth of the MCC did not go smoothly. It took almost a year for the administration to send legislation establishing the MCC to Congress, it took another year for Congress to send authorizing legislation to the President, and it was not until May 2004 that the MCC's first CEO was confirmed by the Senate and sworn in. Thirteen months later he was forced to resign.

The long gestation period created some frustrations but can be justified by the innovative nature of the MCC and the competing foreign policy priorities of those years, especially the war on terrorism and the intervention in Iraq. While the purity of the MCC concept was compromised significantly in the process of obtaining enough votes in Congress to establish it, the result could have been much worse. Six key elements of the original proposal were preserved: rewarding good performance, country ownership, measurable results, operational efficiency, sufficient scale at the country level to be "transformative," and global commitments at the level of $5 billion per year.

Table 1: MCC milestones

Action	Date
Announcement by President Bush	March 14, 2002
Legislation sent to Congress	February 5, 2003
Legislation signed by President Bush	January 23, 2004
First MCC Board meeting	February 2, 2004
FY 2004 eligible countries announced	May 6, 2004
CEO Applegarth confirmed by Senate	May 9, 2004
First compact signed(Madagascar)	April 18, 2005
Resignation of CEO Applegarth announced	June 15, 2005
First threshold program approved (Burkina Faso)	July 7, 2005
CEO Danilovich confirmed by Senate	October 7, 2005
Environment and land access indicators added	September 11, 2006
Last two MCC Board members confirmed by Senate	June 22, 2007
Two business indicators combined into one	September 12, 2007
Reorganization of staff announced	October 1, 2007
MOU with U.K.'s DFID signed	February 19, 2008
MOU with General Electric Company (GE) signed	April 2, 2008
ERR analysis tool announced	April 29, 2008
MOU with Phelps Stokes Fund signed	May 15, 2008
MOU with Alliance for Green Revolution in Africa signed	June 11, 2008

A ROUGH START

In our mid-2005 assessment of the MCC, we wrote that it is "a welcome experiment and merits substantial funding by the Congress" We also noted that the MCC "…is limping, largely as a result of self-inflicted injuries." The source of these injuries was a management team that made several critical blunders, although the Board of the MCC surely deserves some of the blame, and the White House personnel office picked the members of the team.

The first CEO of the MCC, Paul Applegarth, was persuaded to resign in June 2005, barely more than a year after being confirmed by the Senate. His successor, John Danilovich, was confirmed the following October and soon began implementing improvements that have corrected the early missteps and kept the MCC alive. The "rough start" we describe in this section covers the period from the unveiling of the MCC by President Bush in March 2002 to September 2005 (end of FY 2005).

Creating a new agency

President Bush's initial concept did not specify the organizational form of the new bilateral assistance instrument labeled "The Millennium Challenge Account" (MCA). Three alternatives were considered: giving USAID responsibility for administering the MCA, creating a new office within the State Department to administer it, or creating a special-purpose government corporation to run the program. The President chose the third option and named it the "Millennium Challenge Corporation" (MCC).

In our mid-2005 assessment of the MCC, we found no reason to question the choice of creating an independent federal agency. We still see three distinct advantages associated with this form over USAID and other U.S. assistance vehicles: it is free from most of the plethora of legislative requirements imposed on other vehicles; it is free from country earmarks; and it is free from the obligation to commit funds in the year they were appropriated. All three advantages are important to the MCC's effectiveness. These three forms of flexibility, together with the MCC's reliance on objective indicators measured by others, give it a capacity to achieve development results that other aid agencies can only envy.

Governance

The MCC legislation created a Board of Directors with five *ex officio* members and four private sector members. The ex officio members are the Secretary of State (serving as the Chair), the Secretary of the Treasury, the United States Trade Representative, the Administrator of the U.S. Agency for International Development, and the CEO of the MCC. Two of the private sector members are nominated by the Majority and Minority leaders of the Senate, and two are nominated by the Majority and Minority leaders of the House.

We noted in our earlier assessment that the private sector members were added when the Congress reworked the authorizing legislation submitted by the President.[2] The mix of government officials and private sector representatives seemed reasonable at the time. However, the two seats to be filled by nominees from the House leaders remained vacant due to uncompromising positions by the opposing parties, and were not filled until June 2007. The impasse over filling these seats was part of the MCC's rough start.

On the positive side, the MCC from the beginning committed itself to a high standard of transparency.

Management and staffing

Several management and staffing mistakes contributed materially to the MCC's rocky start. There are two sides to every story, but we have not found anyone who laments the departure of Paul Applegarth. He seems to have been too much of a micromanager, and he certainly failed to establish good relations with key members of the Congress on both sides of the aisle and their staff members.

Quite a few of the initial hires for the MCC's staff turned out to be square pegs in round holes, but it appears that quite a few of these were more or less imposed on Applegarth by the White House personnel office. A number of initial hires came out of the financial sector with little experience in programs to reduce poverty through economic growth. This limitation was compounded by a tendency to ignore or be unaware of the enormous expertise in the NGO sector and in USAID. As a result, false steps committed by the MCC were reported quickly to some key staff members in the Congress upon whose support the MCC was critically dependent.

Lawyers hired at the beginning were allowed to draft compacts that looked more like private sector contracts, creating a serious public relations problem in the partner countries, while establishing procedures that delayed implementation by requiring frequent Washington approvals. MCC staff members also initiated discussions with officials in partner countries without adequately consulting with USAID field missions, which got the MCC off on the wrong foot with this important agency. Some MCC staff reported that they were actively discouraged from consulting with USAID.

As strange as it seems now, the first managers of the MCC believed that they could get the program up and running with a staff of no more than 100 members. The ceiling was moved up to 200 during the second year, and now stands at 300.

Funding

The original proposal by President Bush was to ramp up to a funding level of $5 billion per year within three years. He lived up to this commitment by submitting budget requests to the Congress for the MCC of $1.3 billion in FY2004 followed by $3.3 billion and $5 billion in the next two fiscal years. (See Table 2)

The proposal met with funding resistance from the Congress immediately. In FY 2004, Congress only authorized $1.0 billion, which was fully appropriated. In FY 2005, Congress only authorized $2.3 billion and appropriated only $1.5 billion. In FY 2006, Congress authorized the full $5 billion but appropriated only $1.77 billion.

As strange as it seems now, the first managers of the MCC believed that they could get the program up and running with a staff of no more than 100 members.

The funding problem in these early years reflected several factors. One was a poor job of managing Congressional relations by the MCC. Another was lobbying by the major constituency for foreign aid to ensure that appropriations for the MCC would not reduce funding for their existing programs. A third factor was growing budget constraints as funding for the war on terrorism, especially in Iraq and Afghanistan, escalated.

Indicators and country selection

The MCC's greatest success in its early years was in creating an objective process for determining country eligibility. A multi-step process was adopted. First, annual per capita income ceilings were set for a low-income group of countries and a lower-middle-income group. This yielded a group of 72 countries. Second, a set of 16 (later 17) indicators produced by independent outside sources was selected to measure country performance in the areas of ruling justly, investing in people, and economic freedom. All of the countries that met the income criteria were then scored and ranked on the basis of the indicators.

By and large, the indicators part of the eligibility process was well received by the Congress and civil society in the MCC's first two years and provided a solid foundation for the MCC's improved performance since 2005. The remaining steps in the process of selecting countries as candidates to negotiate compacts were not quite as smooth, nor were they a major source of criticism.

Third, the MCC adopted the innovative approach of setting a benchmark for performance: ranking above the median on at least half of the indicators in each of the three categories, and ranking above the median on the corruption indicator. This approach was not contentious at the beginning but it did create some issues later on, especially when the rankings of several countries that had entered into compacts fell below their initial levels.

Fourth, and finally, the MCC Board selected countries to be "eligible" for compacts. This stage of the process allowed for some discretion by declaring a few countries eligible that came close to but did not fully meet the performance standard. Of the candidate countries deemed eligible in its first two years of operations (FY2004 and FY2005), the MCC Board selected 17 countries. Four of these (Bolivia, Georgia, Morocco, and Mozambique) did not meet the performance standard, strictly speaking, raising some questions about the influence of short-term foreign policy objectives in the selection process. A wiser approach might have been to select fewer countries at the outset, in order to make the process of staffing up and developing workable procedures more manageable.

Compact design

By the end of its second fiscal year in operation, September 2005, the MCC had signed compacts with only four countries: Madagascar, Honduras, Cape Verde, and Nicaragua. With three-and-a-half years having elapsed since the MCC initiative was announced by President Bush, the small number of signed compacts started becoming an issue, especially as available funding was increasing sharply and producing large undisbursed balances.

We suggested in our 2005 study that the long-term success of the MCC would be determined more by the quality of compacts than the number of compacts, and we stressed the challenges involved in establishing a new federal agency and a new foreign assistance program. At the same time, neither we nor other observers were much impressed by the design of the first four compacts. Our assessment of these four compacts three years later is discussed on pages 20-22.

Compact design can be broken down among five elements. Our assessment of each element in mid-2005 is summarized in the following paragraphs.

