

Millennium Challenge Corporation

# The “MCC Effect”

Creating Incentives for Policy Reform;  
Promoting an Environment for Poverty Reduction

Revised November 2008



MILLENNIUM  
CHALLENGE CORPORATION  
UNITED STATES OF AMERICA



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# Overview

## *What is the MCC Effect?*

The MCC Effect is the positive impact that MCC is having on developing countries beyond its direct investments. To date, the most significant impact has been the incentive created for countries to adopt legal, policy, regulatory, and institutional reforms related to the MCC eligibility criteria. Eligibility for MCC funding can lead to international recognition and increased private sector investment, which has encouraged many countries to implement significant political, social, and economic reforms with tangible results on the ground. In areas as diverse as women's rights, anti-corruption and governance, and business registration, countries are taking it upon themselves to re-evaluate their laws, policies, regulations, and ways of "doing business." MCC's dramatic effect on data quality and availability is also an important manifestation of the MCC Effect that has strengthened the development community's ability to "measure for results." Additionally, the MCC Effect can be seen in the development and implementation of threshold and compact programs. Participation in these programs has in many cases strengthened country ownership, monitoring and evaluation systems, and donor coordination. Countries are using the experiences gained through MCC programs and applying these lessons to other national programs and processes. In this regard, MCC is helping build the capacity of countries to fight poverty, even outside of its programs.

## *About the "MCC Effect" Compendium*

This purpose of this Compendium is to offer readers a first-hand look at primary source material that documents the various impacts of and reactions to the MCC Effect. It is intended as a resource to facilitate additional research, analysis, and debate. We have compiled and organized the evidence around some of the most frequently asked questions about the topic. In almost every case, the public source of the statement, example, or statistic is cited in the appendix. In order to make it easier for reader to locate relevant examples, some information is repeated in certain sections.

As evidence of the MCC Effect continues to emerge, our organization considers it a fundamental part of its commitment to transparency to share this information with stakeholders in the U.S. Congress, the NGO community, other U.S. Government agencies implementing assistance programs and, of course, the U.S. taxpayers who fund MCC's innovative approach to fighting poverty. This document constitutes only a small portion of some of the evidence that has been collected to date regarding the MCC Effect. We welcome the opportunity to share more information as possible and appropriate, per U.S. Government regulations. Your feedback and questions are welcome at [info@mcc.gov](mailto:info@mcc.gov).



## Have Third-Party Sources Independently Verified the MCC Effect?

*The ‘MCC effect’ has been recognized and documented by academics, journalists, NGOs, investors, and donor agencies. MCC has also witnessed this effect first-hand. It has seen countries engage in a policy dialogue with the third-party institutions that provide the MCC eligibility data; set up inter-ministerial committees, presidential commissions, and indicator monitoring units; and develop detailed action plans for reform. In many cases, these efforts have created an incentive for the adoption or accelerated implementation of policies and programs, which have in turn delivered tangible benefits to poor people on the ground.*

- ★ **Steve Radelet** of the **Center for Global Development** refers to the MCC Effect as “the major success story of the MCC.” He notes that MCC “has created the incentives for potential recipients to more carefully track the data and introduce the policy changes needed to meet the requirements. There are examples from all around the world of the incentive effect of the MCA selection process.”<sup>2</sup>
- ★ According to **Simeon Djankov**, Chief Economist of the **World Bank’s** Indicators Group and creator of the Doing Business project, “In a short span of time, having very simple indicators to start a business, you can see that the Millennium Challenge Account has affected two dozen countries.... 24 countries in one way or another have come to us and either have asked for ways to reform, have already reformed, or would like to be benchmarked so that they are considered for the Millennium Challenge Account. So you can say that 80 percent of reform on this indicator has happened as a direct result of the Millennium Challenge Account. That is, in my view, quite a success.”<sup>3</sup>
- ★ **Michael Gerson**, Senior Fellow at the **Council on Foreign Relations**, notes that “since the global competition for [MCC] compacts is vigorous, nations are willing to make major changes to receive them.... When I worked at the White House, the finance minister of an African country seeking MCC funds once said to me: ‘I keep telling others in my government that we’ve got to do better fighting corruption. We’ve got to compete.’”<sup>4</sup>
- ★ **Nathaniel Heller**, the Managing Director of **Global Integrity**, an independent, non-profit organization that tracks governance and corruption trends around the world, reported in February 2008 that “countries are, in practice, responding to what has been coined the MCC effect ... and they are undertaking reforms, sometimes some of the tough ones.”<sup>5</sup>
- ★ In December 2007, **Freedom House’s** Executive Director, **Jennifer Windsor** noted that MCC “play[s] an important role in changing the political calculus of those blocking democracy while encouraging democratic activists. In certain cases, it can tip the balance in favor of democracy.”<sup>6</sup>
- ★ **Nora O’Connell**, Vice President for Policy and Government Affairs at **Women Thrive Worldwide**, noted in 2008 that “government officials [from Burkina Faso] ...told me that the country already spent \$5 million