Preparation. One of the hallmarks of the MCC approach to development assistance is an exceptional degree of participation by the host country government and civil society in order to achieve a high degree of ownership. Some problems were visible, but they appeared to relate more to inexperience on the part of the MCC's staff and the pressure to conclude negotiations quickly than from any flaws in the basic approach. Relations with USAID field missions were a bit rocky and coordination with other donors was less than ideal. Since 2005, considerable progress has been made to correct these problems.

Size. To achieve the objective of being "transformative," compacts were expected to be relatively large. The average size for the first four was $178 million. The countries involved were relatively small, so these were clearly large commitments, but Cape Verde was the only country where the compact size was larger than the active World Bank portfolio, or exceeded 10 percent of the previous five years of ODA received. Subsequent compacts were larger. The first compact, with Madagascar, was for four years while the others were for five years (the authorized limit). All subsequent compacts have been for the full five years, and the Madagascar compact was later extended into a fifth year. In our 2005 assessment, we highlighted two related issues: the five-year limit and the prohibition against having more than one compact at a time with a partner country. We stressed the advantages of giving the MCC the option of extending compacts beyond five years and negotiating concurrent compacts. MCC management has now formally requested authority to do both, and Congressman Donald Payne recently introduced legislation to make these adjustments.

Content. Two features of the first four compacts were a focus on the agriculture sector and on infrastructure projects. These choices reflected priorities identified by the partner countries, and were also defensible in terms of sound strategies for poverty reduction through economic growth. Nevertheless, the agricultural activities looked like typical USAID projects, and little innovation was evident in any of these compacts. For example, nothing in the MCC's authorizing legislation precludes budget support as distinct from project financing. These features have largely remained in subsequent compacts.

Negotiating Partners. A third feature was the MCC's choice to negotiate compacts exclusively with the national government of the partner countries, and this feature has been maintained without exception. We noted in our 2005 assessment that the MCC has the authority to negotiate compacts with private sector entities (e.g., NGOs) as well as sub-national authorities, and we urged the MCC to experiment with these options. It is noteworthy that a single state in India contains more people than the combined population of 13 of the 18 compact countries. It is possible that the demonstration effect of a successful compact with a sub-national entity in India, China, or Indonesia on other provinces in the same country could far outstrip the impact on global poverty of successes in a handful of small or mini-states. The MCC has not experimented with this approach. Instead, it has formally requested authority to negotiate compacts with multi-country regional authorities. This is a route that has a long history for donors of unfulfilled commitments, broken promises, and disappointed expectations.

Implementation. One concern we mentioned in our mid-2005 assessment was an excessively legalistic approach to documentation. The first four formal compacts were lengthy documents that resembled commercial bank loan indentures. The approach to documentation was changed after 2005. Now, compacts are much more readable documents. Another concern we mentioned was creating "project management units (or PMUs)" in host countries to implement the compacts. The current standard for aid effectiveness—the Paris Declaration by OECD Donors in 2005—discourages this approach because it tends to pull competent officials who are generally in short supply out of critical positions in government ministries and put them into units that will disappear when the funding ends. The MCC continues to rely heavily on PMUs, which it calls "accountable entities," that are mostly purpose-based and rarely mainstream govern-

Table 2: MCA funding requested and provided (billion dollars)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Original Proposal	1.3	3.3	5.0	5.0	5.0	5.0
Authorized by Congress	1.0	2.3	5.0	5.0	*	*
Budget Request	1.3	2.5	3.0	3.0	3.0	2.225
Appropriations	1.0	1.5	1.77	1.75	1.482**	***

** Pending re-authorization*
*** After a rescission of $58 million*
**** To be determined. A Congressional Continuing Resolution provides $640 million through March 6, the same pace as funding in FY 2008.*
Sources: Fox-Rieffel WP, July 2005, CGD's MCA Monitor Blog, MCC FY 2009 Budget Justification

ment agencies. Such organizations would be easier to justify in countries where concurrent compacts are in force, suggesting a longer operational life for these entities. At present, they are just another donor-created way to avoid the expenditure and procurement system utilized by all other government entities in the same country. In our 2005 assessment, we also noted a tendency toward micro-management that seems to be less of a problem now.

Monitoring and evaluation. President Bush placed considerable emphasis on achieving "measurable results" with the MCC. As a result, the MCC has made a considerable effort to include a state-of-the-art monitoring and evaluation system into every compact. No other donor makes its economic rate of return (ERR) analysis as detailed and freely-available as the MCC. This is commendable on its own, and presents an interesting challenge to other donor organizations. Nevertheless, the state of the art in measuring results is still fairly primitive. We worry that the MCC approach might backfire by establishing targets that will not be achieved even when the programs are successful from a holistic perspective.

Threshold programs

The legislation creating the MCC authorized "threshold programs" to help countries become eligible for compacts by providing technical assistance focusing on activities that would help to boost their rankings on indicators where they fell below the median. In its first two years, the MCC invited 12 countries to initiate threshold programs. Only two of these, Tanzania and Burkina Faso, have graduated to a compact. Two others, the Philippines and Timor Leste, are working on compact proposals. We did not assess any threshold programs in our 2005 research because none had been signed yet. We noted, however, that the MCC had decided to "subcontract" threshold programs to USAID. While this was a debatable move, we saw more positive than negative implications at that time.

THE TRACK RECORD THROUGH FY 2008

After the rough start under Paul Applegarth, the MCC's second CEO, John Danilovich, has been largely successful in correcting the worst mistakes, avoiding new problems, and getting the MCC to operate smoothly. Nevertheless, this loudly heralded new program is still limping.

In our 2005 assessment, we referred to the MCC's condition as "self-inflicted injuries." The cause of the MCC's current distress is less specific. Part of it is the legacy of the early years: poorly-designed compacts are unlikely to produce successful outcomes, and poor first impressions in Congress can be difficult to overcome. The vehicle is not designed to accommodate easily mid-course corrections. Part of the problem is a budget model that runs against the grain of the Congressional appropriations process. Congress cares most about disbursements and any program that is slow disbursing is a fat target for cuts. Part of the problem is an especially tight budget environment with some very strong competition from another new foreign aid program: the President's Emergency Program for AIDS Relief (PEPFAR). Part of the problem is unrealistic expectations. The first lesson from 50 years of experience with different forms of foreign aid is that none of them achieve results quickly or predictably. Expecting to "transform" low-income countries with poor records of economic growth with a five-year compact is simply delusional.

Partisanship has been a problem. Some early senior people at MCC consciously avoided a bipartisan approach. This led to some decline in support after the Democrats became the majority party in the Senate and House in 2006. Unfortunately, President Bush did not invest much effort to give the MCC a bipartisan character.

The MCC faces two immediate problems as it competes for appropriations in FY 2009. First, it has yet to register a tangible success as measured by a reduction in poverty through sustainable economic growth. This problem is compounded by setbacks resulting from the recent global food and financial crises. Second, its disbursement rate still looks slow from the political perspective of Congress. Consequently, it cannot be assumed that the MCC will survive under the Obama administration as it is currently configured and managed. It is still "small potatoes" and the MCC program could be moved into a beefed up USAID, into the State Department, or into the new Department for Global Development that is favored by some aid advocates in Washington.

The one area where the MCC has exceeded expectations is the so-called "MCC effect." Considerable evidence shows that an impressive number of countries have been implementing reforms specifically intended to improve their performance against the MCC's indicators in order to become eligible for MCC compacts. This effect alone, could justify maintaining or even beefing up the visibility of the MCC. The considerable operational flexibility that the MCC enjoys relative to USAID, because it is not subject to the constraints of the Foreign Assistance Act of 1961 (as amended), is another valuable feature that could be vulnerable in the face of reform. Ensuring that such operational flexibility is not lost, even if the MCC were merged into another part of the government, may be a real challenge.

Governance and staffing

Apart from the resignation of the MCC's first CEO in mid-2005 and the creditable performance of the second CEO (John Danilovich), the most important changes in governance involved the board members from the private sector. The impasse that left the two House-linked positions vacant was finally overcome in June 2007 when Lorne Craner and Alan Patricof were appointed by the president and confirmed by the Senate. In June 2007, Christine Todd Whitman stepped down at the end of her three-year term. In October 2007, she was replaced by former Senator William Frist, and Ken Hackett was re-appointed to a second term.

The MCC Board meets quarterly. Summaries of each meeting are posted on the MCC web site. These summaries show that Treasury Secretary Henry Paulson (formally the vice-chairman of the board) has not attended any of the board meetings since he took charge of the Treasury Department in July 2006. He has been represented by Deputy Secretary Robert Kimmitt or Assistant Secretary Clay Lowery. As Chair of the Board, Secretary of State Condoleezza Rice has attended all of the meetings, and attendance by the other ex officio members has been consistent. Relations between MCC management and the board appear to benefit from the designation by each board member of "plus ones" who are in frequent contact with each other and with the MCC staff. The National Security Advisor or his "plus one" has also been a regular participant.

Expecting to "transform" low-income countries with poor records of economic growth with a five-year compact is simply delusional.

Two milestones related to staffing were reached in FY 2007. First, the staff reached its full congressionally limited complement of 300 members. Second, a major staff reorganization was implemented to separate compact development from compact implementation. In addition, more responsibility was delegated to resident country directors. Another significant innovation was the establishment of the "MCC University" to train country staff on aspects of compact implementation. This annual week-long program brings together MCC staff, people from prospective compact recipients and people from institutions implementing compacts to share experiences, identify problems in the MCC approach, and look for ways to streamline the process of developing and implementing compacts.

The MCC has established a field office in each compact country, typically including two MCC staff members—a country representative and a deputy. All other in-country implementers work as contractors not counted against the MCC staff ceiling, or (mostly) as employees of the "accountable entity." The establishment of this special-purpose entity to implement the compact has been controversial with some governments and with other donors. As noted earlier, such entities can offer better salaries, working conditions and support (computers, vehicles) than the line government agencies responsible for implementing the government budget and—increasingly—donor programs. The MCC has seldom seen government expenditure and procurement procedures as adequate to proper management of its resources, so it has resorted to creation of such entities. The accountable entities are generally sanctioned by the country's legislature, giving them considerably more statutory legitimacy than the typical donor-funded PMU. Still, their role in capacity building in the country is debatable. Bypassing regular government expenditure and procurement practices, the MCC accountable entities provide greater assurance to American taxpayers at the cost of short-circuiting, and perhaps weakening, the standard government procedures that will be needed over the long run if the country is to progress.

Funding

The funding difficulties experienced by the MCC in its first two years have continued up to the present time. As shown in Table 2, appropriations had fallen short of the amounts requested by the president for five successive years. More disturbing the amounts appropriated in the last two years fell short of the appropriations high point of $1.77 billion in FY2006.

The disbursement figures have compounded the problem. An April 2007 GAO report was sharply critical of the MCC's financial performance.[3] It found that the length of time required for compact development has increased from 25 months for the first 11 compacts to 32 months for the last five. It also found that actual disbursements lagged far behind planned disbursements for all of the first 11 compacts, creating the potential for substantial undisbursed balances when the compacts expire. As of the end of December 2007, the MCC had only disbursed $156 million under compacts, which represented 21.4 percent of planned disbursements by that date of $616 million. This issue, along with the disbursement experience during 2008, is explored further below.

Indicators and country selection

The MCC Board reviews candidate countries every year and makes adjustments as appropriate to the list of eligible countries based largely on their performance against the indicators. The indicators have not remained static, however. In particular, beginning in FY2008, two new indicators—National Resource Management, and Land Rights and Access—were added to the original list of 16 indicators. Since FY2005, a number of refinements to the original 16 indicators have also been made.

Compacts signed

As of the end of FY2008, 18 compacts had been signed, and 16 entered into force. While none of the first four compact countries were in the lower-middle-income category, five of the next 14 were in this category. Naturally the geographic range expanded, although most of the compact countries are still in Central America and Sub-Sahara Africa. Other regions now represented are Caucasian states, the Pacific Ocean, and North Africa.

Compacts signed after FY2005 also increased in size. In contrast with the first four that averaged $178 million, the next 12 averaged $410 million. Compact content continued in much the same vein, with an emphasis on the agriculture sector and infrastructure projects. Appendix A lists all compact and threshold and other eligible countries at the end of FY 2008.

Threshold programs

Threshold programs took off after FY 2005. By the end of FY 2008, the MCC had signed threshold programs with 16 countries, all but four of them being in the low-income category. The initial decision to "subcontract" the administration of threshold programs mainly to USAID has continued without interruption. The implementation of threshold programs is discussed further on pages 27-28.

THE ISSUES

Objective Indicators

From the outset, objective indicators of country performance have been at the core of the MCC approach to development assistance. The concept is that the MCC will provide funding to countries that excel in three areas: ruling justly, investing in people, and providing economic freedom. While it sounds simple, performance indicators are easier to articulate than to measure in a meaningful way.

To address the problem of measurement, the MCC states that its approach is to seek indicators that meet eight criteria:

- Are produced by an independent third party;
- Draw on objective and high-quality data using a rigorous methodology;
- Are publicly available;
- Have broad country coverage;
- Are comparable across countries;
- Are clearly linked to economic growth and poverty reduction;
- Are amenable to policy action within a two to three year horizon; and,
- Are broadly consistent from one year to the next.

Today, the MCC is using 17 indicators for measuring country performance. In general, the indicators have met broad approval in the donor community. As discussed below, they are not perfect, but no other available approach to objective measurement seems likely to offer superior results.

The MCC began operations with 16 indicators. Two of the original indicators were combined into one, and two new indicators were added in FY 2007 and FY 2008: one for natural resource management, and the other for land rights and access.

The objective indicators of country performance used by the MCC should be considered "the state of the art." The MCC has continued to work to improve them, with significant results. A number of independent providers of some indicators have tightened their procedures and methodology, while others have shortened the time between data collection and dissemination, at least in part because of the increased visibility provided by the MCC scorecards. The publication of the scorecards showing performance on each indicator for all eligible countries on the MCC Web site each year provides an unprecedented level of visibility with respect to each country's performance on numerous indicators that, put together, is hard to dismiss.

One important consequence of the visibility and evident objectivity of the MCC indicators is to produce a clear "MCC effect" in poor countries. A steadily increasing number of organizations, including the Global Economic Forum, Freedom House, the Heritage Foundation, and the Fraser Institute, have produced ratings of country performance on a variety of indicators. The World Bank made a quantum leap forward on the visibility and accuracy of such measurements through its *Doing Business* database. Nevertheless, the fact that the MCC was able to pull these various efforts into a more comprehensive, objective and visible system has been a major step forward for governments and opinion leaders to think about where their country fits into the world economy, and why their country's performance might be disappointing. This focus by the MCC on objective scores has led at least some national governments and other opinion leaders to look for ways to raise their country's score on various indicators, in response to critics holding the government responsible for their country's low score.

Table 3: MCC eligibility indicators

Indicator	Category	Source
Civil Liberties	Ruling Justly	Freedom House
Political Rights	Ruling Justly	Freedom House
Voice and Accountability	Ruling Justly	World Bank Institute
Government Effectiveness	Ruling Justly	World Bank Institute
Rule of Law	Ruling Justly	World Bank Institute
Control of Corruption	Ruling Justly	World Bank Institute
Immunization Rates	Investing in People	World Health Organization
Public Expenditure on Health	Investing in People	World Health Organization
Girls' Primary Education Completion Rate	Investing in People	UNESCO
Public Expenditure on Primary Education	Investing in People	UNESCO and national sources
Business Start Up	Economic Freedom	IFC
Inflation	Economic Freedom	IMF WEO
Trade Policy	Economic Freedom	Heritage Foundation
Regulatory Quality	Economic Freedom	World Bank Institute
Fiscal Policy	Economic Freedom	national sources, cross-checked with IMF WEO
Natural Resource Management	Investing in People	CIESIN/Yale
Land Rights and Access	Economic Freedom	IFAD / IFC

One academic study (Johnson and Zajonc, 2006) confirms the existence of the MCC effect. It found that eligible countries improved their indicators significantly more after the MCC was established than in the pre-MCC period, and that eligible countries improved their indicators significantly faster than developing countries not eligible for compacts. This suggests that any assessment of the impact of MCC should not be limited to progress in implementing compacts, but should include this more general effect.

Despite the evident success of the MCC in using objective indicators to guide eligibility for compacts, they suffer from at least four significant limitations:

- The majority of the measures used to assess performance are available only with a time lag. In some cases, this may be several years. Some of the organizations from which ratings are collected have reduced the gap between data collection and dissemination. Nevertheless, much of this gap is inherent, and not susceptible to elimination. For indicators with a long lag, current conditions in the country may differ significantly, or even dramatically, from those measured by the objective indicators. A change in government, as in Nicaragua or Bolivia, is frequently the source of a change in actual conditions.

- The MCC is operating in a "bad neighborhood." It is primarily assisting low-income countries. These countries are poor because they have not grown in previous decades, or because (such as in Uganda or Nicaragua or Ghana or Tanzania) they went through a period of catastrophic decline, usually because of bad leadership or civil conflict, or both. While the MCC assists only the "best performing" countries in this group, the assisted countries might be better classified as the "least bad" among all developing countries. Nearly all low-income countries have weak institutions, including limited administrative capacity by the national government, a weak or corrupt judiciary, weak civil-society and private sectors with a very limited capacity to prevent arbitrary action by the country's political leadership. In sum, good performance in the MCC context is a relative term. A high ranking by the indicators can give the false impression that a country's performance is good in an absolute sense when it is merely good in relation to other poor-performing countries.

- Even the best-performing candidate country is likely to be vulnerable to deterioration—sometimes slow, but sometimes rapid—in a particular area of performance that could cause the MCC to regret having signed a compact. Mutual fund prospectuses warn that "past results are no guarantee of future performance." Even stronger caveats are in order when the MCC deems a country to be eligible for a compact. Setbacks are an inevitable consequence of working in a bad neighborhood.