of its own budget and has undergone years of preparation, consultation, and reform in order to qualify for MCC assistance.”<sup>7</sup>

- ★ **Brett Schaefer** and **Anthony Kim** of the **Heritage Foundation** report that “over the last four years, the MCC has created a remarkable competition to reform ... among countries looking to qualify for grants. It has catalyzed important policy changes in nations like Benin, Madagascar and Lesotho.”<sup>8</sup>
- ★ According to **InterAction**, a coalition of more than 150 humanitarian organizations providing disaster relief, refugee assistance and sustainable development programs worldwide, “The MCC has had some historic successes via [the] ‘MCA effect.’ In Tanzania, the work of USAID in strengthening the media and procurement under the MCC threshold program exposed corruption, resulting in the unprecedented resignation of the country’s prime minister.” InterAction also notes that “[t]he ‘MCA effect’ works because countries get the message that if they do their part to help their own people, the U.S. will be their partner.”<sup>9</sup>
- ★ According to **Christopher Vincent** of **Habitat for Humanity**, “There is no doubt that the MCA has been a successful international development experiment. It has also innovatively created an incentive for non-participating countries to make significant reforms in hopes of qualifying for future MCA compacts.”<sup>10</sup>
- ★ **Bread for the World**, a non-partisan citizen advocacy group for international development issues and a founding member of the ONE Campaign, reports that “the stringent eligibility requirements for MCA compacts have stimulated policy reforms in still other countries, particularly in fighting corruption, improving government transparency and promoting women’s rights.”<sup>11</sup>
- ★ **Joseph Siegle**, author of *The Democratic Advantage: How Democracies Promote Prosperity and Peace*, notes that “the MCC represents an attractive financial incentive for developing countries that are already on the reform track to stay with it. Anecdotal and empirical evidence suggests this is exactly what is happening. Efforts to score highly enough on the performance criteria has sparked a flurry of reformist activity. And since even countries that have qualified can be dropped if their reformist credentials dip, the incentives to deepen these changes are real.”<sup>12</sup>
- ★ In 2007, **The New York Times** reported that “development analysts have praised [MCC] for giving poor countries an incentive to make significant reforms to qualify for its big contracts, including improving education for girls and making it easier for individuals to operate on-the-books businesses.”<sup>13</sup>
- ★ *The Washington Post*, *The Wall Street Journal*, **The Economist Intelligence Unit**, and **Radio Free Europe** have highlighted the important role that the MCC eligibility indicators play in persuading governments to *not* make bad policy decisions (or to overturn bad policies).<sup>14</sup> *The Wall Street Journal* refers to “the power of the threat to publicly shame countries that veer off the path of economic and political [reform].”<sup>15</sup>
- ★ **Reuters News Service** reports that “MCC’s list of eligible countries is closely watched by development groups and investment firms which see it as a confidence vote in governments in the developing world.”<sup>16</sup>



## What are Leaders in the Developing World Saying About the MCC Effect?

*MCC's eligibility criteria have captured the attention of heads of state and ministers in the developing world. Many leaders from developing countries see inclusion in MCC's threshold program or compact program as a strong signal—to investors and the donor community—that they have put in place a sound policy framework to support economic growth and poverty reduction. Others see the MCC eligibility indicators as a useful guide for shaping policy and resource allocation priorities.*