- Measuring corruption is especially problematic. The MCC requires countries to rank above the median on the corruption indicator to be eligible for compacts. The corruption indicator used by the MCC is probably "state of the art." It draws upon heroic efforts by the World Bank Institute to identify and measure the quality of governance, using six different dimensions, including corruption. Nevertheless, there are two problems. First, the state of the art remains primitive. Second, corruption is not one thing, but many things. How does one weigh the various elements perceived by people, such as a corrupt judiciary, election fraud, bribes paid to a policeman or a government official, favoritism in awarding of government contracts, and nepotism in hiring? The differences in interpretation about corruption between one country and another, or between one perspective and another, has produced a cottage industry, often based on anecdotes, of which countries in the world are the most corrupt. Kenya and the Philippines rank among the most corrupt in the world according to some international indices, such as that of the World Economic Forum (WEF). Nevertheless, neither one was ranked by the World Bank Institute as below the median for low-income countries in the FY 2008 rankings. This reflects two problems: the inherent difficulty of identifying an ideal measure of corruption, and differences in the audience for which the indicator is targeted. In the case of the WEF, the target audience is the international investment community, which is concerned about a subset of all corruption.

In sum, the MCC's approach to measuring country performance is as comprehensive and objective as one could hope for with the current techniques for measuring such things. Nevertheless, the process of selecting countries for compacts still involves a substantial degree of subjective judgment, both because of imperfections in measurement and because of the volatility of country performance over time.

Country selection

Initially, the MCC was limited to assisting low-income countries (LICs), as defined by the World Bank's per capita income measure. For FY 2008, the upper limit for LIC status was a per capita income of $1,735 or less. Since FY 2006, the MCC has been able to commit up to 25 percent of its resources to lower-middle-income countries (LMICs), whose per capita incomes ranged, for FY 2008, between $1,736 and $3,595.

The universe of candidate countries for MCC assistance is numerically quite large. For FY 2008, the World Bank classified 75 countries as LICs. The MCC was legislatively precluded from working with eight of them for political reasons (Burma, Cote d'Ivoire, Cuba, North Korea, Sudan, Syria, Uzbekistan and Zimbabwe), leaving a total of 67 candidate countries. For FY 2008, another 28 LMICs were qualified for partnership with the MCC. Thus, in principle, the MCC has a universe of 95 countries from which to choose the best performers.[4] Given that the MCC has been able to conclude compacts with an average of 4.5 countries per year during its first four years of operation, it would appear that the selection process is as easy as picking

Table 4: All compacts, by size and fiscal year

Country	Type	Amount				
		FY 2005	FY 2006	FY 2007	FY 2008	Total, 2005-08
Madagascar	LIC	110				
Honduras	LIC	215				
Cape Verde	LIC	110				
Nicaragua	LIC	175				
Georgia	LIC	295				
Vanuatu	LIC		66			
Benin	LIC		307			
Armenia	LMIC		236			
Ghana	LIC		547			
Mali	LIC			461		
El Salvador	LMIC			461		
Mozambique	LIC			507		
Lesotho	LIC			363		
Morocco	LMIC			691		
Mongolia	LIC				285	
Tanzania	LIC				698	
Namibia	LMIC				305	
Burkina Faso	LIC				481	
Total		**905**	**1,156**	**2,483**	**1,769**	**6,313**
Number of Compacts		**5**	**4**	**5**	**4**	**18**
Average Compact Size		**181**	**289**	**497**	**442**	**351**

cherries. In practice, the lack of continuity of country performance identified in the previous section means that today's good performer may be a poor performer tomorrow.

Of the 18 compacts signed so far, 14 have been with LICs, and four with LMICs. Table 4 shows the recipients and the amounts of each by fiscal year. Also indicated in Table 4 is the gradual increase in the average size of compacts. The average rose from $181 million in FY 2005 to $289 million in FY 2006, to $497 million in FY 2007, before receding to $442 million in FY 2008. The increase in size reflects two factors. First, the MCC has begun to make compacts with larger countries. The average population of the countries for the first eight compacts was less than 6 million; for the subsequent 10, it has been more than 15 million. Second, the statutory restriction against concurrent compacts has led the MCC frequently to undertake a very diverse set of activities in individual compacts.

Three other countries (Bolivia, Moldova and Senegal) have submitted proposals for compacts that have not yet been approved by the MCC. Each of the three illustrates some of the limitations on the MCC concept of rewarding good-performing countries. In the case

Table 5: Eligible and threshold countries though FY 2008

Category	Number or Amount
Number of Compacts	18
Value of Compacts ($ million)	6,313
Average Size ($ million)	351
Number with Threshold Agreements	20
Compact Eligible with No Agreement	8
Threshold Eligible but no Agreeement	5
Eligible Countries for Compacts or Threshold Programs	40
All potentially-eligible countries	95

of Bolivia, the deterioration of the political situation (despite good objective indicators on "ruling justly") makes it is clear to anyone reading the newspapers that the country is highly polarized and experiencing a deep political crisis. Furthermore, again despite good objective indicators on "economic freedom," it is clear to a newspaper reader that government domination of the economy is rapidly increasing. For Moldova, the government's lack of response to concerns about trafficking of persons has been an obstacle to U.S. assistance. Finally, for Senegal, the country has not yet been able to produce a compact proposal that meets the MCC's standards.

Besides the three countries mentioned above, five others (Malawi, the Philippines, Timor-Leste, Jordan and Ukraine) have been deemed compact eligible, but have not submitted proposals. Table 5 summarizes the situation of the 40 countries that the MCC considers eligible for threshold or compact programs. (The country-by country detail behind Table 5 can be found in Annex A.)

Judging by the 18 compacts signed so far, the MCC has a strong preference for small countries. Two compacts were concluded with mini-states with populations of less than 500,000 (Vanuatu and Cape Verde), and another, Timor Leste, was on the horizon until its recent performance on the corruption indicator dropped it off the radar. Another five compacts went to countries with populations below 5 million. Only three went to countries with a population of 20 million or more (Ghana, Morocco and Tanzania). Altogether, the 18 compact countries have a total population of less than 200 million—or less than 10 percent of the population of the LICs, or less than 5 percent of the population of the LICs and LMICs. (Note: about half of the population of each group lives in two countries—India and China.) Governments in small countries are more likely to take actions to meet MCC requirements, at least until a new government takes office. But it is not obvious that the MCC's implicit "small country strategy" is likely to be more effective in reducing world poverty than a strategy focusing on larger countries even when their indicator scores are mixed.

Beyond compact implementation in the 18 countries listed above, the MCC has been active in 20 other countries, via threshold agreements. USAID, rather than the MCC, has implemented almost all of the Threshold programs, a factor that has promoted closer cooperation between the two organizations.

Compact design

The MCC has adopted a strongly country-centered approach to compact design. Many bilateral donor agencies do their own diagnoses of critical problems in countries they want to help ("needs assessments"), and then try to convince the government to support projects addressing these problems. Some donors, notably certain U.N. agencies, tend toward the opposite extreme of supporting whatever project the government of the moment proposes. The MCC takes a different and arguably better approach. Like most other donors, it has decided that the national government is the proper channel for its programs. Unlike other donors, however, the MCC has insisted on a national dialogue on priorities. This has led in most cases to a very public process, where extensive discussion of alternatives and approaches has taken place. In the three Central American countries visited for this study, taxi drivers and other ordinary people were familiar with the MCC compact and its progress (or lack thereof).

Still, the government in power determines the actual proposal to be submitted to the MCC, and the public discussion results in so many alternative concepts and proposals that the government has substantial leeway in the specific proposal it puts forward to the MCC. In Senegal, for example, the government proposed in 2005 creating an industrial zone near Dakar to create jobs and exports, and the MCC provided funding for feasibility studies. These studies did not find adequate development impact from the activity, so the MCC did not fund it. The MCC and the government of Senegal have continued to discuss possible alternative activities to fund under a compact. Meanwhile, the government has apparently obtained support for the original industrial zone proposal from another donor country.

The limited evidence available suggests that the MCC-induced dialogues in partner countries have been more fruitful than the earlier (and still ongoing) dialogues initiated by the World Bank in connection with its Poverty Reduction Strategies. The World Bank process seems to suffer from being an open-ended process that does not force choices among alternatives and frequently leads to unrealistic "Christmas trees" of activities intended to address every problem at the same time. The MCC's requirement to calculate and publish the ERR for its compacts has served to further winnow the feasible from the unrealistic. The use of the ERR is discussed further on pages 25-26.

Compact design is limited by an important legislative restriction: a country can only have one compact at a time. This has two potentially adverse consequences. First, the knowledge by a host government that no further assistance from the MCC can be obtained during the next five years seems to have been a factor in the slippage on the policy front in some countries. Honduras and Nicaragua are two cases where policies have deteriorated significantly, and where no new compact will be possible during the tenure of the current government. Second, any new compact would likely be awarded to a successor government, not to the administration implementing the first compact. With these factors operating, one consequence of having a compact seems to be a reduced incentive for meeting the MCC criteria.

Implementation of the MCC concept

Seven aspects of implementation are discussed in the following sections: organizational structure and staffing, compact implementation, sector priorities, partnerships with NGOs and businesses, relationship with USAID, relationship with other donors, and monitoring and evaluation.