- ★ In 2008, President Arroyo of the **Philippines** said, “I believe that if we can all come together, redouble our efforts and continue to meet the criteria of the Millennium Challenge Corp., the long-term benefit to our nation will be the best gift I can leave this nation when I step down in 2010.”<sup>19</sup>
- ★ In February 2008, President Johnson-Sirleaf of **Liberia** noted during an interview with a local newspaper that the issue of MCC eligibility had been discussed at a recent Cabinet Meeting. “I wanted the cabinet members to see where we failed,” said the President. She also noted that, “If our courts system does not function right, we don’t pass the indicator for the protection of rights; if our Commerce Ministry does not help businesses to get registered quickly, we don’t pass the indicator for being able to promote business. So I want all Liberians to see what we ought to do so that we too can benefit significantly from those facilities that the US has.”<sup>20</sup>
- ★ In July 2008, Blaise Compaoré, the President of **Burkina Faso**, stated that he sees his country’s “[MCC] eligibility both as a great mark of consideration and a sign of acknowledgement for the progress made in the fields of governance, ... [the] business environment, and meeting the basic needs of [people].” He also expressed his “sincere gratitude to the architects who worked for this eligibility.”<sup>21</sup>
- ★ Roberto Simon of the Government of **El Salvador** stated in November 2006 that: “We’ve worked very hard on the indicators. ... I think the MCC effect is, in a country like ours, giving us more reasons to do the things we need to do.”<sup>22</sup>
- ★ **Tanzania’s** President Jakaya Kikwete noted in 2006 that, “Thanks to the MCA, we can now move forward with a greater zeal and strength in two important fronts: one, that of strengthening good governance and particularly fighting corruption, and two, that of facilitating fast economic growth and deeper poverty reduction.”<sup>23</sup>
- ★ **Indonesia’s** Finance Minister Sri Mulyani Indrawati has argued that the real draw of the MCC is its “good housekeeping seal of approval,” which sends a powerful signal to private investors. As she puts it, “It’s not about the money. It’s about the recognition that we’re doing the right thing.”<sup>24</sup>

- ★ **Emmanuel Gyimah-Boadi**, Director of the **Ghana Center for Democracy and Development**, characterizes MCC as “a real incentive for democratic progress” in Africa.<sup>25</sup>
- ★ Enkhtoya Oidov, a former **member of Mongolia’s Parliament**, argues that the MCC eligibility indicators have created an important incentive for Mongolia to continue down the path of democratization.<sup>26</sup>
- ★ The President of **Paraguay**, Nicanor Duarte Frutos, has referred to the MCC as “a stimulus and a commitment to continue working towards transparency, fighting corruption, institutional consolidation and the formalization of the economy.”<sup>27</sup>
- ★ Between 2005 and 2007, **Honduras** reduced the time it takes to start a business from 62 to 21 days. Former Minister of the Presidency, Yani Rosenthal, noted that in October 2007 that “even before signing the MCC [compact agreement], the Government of Honduras was aware that such a reduction was part of the selection criteria and has continued to focus on improving the measure.”<sup>28</sup>
- ★ Salvador Stadthagen, **Nicaragua’s** Ambassador to the U.S., reported in 2005 that, “Lesson number one learned was to look more closely at those indicators and compare ourselves with other countries, something that I must admit I did not recall doing to a great extent in my previous government experiences.” Ambassador Stadthagen also noted that MCC “has [reinforced] politically our strive for transparency” and proved that “anti-corruption pays.”<sup>29</sup>
- ★ In November 2007, Harris Whitbeck, **Guatemala’s** Presidential Commissioner for the Modernization of the State, compared the MCC Scorecard to an “MRI scan of the country.”<sup>30</sup>
- ★ Kurmanbek Bakiev, President of the **Kyrgyz Republic**, noted in 2005 that, “We will do our utmost to fulfill all the necessary conditions ... to participate in [the MCC] program because this will be a great help in resolving the economic issues currently facing us.”<sup>31</sup>