Organizational structure and staffing

The MCC has chosen a very lean organizational structure. With a total staff of less than 300, it administers ongoing grants of about $5 billion. This represents more than $15 million per employee, which is probably five times that of the average employee of USAID. Still, there is no easy way to compare financial management in this way, as the MCC, like USAID, the World Bank, and other donors make extensive use of consultants, contractors, project implementation units, and other devices that obscure the actual administrative overhead in delivering aid.

MCC staff presence in a compact country includes only two people—a country representative and a deputy. Administrative staff members are hired locally, and are not counted as MCC employees. Additionally, the responsibility for most compact implementation is vested in local implementing organizations ("accountable entities," in the MCC's jargon), often called an MCA. The typical MCA is governed by a board of directors consisting of eminent persons from both the public and private sectors. (The majority of the members of most of the oversight boards are government ministers, serving in an *ex oficio* capacity.)

Beyond the implementing organization, compacts typically require that independent agencies be hired to perform the critical functions of procurement and auditing.

Compact implementation

A simple approach to assessing compact implementation is to examine what has happened with the four compacts that had been signed at the time of our mid-2005 assessment: Madagascar, Honduras, Cape Verde, and Nicaragua.

In all four cases, implementation has been far slower than expected. Disbursements made through June 30, 2008, are shown in Table 6. Altogether, only 16 percent of compact funding for the four countries had been disbursed by mid-2008, three years into the five-year projects.

More specifically, in terms of expected results, the most recent MCC compact Implementation summaries (supplemented by visits in July 2008 to Honduras and Nicaragua) show the following results:

Madagascar. The MCC's first compact had only disbursed 34 percent of the total funds committed almost three years into its planned four-year life. (The compact was later extended to a fifth year.) Other indicators from the mid-2008 progress report were also disappointing: 2,000 families had acquired land rights because of the titling project, some $625,000 in microfinance loans had been provided. In both cases, these amounts are small potatoes.

Honduras. This compact was primarily an infrastructure activity, intended to improve the main highway connecting much of Honduras (as well as El Salvador and Nicaragua) with the region's best Atlantic port. This highway was expected to promote significant increases in non-traditional exports—particularly winter fruits and vegetables for the U.S. market—from all three countries. Weight-control stations along the highway and assured funding for highway maintenance were also expected to guarantee that the highway would continue to play this key role.

More than three years into the compact, however, the first kilometer of asphalt had yet to be laid. Implementation was delayed for nearly a year by a new government that took office a few months after the signing of the compact, which demanded wholesale changes in compact implementation.

Table 6: Implementation progress—FY 2005 compacts

Country	Disbursed as of 6/30/08 ($m)	Compact Amount ($m)	Percent Disbursed	Date of Compact
Madagascar	37.7	110	34%	18-Apr-05
Honduras	21.5	215	10%	13-Jun-05
Cape Verde	17.6	110	16%	4-Jul-05
Nicaragua	22.6	175	13%	14-Jul-05
Total	**99.4**	**610**	**16%**	

The agricultural-development portion of the compact appears to be on track, as the MCC contracted with a firm (Fintrac), which had been doing similar work in Honduras for USAID. Contracting for highway construction is expected to be awarded soon, though obtaining right-of-way for some stretches of the highway remains as a potentially serious obstacle to timely completion. Cost and time overruns mean that the highway upgrading will not be fully completed within the five-year time-frame of the compact, but an agreement between the MCC, the Honduran government, and the Central American Bank for Economic Integration (CABEI) is expected to ensure completion of any remaining sections. Significantly, MCC staff and the MCA appear to be highly competent and totally committed to successful implementation of the compact.

Cape Verde. This compact also focused primarily on infrastructure—with half of the total funding allocated for upgrading the country's main port, and another quarter allocated for improving roads and bridges. By the end of year three, $78 million, or 70 percent of the $110 million compact was to have been disbursed. As shown in Table 6, actual disbursements through mid-2008 were a mere $17.6 million. The MCC's mid-2008 progress report makes no mention of progress on the port. It stated that asphalting has started on a 16-kilometer road segment that will benefit the 1,000 residents of an isolated fishing community. Again, pretty small potatoes.

Since the signature of the compact, Cape Verde has moved up from LIC to LMIC status. Since indicators for ruling justly, investing in people, and economic freedom are, on average, higher in LMICs (this is one reason why they are LMICs and not LICs), Cape Verde has failed to meet MCC standards for three years running. As a result, it is no longer eligible for a second compact.

Nicaragua. This compact, too, was focused primarily on infrastructure. It included the upgrading of a major highway link with Honduras, as well as improvements in secondary and farm-to-market roads. Improvements in property registration and property rights were also funded, along with farm productivity improvements.

As in Honduras, a change in government complicated the implementation of the compact. Remarkably, despite the new government's hostility to the United States, it has embraced the compact and generally advanced its implementation. Numerous frictions have arisen, however, over such matters as international bidding for contracts rather than using Nicaraguan firms. As in Honduras, the promotion of improved agricultural technology—notably drip irrigation for high-value crops—is being promoted with considerable success. Again, as in Honduras, MCC staff and the MCA appear to be competent and committed.

Summing up. The first four compacts do not offer a strong basis for concluding that MCC assistance is "smarter aid" than that provided through traditional channels and forms. And, although "disbursement pressure" is a common feature of the incentives for donors, often leading to disbursements when the recipient country has not met key conditions, it is also true that disbursements are the means by which projects change the facts on the ground. (This comment refers only to the projects themselves, and not to the "MCC effect," which is discussed in the previous section.) Subsequent compacts have tended to show greater creativity, though without falling into any easily recognizable definition of "smarter aid." Recent compacts appear to reflect better understanding of country conditions, but it is too early to determine the impact on the ground of these changes.

Given the discussion above about the MCC's rough start, we have tried to identify ways in which subsequent compacts have shown improvement in either approach or effectiveness. The most notable change has been in the time lapse between signature of a compact and its entry into force. For the first three compacts, this lapse was about three months; for the first nine compacts, the lapse averaged five months. Since then, however, the gap has lengthened substantially. For the 10th and 11th compacts, the gap was 10 months. The time lag for the next five compacts lengthened to an average of 14 months.

Much of the MCC's decision to delay entry into force until the partner country has put most implementing procedures and institutions in place is a consequence of the statutory requirement that compacts must terminate at the end of five years. The MCC has learned that the lead time for effective implementation is often quite long in countries with weak procurement and management systems. In such cases, efforts by vested interests to delay implementation for their personal advantage are ever present.

The five-year rule is a double-edged sword. It confers some benefits for the MCC by putting pressure on the host government to push project execution. Yet, the limitation also puts pressure on MCC staff to approve transactions where delay for a clarification or for more forthcoming government action might be more prudent. Indeed, "disbursement pressure" is one of the common sins of the typical development agency that the MCC was intended to correct. The limited evidence available to us suggests that the MCC has been relatively successful in resisting intense disbursement pressures from the Congress and elsewhere, preferring to get things right rather than just moving the money.

Sector priorities

One early criticism of the MCC centered on its emphasis on infrastructure projects and its apparent neglect of social sectors and the poor. This emphasis mainly reflects the priorities of the MCC's partner countries and the trend among donor agencies during the past two decades to make infrastructure financing a low priority. Nevertheless, the MCC's sector focus has evolved over time. While agriculture and infrastructure were the clear priorities at the outset, and still account for more than half of all MCC funding, attention to other sectors has grown in more recent compacts. Table 7 shows the sectoral distribution of MCC funding for the first 18 compacts. As indicated by the table, 38 percent of the MCC's compact funding has been allocated for infrastructure, with agriculture fol-

Table 7: MCC compact allocations by sector first 18 compacts

Sector	Dollar Amount	Percent Share	Number of Compacts
Infrastructure	2,428	38%	14
Agriculture	1,438	23%	13
Management and Evaluation	760	12%	18
Health	573	9%	5
Education	396	6%	5
Private Sector	347	5%	5
Land Access	244	4%	7
Financial Services	102	2%	4
Administrative Reform	34	1%	1
Compact Total	**6,320**	**100%**	**18**

lowing at 23 percent. Health and education together got 15 percent.

Surprisingly, 4 percent of compact funding went for land access, which is a component of seven of the 18 compacts. This is surprising because land reform is an area where USAID has worked for more than four decades, generally with disappointing results. If the MCC is able to demonstrate a better approach to this dimension of development, it will be an important demonstration of "smarter aid." No compelling evidence on this matter, however, will be available for at least several years.

Analysis of sectoral funding over time is even more revealing than the sectoral breakdown itself. Funding for education was absent from the first 10 compacts, but was included in five of the next eight. Health funding was absent from the first 13 compacts, but present in the four of the next five. Clearly, there was a change in direction by the MCC toward greater attention to "softer" sources of economic growth. Five of the last eight compacts only entered into force in September 2008, and two more had not yet entered into force by the end of that month. Thus any evidence of the effect of the changed approach will lie well into the future.

Partnerships with NGOs and businesses

The MCC appears to have been successful in mobilizing support from international NGOs (INGOs), and has used these NGOs extensively in implementing compacts. It is significant that the INGO community in the United States has become a strong supporter of the MCC for three reasons. First, the INGO community closely monitors economic and social progress and foreign assistance activities in every developing country in the world. It operates "close to the ground" and has a good sense of what is going right and what is going wrong. Second, the INGO community has the ear of the U.S. Congress. It is the most powerful constituency supporting foreign assistance. Third, in its start-up years, the MCC actually alienated the INGO community by ignoring it and overlooking its growing role in promoting development overseas. Clearly, the MCC's second CEO, John Danilovich, has wooed the

INGO community successfully. In this process, support from the private sector members of the MCC Board appears to have been critical.

A recent example of the influence of the INGO community can be seen in the attempt by a group of Senators to rescind a substantial part of the MCC's FY 2008 appropriation. InterAction, the leading coalition of INGOs, lobbied effectively against the move. Ultimately, the amount of the rescission was reduced from $540 million to $58 million. InterAction also supported the President's allocation for the MCC when the FY 2009 Federal Budget was issued at the beginning of this year.

The MCC's link with the private sector is more problematic. As indicated by Table 7, only five percent of compact funding is allocated to this sector. Additional funding is surely concealed in the agriculture category, however. In effect, the MCC uses "private sector" to denote the non-agricultural private sector. A substantial, but undetermined, share of the funding MCC compacts for the agricultural sector supports farmers, who are no less private-sector than urban business owners.

The MCC has taken a more rigorous approach to monitoring and evaluation than other donors, requiring each partner country to prepare an Economic Rate of Return analysis, along with performance benchmarks.

There are two problems here. First, nearly all of the compact countries, like other poor countries, suffer from too much government investment and too little private sector investment. Funding through governments tends to further tilt the balance in the wrong direction. More MCC funding to support the private sector (e.g., through associations of non-traditional exporters and other groups likely to lobby for good policies) might produce more economic growth for the same amount of aid.

Second, the MCC does not seem to be taking full advantage of having the most powerful kind of foreign aid available—untied grant aid. Moreover, MCC funding is provided with a high degree of assurance of uninterrupted disbursement over five years, a relatively long time by international standards. The fact that the MCC has been able to fully fund all of its compacts contributes to making them a form of high-powered money. So far, no compact has been revoked or cancelled. According to it own policy, the MCC will only interrupt its support in the face of a "substantial policy reversal."

Because infrastructure has been the MCC's favored sector, accounting for 38 percent of all committed funds, the scope is large for collaboration with private investment—particularly with foreign investors who would bring additional capital to the country. More than almost any other sector, infrastructure is amenable to co-financing arrangements with beneficiaries. For example, people who want to import and export should be willing to pay the cost of port services—at least if they are efficient. Energy or electricity or telecommunications investments can pay for themselves, even if cross-subsidies are used to extend service to low-income consumers. With highways, tolls or other user charges are often feasible. Clean water and sanitation facilities tend to be difficult politically. People resist paying full costs of services that they are accustomed to receiving for free.

Given the power of large amounts (e.g., $100 million) of grant funding, the potential for mobilizing private capital is appealing in theory because of its leveraging effect. The absence of any compact with a component of co-financing with foreign investors is troubling. A $100 million grant for an infrastructure project should easily be capable of mobilizing $200-500 million of private sector funding. This could multiply the impact of a compact on a country's infrastructure base.

Relationship with USAID

Initially, the MCC gave the impression that it believed it was smarter than traditional donors, and therefore had little to learn from them. Now the MCC seems to appreciate that development assistance is a high-risk, low-gain business, and value the knowledge and wisdom in the broad development community. For example, since the departure of Paul Applegarth, the MCC appears to have become a better partner with USAID. There is still considerable competition, but there is more shared interest than was evident earlier. "Scaling up" from USAID pilot activities was evident in Ghana and Honduras—two of the four compact countries visited by the authors.

The tension that remains between USAID and MCC is primarily at the country level. Some USAID missions have seen cuts in funding allocations for their country programs as a direct result of a compact being signed. It is widely understood that OMB has pressed for cuts in USAID funding for countries with compacts. State and USAID planners with broad responsibilities for allocating funds also tend to see overall U.S. government funding for a country as an important variable. When the MCC allocates a large sum for a country, then funding initially allocated for other U.S. government agencies can be shifted to other priorities. So some degree of conflict between USAID and MCC is almost inevitable.

In proposing the MCC, the Bush administration gave assurances that MCC funding would be additional, not a substitute for other forms of USG assistance. In the aggregate, U.S. bilateral assistance has grown rapidly over the past five years, so it is hard to see any substitution. But the shift in U.S. aid priorities—heavily toward Iraq/Afghanistan and HIV/AIDS—has meant that some longstanding USAID activities have become "residual categories," steadily drained to fund preferred activities. In particular, USAID programs targeting economic growth have been significantly reduced. This, together with a sharp reduction in the number of economists on USAID staff, has left that agency with a diminished capacity to promote economic growth in countries not receiving MCC compacts.

Relationship with other donors

The MCC has not given a high priority to coordination with other donors, despite its role as one of the principal donors in most compact countries. In part, this is due to the MCC's lean presence in the country. With limited staff, project implementation is likely to seem much more important than explaining compact implementation progress to other donors. The MCC's use of a specially-created implementation organization, usually outside government ministries, also impedes communication and collaboration. The MCC's preference for establishing such organizations also strikes other donors as violating the Paris Declaration on Aid Effectiveness, in which donors agreed to avoid establishment of special-purpose entities (often called project management units, or PMUs) to carry out an individual donor's projects. Government officials in Ghana, one of the countries visited for this study, were particularly outspoken about the unwillingness of MCC to use partner-country entities and procurement procedures.

Monitoring and evaluation

The MCC has taken a more rigorous approach to monitoring and evaluation than other donors. In particular, the MCC requires each partner country to prepare an ERR analysis, along with performance benchmarks to be achieved during execution of its compact. The ERR is a standard tool used by economists to forecast the impact of an expenditure on future incomes. In the ERR optic, a "bridge to nowhere" would have a very low ERR, because it would generate little additional traffic or economic activity. On the other hand, a bridge that connects an isolated but fertile agricultural region with urban markets would have a high ERR. Facilitated by the bridge, farmers would make investments that increase production, generating jobs and incomes, and stimulating other investments in providing goods and services to those earning this additional income.

The World Bank traditionally placed a high value on the calculation of the expected ERR in deciding whether to fund a project, but it has gradually reduced its use of this tool. One reason is that *ex post*, many projects fell far short of their *ex ante* EERs, suggesting that estimation techniques used were often flawed. Those estimates were made by World Bank staff designing the project, and the methodology used for estimation of the specific project was not made available to the public. A second reason is that the World Bank has moved into areas, such as budget support, governance, and social sector activities where calculation of an EER is highly problematic. For the last several decades, USAID has given far less attention to such calculations as a basis for project selection, opting instead for very general statements about the expected impact of its investments.

Thus, the MCC has adopted an approach that, in principle, is superior to those of both the World Bank and USAID. The initial ERR estimate is made by government officials in the country seeking a compact. The MCC reviews the projections with representatives of the country, discusses problems with the projections and carries out a sensitivity analysis of the calculation to determine its robustness. In principle, since the MCC reviewers of the proposal are less "invested" in the project than donor agencies where the project team calculates the ERR, there is some reason to expect greater scrutiny by the MCC reviewers. The MCC has also made the ERR estimation process remarkably transparent. To begin with, it has issued a background paper laying out the methodology and its justification. More recently, it has begun releasing the detailed ERR calculations for each compact. So far, the MCC has posted on its Web site the assumptions and calculations in the ERRs for nine of its compacts.

The use of ERRs initially raised two concerns, especially in the NGO community. First, it was feared that the MCC would neglect investing in social-sector activities like education and health, where the calculation of ERRs is more problematic than in direct income-generating investments. Second, it was feared that the MCC would be insufficiently focused on poor people, and would prefer to work with higher-income groups where generating big increments to income might be easier.

The MCC has responded to these concerns in several ways. First, its methodological piece on ERR calculations provided examples of how hypothetical health and education projects could generate high ERRs. Second, it has given more attention to social sector programs in its recent compacts. None of the first eight compacts funded any health or education components. Among the subsequent 10 compacts, five included an education component, and four had a health component. In three cases (Namibia, El Salvador and Ghana) education was a major program element, and in two (Mozambique and Lesotho) health was a major focus.

The MCC addressed the fear of inattention to poverty much more generally in its compacts. Thirteen of the first 18 had a substantial focus on agriculture that emphasized support for poor regions and poor farmers. Sensibly, the MCC has rejected a quantitative approach to measuring the poverty impact of its assistance on the grounds that the necessary data are lacking.