## Are There Specific Country Examples of the MCC Effect?

*In policy areas as diverse as anti-corruption, women's rights, and business registration, the MCC eligibility criteria have created a powerful incentive for countries to implement real reforms with tangible results on the ground. These reforms do not appear to be limited to countries that are aspiring to MCA eligibility. Many countries that are already compact-eligible or receiving compact assistance have also enacted important policy changes to remain competitive in future rounds of the eligibility process. Some countries cite their MCA status as a "badge of honor" that sends an important policy signal to the donor community and private investors.*

- ★ In 2008, the Government of **Honduras** publicly presented and committed to an anti-corruption plan. This plan has been established by the Government to address specific policy weaknesses that are preventing it from meeting the MCC eligibility criteria. Among other commitments, the Government indicated that it will publish 100 percent of government procurements online, ensure that financial disclosure is required for all cabinet-level officials, and contract a reputable international firm to conduct an external audit of the state power company and the national fixed phone line operator. The Government's first quarterly progress report was released publicly in late February and covered extensively by local press outlets.<sup>32</sup>
- ★ The World Bank reports that the prospect of MCC eligibility created a strong incentive for the Government of **El Salvador** to reduce the time it takes to start a business from 115 to 26 days. The impact of this reform has been dramatic: new business registrations have more than doubled and El Salvador has seen a sharp spike in customer satisfaction at its business registry: from 32 percent to 87 percent. The Government of El Salvador has also created a high-powered unit within the Technical Secretariat of the Presidency, which is responsible for tracking and promoting reforms related to the MCC eligibility criteria.<sup>33</sup>
- ★ The World Bank's 2007 Celebrating Reform report hails MCC as a catalyst for reform in **Georgia**. In the last three years, Georgia has catapulted from 112<sup>th</sup> place to 18<sup>th</sup> place on the IFC's "Ease of Doing Business Index."<sup>34</sup> They have overhauled tax and customs administration, business and property registration, the courts, and the civil service.<sup>35</sup>
- ★ In **Lesotho**, the prospect of MCC compact funding prompted the Government to pass landmark legislation allowing women the right to own property and the right to enter into binding contracts.<sup>36</sup> As described in a January 2007 *The Wall Street Journal* article, "Traditionally, married women in [Lesotho] had the same legal rights as children; they couldn't buy land or borrow money without permission from their husbands. With the Millennium Challenge Corp. pressing for changes, the Lesotho Parliament passed a law in November [2006] putting married women on equal legal footing with their husbands."<sup>37</sup>
- ★ The World Bank noted in its Doing Business 2008 report that it has observed a significant "MCC Effect" in **Burkina Faso**.<sup>38</sup> In December 2007, a major news outlet also reported that "Burkina Faso has gone to great

lengths to meet the agency's good governance standards. ... [The government] has ... halved the number of days it takes to start a business, and reduced by a third the cost of registering property."<sup>39</sup>

- ★ According to a group of researchers at Tufts University's Institute for Global Leadership, **Guatemala's** Presidential Commission for the Reform, Modernization, and Strengthening of the State (COPRE) "has engaged in several initiatives to move Guatemala towards MCA qualification, including pushing forward a civil service law and creating a plan for land titling in Guatemala."<sup>40</sup> In Guatemala, local media outlets have published the MCC scorecard in their newspapers to place pressure on their government. In the run-up to the 2007 Presidential election, civil society organizations asked the candidates to weigh in on what they would do to ensure that their country becomes MCC-eligible. Both of the leading presidential candidates, Álvaro Colom Pérez and Otto Pérez Molina, eventually sent letters to MCC, indicating their willingness to take the necessary steps to become eligible for MCC assistance. In late 2007, the outgoing administration also engaged Freedom House in a public dialogue about the next generation of governance reforms facing by the incoming government, and the impact that these reforms would have on the MCC indicators.<sup>41</sup>
- ★ In an unprecedented move, the President of the **Philippines**, Gloria Macapagal-Arroyo, "matched" MCC's \$20 million threshold program with \$19 million in anti-corruption counterpart funds. Corruption-related investigations and dismissals stepped up significantly after the Threshold Program was initiated.<sup>42</sup>
- ★ In 2007, the Prime Minister of **Jordan** approved the creation of an inter-ministerial committee to monitor the country's performance on the MCC indicators. It consists of high-level representatives from the Ministries of Finance, Industry and Trade, Education, Health, Interior, Political Development, Municipal Affairs, and the Customs Department. The Prime Minister's office also created an "indicator monitoring unit" within the Ministry of Planning and International Cooperation to promote reforms that will improve Jordan's performance on the MCC eligibility criteria and provide technical support to the inter-ministerial committee.<sup>43</sup>
- ★ Aiuba Cuereneia, **Mozambique's** Minister for Planning and Economic Development, "already has his eye on the next five-year [MCC] compact. And he knows that Mozambique's eligibility depends on maintaining the country's positive policy performance in governance, social investment, and economic freedom."<sup>44</sup> His ministry, along with several other government ministries, has developed an action plan to improve Mozambique's performance on the MCC eligibility indicators. This plan focuses on expanding access to childhood vaccinations, increasing the number of girls that graduate from primary school, and strengthening natural resource management practices.
- ★ In 2007, the Government of **Cape Verde** created an action plan to improve its performance on the MCC eligibility indicators. As part of its action plan, the Government plans to reduce the number of days it takes to start a business from 52 to one; improve its primary education completion rate by training 1,400 primary education teachers and expanding its free lunch program for all students of primary school age; and improve