Beyond the calculation of *ex-ante* ERRs, there is the problem of what is likely to happen in practice. Given the implementation difficulties of donor programs over past decades, it is likely that many MCC compacts—even if more successful than previous efforts by other donors—will fall substantially short of expectations. The decline of the dollar during the last several years and the rise in world commodity prices alone mean that many projects will not be adequately funded to reach the ambitious goals established in the compacts. Unless the MCC begins now to lower expectations, its initial calculation is likely to produce distinctly adverse reactions when *ex-post* results begin to flow in.

Threshold programs

The MCC has committed some $360 million to "threshold programs," nearly all managed by USAID. From the beginning, this part of the MCC's program has been conflicted and has lacked a clear organizational scheme. Simplifying a complex topic, two very different visions of threshold programs seem to coexist in the MCC. One vision is that threshold programs should prepare countries for a compact within a year or two. The threshold programs in Burkina Faso and Tanzania, in particular, seem to fit this vision. In Burkina Faso, an effort to promote girls' education at the pilot level was effective, so its compact was designed in part to scale up this effort. In Tanzania, the government's rapid implementation of anti-corruption and other measures in the threshold agreement led to early approval for a compact.

A second vision is that threshold programs should address a particular "target of opportunity" that will help a country to qualify for a compact eventually. Threshold programs that focus on corruption would seem to fall into this category. There are many ways to reduce corruption—simplifying regulations, strengthening the judiciary, assuring more transparency in government procurement, requiring senior government officials to submit statements of assets and net worth—but none of the efforts tried by donors so far have shown much evidence of significantly reducing the extent of corruption within two to three year time frames.

Table 8 summarizes the Threshold Agreements signed so far. For 10 of the 15 countries, "corruption" is the first operative word in the MCC's description of the problem to be addressed. In several others, it is a secondary or implied problem that the program is expected to correct. It is relevant to ask if a small program can address a problem that donors have been unable to resolve with far larger amounts of money. Uganda's threshold program is a case in point. The World Bank has included specific actions to address corruption in its policy loans, totaling nearly $1 billion, for the last seven years. They have included a large number of specific actions (e.g., requiring senior government officials to file statements of assets, creating the Inspector General, undertaking assessments of Uganda's procurement processes and of its fiscal integrity, etc.). At least some observers see Ugandan government corruption as being on the rise. Is the MCC grant of $10 million likely to make a difference? Time will tell, but history is not on the MCC's side.

Table 8: Countries with threshold programs

Country	Agreement Signed	Amount ($ Million)	Purpose
Burkina Faso	7/22/2005	12.9	Increase girls' primary education
Malawi	9/23/2005	20.9	Deter and reduce corruption
Albania	4/3/2006	13.9	Improve tax administration, producurement to reduce corruption
Tanzania	5/3/2006	11.2	Use NGO monitoring, rule of law, procurement reform, new Financial Intelligence Unit to reduce corruption
Paraguay	5/8/2006	34.6	Use rule of law, transparency and less business informality to lower corruption
Zambia	5/22/2006	22.7	Use controls, better public service delivery, and border management to reduce corruption
Philippines	7/26/2006	20.7	Strengthen revenue administration and role of Ombudsman to fight corruption
Jordan	10/17/2006	25.0	Promote democratic participation, government transparency and better customs administration
Indonesia	11/17/2006	55.0	Improve health and reduce corruption
Ukraine	12/4/2006	45.0	Fight corruption in higher education,judiciary,and in customs
Moldova	12/15/2006	24.7	Use an anti-corruption agency to fight corruption in judiciary, health, tax, police and customs
Kenya	3/23/2007	12.7	Fight corruption in procurement and health delivery
Uganda	3/29/2007	10.4	Use procurement reform, better financial management, civil society, and regular reports to fight corruption
Guyana	8/23/2007	6.7	Improve fiscal policies and promote a business-friendly environment
Sao Tome and Principe	11/9/2007	8.7	Improve fiscal collections from taxes and customs and streamline business regulation
Peru	6/9/2008	35.6	Increase immunizations, reduce corruption
Total		**360.7**	

More broadly, the threshold programs seem to lack the clear conceptual framework of the compacts. In some cases, the motivation for awards would appear to owe as much to foreign policy considerations as to a hard-headed commitment to the MCC goals of ruling justly, investing in people, and promoting economic freedom. The threshold agreements signed with Moldova, Ukraine, Paraguay and Peru all seem suspect, at least in the sense that the activities undertaken are unlikely to generate compact-eligibility during the time-frame of the agreement. Support for actions that address corruption are particularly problematic. Corruption is a problem that typically requires years, if not generations, to contain. Short-term fixes are unlikely to do more than change the channels through which corruption flows.

Governance

Four aspects of governance deserve consideration in the context of an initiative to strengthen the MCC: the size of the board of directors, the mix of private sector and public sector directors, voting power, and the chairmanship.

With five ex officio members from the public sector (mostly cabinet-level) and four private sector members, the MCC Board is not excessively large. By comparison, the Corporation for National and Community Service (CNCS), which administers AmeriCorps and other domestic volunteer programs, has 15 private sector members (appointed by the President and confirmed by the Senate), and 11 ex officio members from the public sector (mostly cabinet-level). There is no obvious benefit from increasing the number of ex officio members of the MCC Board, and there is no obvious cabinet-level official or agency head that is missing from the current line-up.

A larger board could be unwieldy, and disagreements within a larger board could complicate the MCC's operations, but the experience of the CNCS points instead to the potential benefits of having an MCC Board with more private sector members. These benefits are primarily political, domestically and abroad. They derive from giving the MCC a more bipartisan and objective character. Expanding broader domestic support for the MCC, which could be critical to its success given the weak constituency in the United States for foreign aid generally.

The aforementioned benefits would be reinforced by having the chairman of the MCC Board elected by the private sector members (as in the case of the CNCS), and making the ex officio members participate as non-voting members. The decision by the current Treasury Secretary to be represented on the MCC Board by his Deputy Secretary suggests that the decisions being made by the MCC Board do not require the personal participation of cabinet-level officials. Freeing the Secretary of State from the duty of chairing the quarterly meetings of the MCC Board could be viewed as a substantial benefit of moving in this direction.

RECOMMENDATIONS: SEVEN STEPS TO A STRONGER MCC

More bipartisan support and protection

The MCC's approach to development assistance is a potential winner. It has not been able to achieve "proof of concept" for two reasons: a number of serious missteps were taken when it started up in 2004, and not enough time has elapsed to measure its impact convincingly.

Now the MCC is in such a political corner that it may not survive as an independent agency. The pressure to show positive results in the short term is diverting management attention from the steps that will be required to have a bigger impact in the long term. The MCC deserves a better fate.

To deliver on the promise of the original concept, President-elect Obama will have to shore up political support for the MCC approach. This objective can be achieved first of all by embracing the concept enthusiastically, and then reinforcing this action by appointing a new CEO who is above partisan politics, assuring that other senior positions are non-political, and adding at least three more private sector members to the board, making the ex officio members non-voting members, and letting the board elect its chairman.

More flexibility

In our 2005 assessment, we warned that the projects funded under MCC compacts were not easily distinguished from the kinds of projects that have been supported by USAID and other donor agencies for years. Our view of this aspect of the MCC's operations has not changed appreciably. Basically, we see an agency that is highly risk averse engaged in a business that is inherently very risky. The MCC's reluctance to be innovative is understandable, given the degree of skepticism evident in the Congress. However, if the MCC will not use the exceptional operational freedom provided in its founding legislation to undertake some innovative activities, then the case for preserving the MCC as an independent agency becomes much weaker.

Two obvious areas of innovation to be explored are co-financing with foreign investors (see below) and entering into compacts with public sector partners beyond the central government (i.e., municipal or district authorities) or nongovernmental partners.

The most intriguing innovation may lie in the area of budget support. So far, the MCC has ruled out direct grants to governments to finance on-going activities, and has only funded new projects with disbursements tied to future implementation. Conceptually, the simplest and cleanest way of rewarding country performance is to make a grant that in effect reimburses a country for its own budget expenditures that have achieved exceptional results. Under such an approach, it is not necessary to create and staff dedicated organizations (Program Management Units) to manage implementation. Organic parts of the partner government are strengthened instead of weakened (by hiring away their best workers). No ERRs have to be calculated, no special procurement and auditing arrangements are required. Every MCC grant, by definition, would be an instant success because it was financing (retroactively) a program or project that was completed on time and on budget. Admittedly, Congress has been strongly opposed to budget support as a form of development assistance, but this is an example of how short-sighted Congress can be, and an example of how the MCC can lead Congress toward more enlightened views.

Another aspect of being more flexible is removing existing restraints that are compromising the MCC's long-term effectives. Here, by far the biggest problem is the legislative requirement that the MCC may only have a single compact with a partner country. As we stressed in our 2005 assessment, this requirement is deadly. First, it forces the MCC to package into one compact disparate activity that does not naturally fit together and has quite different disbursement profiles. Second, it kills the incentive for good performance by the partner country because it creates doubt about the U.S. commitment to the support the country's long-term development effort. There is no developing country in the world where a five-year program of assistance can be transformative, regardless of the amount of funding committed. Third, it leads to a pattern of fits and starts that is inimical to effective assistance. If Congress, in the current session, does not authorize the MCC to enter into concurrent compacts, then giving the MCC this flexibility is one of the smartest moves the Obama administration and the next Congress could make. As part of the same effort, it makes sense to authorize the MCC to extend the term of compacts beyond five years when necessary to achieve the objectives, as proposed in the legislation recently introduced by Congressman Payne.

A second restraint that could usefully be relaxed relates to the use of indicators. The principle of requiring eligible countries to score above the median on half of the indicators for each of the three "core values," and above the median on the corruption indicator, is highly attractive. In practice, however, it prevents the MCC from providing assistance to ten or more countries that have taken great leaps forward against one or more of the core values, but whose progress is not captured in the indicators. The corruption indicator is especially problematical. Legislative action is not required to adopt a more flexible approach to eligibility, but a change in this area would require careful consultations with the Congress to avoid a backlash in the form of reduced funding or some new restrictions.

A third restraint to be relaxed is the requirement that the MCC limit funding for lower middle-income countries to 25 percent of total funds appropriated for compacts. With the MCC's funding level shrinking, the case for suspending new operations in lower middle-income countries is compelling. This paper, however, is premised on a belief that President-elect Obama will decide to allocate more budget funds to the MCC. In this event, the arbitrary 25 percent rule detracts from the MCC's effectiveness, especially given the lumpiness of the MCC's commitments. One of the realities of the development assistance business is that $100 million of aid to a lower middle-income country is likely to yield more economic growth and poverty reduction than $100 million of aid to a low-income country.

Scaling up

The MCC was originally proposed as a $5 billion per year operation. The MCC's appropriations peaked at $1.77 billion in FY 2006 and have been slipping since then. President-elect Obama will have to make an early decision about the FY 2010 budget request for the MCC. Straight lining the FY 2009 request of $2.25 billion, or anything less, will be seen as a negative signal and Congress is likely to respond by cutting the request substantially for the sixth year in a row. A request of $2.5 or $3.0 billion would signal not only confidence in the MCC concept but a commitment to excellence in development assistance that could yield substantial diplomatic dividends.

From the original concept of an organization with only 100 staff members, the MCC started out with an authorized staffing level of 200, and now is fully staffed at the 300 level set by Congress several years ago. Given the kind of compact the MCC has opted to support, this is not a generous level. On a commitment-per-staff member basis, it actually represents a high level of operational efficiency relative to traditional aid agencies. However, the MCC now seems to be using various devices to expand administrative support without exceeding the staff ceiling, such as greater use of contractors.

It is impossible to justify an increase in MCC staffing when its budget allocation is shrinking. If President-elect Obama and the next Congress working together decide to give the MCC a new lease on life, then a modest increase in the staff ceiling may be justified. In addition, a case can be made for establishing field offices when eligible countries begin working on compact proposals instead of waiting until after compacts have been signed.

Dropping or transferring threshold programs

A surprising finding in our study is that the MCC's threshold programs seem to be working at cross-purposes with the compact program. In short, they are not rewarding "self-generated" performance. They are focused more on helping countries improve their ranking against the indicators.

Two alternatives deserve serious consideration. One is to require USAID to use its own resources when undertaking activities designed to help countries improve their rankings. If it makes sense from the perspective of broad U.S. foreign policy and development assistance objectives to undertake these activities, then USAID can re-allocate its existing resources to do so or Congress can appropriate more funds to USAID for these activities. This approach has the advantage of avoiding any impression that the MCC is anxious to give countries compacts. A further advantage, considering that the MCC's high-powered money is becoming scarcer, is freeing up resources for compacts with countries that are already performing well.

Another alternative is to discontinue the use of threshold programs per se. Instead give the MCC broad authority to make grants to countries that have become compact-eligible by their own efforts, and that will help them design and prepare to implement innovative and high-impact compacts. This would have the advantage of reducing the lags between compact signing, entry into force, and disbursement. Of course it will be easier to move in this direction if the MCC's annual appropriations level moves back above the $2 billion level.

Getting a broader mandate

While it seems to fly in the face of political realities, a case can be made for substantially expanding the MCC's mandate. Specifically, U.S. assistance targeting economic growth (as distinct from humanitarian objectives and political/security objectives) has dwindled almost to the vanishing point. USAID, which was well staffed with macroeconomists and microeconomists 10-15 years ago has few left. Viewing development as a long-term process fueled by economic growth, this weakness is lamentable. The MCC has the potential of assuming the role of being the aid instrument of choice for promoting economic growth.

A mandate of this kind implies that the MCC would operate in upper middle-income countries as well as lower middle-income countries, and that it could extend financing in the form of loans and equity as well as grants. It could also engage in cutting edge operations with other donor countries, private investors, philanthropic agencies, and NGOs. President-elect Obama may be tempted to create a new aid delivery mechanism in the context of a foreign policy shift designed to show that the United States aims to be seen as a reliable partner for other countries. Because of its relative freedom from statutory constraints, a better approach would be to build on the MCC.

Leveraging foreign investment

Not a single compact has used MCC funding to leverage funding from foreign investors. The potential for leveraging in the infrastructure sector is especially great, and the infrastructure sector has accounted for 38 percent of the MCC's committed funds. More than projects in any other sector, infrastructure projects are amenable to payments by beneficiaries for some (or all) of the cost of the investment, although this varies with the type of infrastructure being supported. The MCC could substantially increase its development impact by leveraging private capital in its infrastructure activities.

Keeping the best that already exists

The MCC has a number of exceptional features that should be kept in mind when considering what to do with the MCC in the coming years. It would be unfortunate if any of these features were lost or weakened. Whenever possible, they should be strengthened. Our shortlist of these features includes:

- No earmarks and no time limit on committing funds.
- Rewarding good performance.
- Focusing on low-income countries.
- Using objective indicators to guide the selection of eligible countries.
- Achieving a high degree of country ownership.
- Supporting activities that will generate economic growth.
- Keeping staff small.

ANNEX A

Compact, threshold and other eligible countries, FY 2008

Country	Agreement Signed	Amount ($ Million)	Type	Comments
		Compact Countries		
Madagascar	4/18/2005	$110	LIC	Year 3
Honduras	6/13/2005	$215	LIC	Year 3
Cape Verde	7/4/2005	$110	LMIC	Year 2
Nicaragua	7/14/2005	$175	LIC	Year 1
Georgia	9/12/2005	$295	LIC	Year 2
Benin	2/22/2006	$307	LIC	Year 1
Armenia	3/27/2006	$236	LMIC	Year 1
Vanuatu	3/29/2006	$66	LIC	Year 2
Ghana	8/1/2006	$547	LIC	Year 1
Mali	11/13/2006	$461	LIC	Year 1
El Salvador	11/29/2006	$461	LMIC	Year 2
Lesotho	7/23/2007	$363	LIC	Year 1
Mozambique	7/31/2007	$507	LIC	Year 1
Morocco	8/3/2007	$691	LMIC	Year 1
Mongolia	10/22/2007	$285	LIC	Year 1
Tanzania	2/17/2008	$698	LIC	Threshold, Compact year 1
Burkina Faso	7/15/2008	$481	LIC	Threshold, Compact not yet in force
Namibia	7/28/2008	$305	LMIC	Compact not yet in force
		Countries with Threshold Programs		
Malawi	9/23/2005	$21	LIC	Compact Eligible
Albania	4/3/2006	$14	LMIC	
Paraguay	5/8/2006	$35	LIC	
Zambia	5/22/2006	$23	LIC	
Philippines	7/26/2006	$21	LIC	Compact Eligible
Jordan	10/17/2006	$25	LMIC	Compact Eligible
Indonesia	11/17/2006	$55	LIC	
Ukraine	12/4/2006	$45	LMIC	Compact Eligible
Moldova	12/15/2006	$25	LIC	Compact proposed
Kenya	3/23/2007	$13	LIC	
Uganda	3/29/2007	$10	LIC	
Guyana	8/23/2007	$7	LIC	
Yemen	9/12/2007	$21	LIC	
Sao Tome and Principe	11/9/2007	$9	LIC	
Peru	6/9/2008	$36	LMIC	
		Other Eligible Countries		
Bolivia			LIC	Compact Proposal Received
Kyrgyz Republic			LIC	Threshold Eligible
Mauritania			LIC	Threshold Eligible
Niger			LIC	Threshold Eligible
Rwanda			LIC	Threshold Eligible
Senegal			LIC	Compact Proposal Received
Timor-Leste			LIC	Compact Eligible, Threshold Eligible

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ENDNOTES

1. "Today, I call for a new compact for global development, defined by new accountability for both rich and poor nations alike. ... The United States will lead by example. We will increase our development assistance by $5 billion over the next three budget cycles ... The new money ... is above and beyond existing aid requests in the current budget I submitted to Congress." Speech at the Inter-American Development Bank on 14 March 2002.
2. The original Administration bill had a three-person Board: Secretary of State, Secretary of the Treasury, and Director of the Office of Management and Budget.
3. GAO (2008b).
4. Low-income countries and lower middle-income countries compete against other countries in their separate peer groups only.

The views expressed in this working paper do not necessarily reflect the official position of Brookings, its board or the advisory council members.

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