natural resource management practices by updating the water code and initiating a study of water prices to maintain the financial sustainability of municipal water distribution firms. The Government has also engaged many of the indicator institutions, including the World Bank Institute, the International Finance Corporation, the Heritage Foundation, UNEP/World Conservation Monitoring Center, and Columbia University's Center for International Earth Science Information Network (CIESIN).

- ★ The Government of the **Dominican Republic** has created a high-level Presidential Commission to monitor and promote progress on the MCC eligibility indicators and established a National Coordinator for MCC eligibility issues. It has also set up three high-level working groups to address performance weaknesses in each of the MCA policy categories: Ruling Justly, Investing in People, and Economic Freedom. In 2007, the Government informed MCC that due in part to the incentive of MCA eligibility, it would roll out a large measles immunization campaign that would reach 5 million people.<sup>45</sup> As part of its effort to become eligible for the MCC Threshold Program, the Government also implemented significant investment climate reforms in 2007, reducing the number of days it takes to start and run a business from 75 to 22, and lowering the amount of time it takes to register property by more than 40 percent.<sup>46</sup>
- ★ In 2007, the Government of **Bangladesh** submitted a detailed action plan to MCC designed to help the country improve its scores on the Control of Corruption, Government Effectiveness, Rule of Law, Health Expenditures, Primary Education Expenditures, Natural Resources Management, Regulatory Quality, Business Start-Up, and Land Rights and Access indicators. The Government has also been in regular contact with the third-party indicator institutions to learn more about how they are being evaluated and to report on recent reform progress.
- ★ In September 2006, the Government of **Cameroon** developed an “Urgent Plan of Action” to improve its performance on the MCC eligibility indicators. Included in the plan are targeted reforms to improve Cameroon’s performance on the following indicators: Political Rights, Immunization Rates, Girls Education Rates, Health Expenditures, Civil Liberties, Control of Corruption and Business Start-Up. The Government placed special emphasis on “big ticket” reforms, such as the creation of an independent electoral commission, the awarding of private radio and TV licenses, and mandatory income and asset disclosure for senior government officials. In order to track implementation of this plan, the Government has developed an inter-ministerial committee, overseen by the Office of the Prime Minister.<sup>47</sup>
- ★ According to the World Bank, “**Benin, Burundi, and Guinea Bissau** reduced the cost of registering property [in 2007] by reducing the registration or transfer tax. These measures were in part motivated by the desire of these countries to pass the Millennium Challenge Corporation eligibility threshold.”<sup>48</sup>
- ★ President Ravalomanana of **Madagascar** has identified continued MCC eligibility as a high priority for his government. His administration has reduced the amount of time it takes to start a business from 67 days to one week and cut the minimum capital requirement for new businesses by 80 percent. The impact of these

reforms has been significant: Madagascar has seen a 26 percent increase in the rate of new business registrations, bringing 200 additional firms into the formal economy where they can access credit and grow to their full potential.<sup>49</sup> In 2008, the Government also developed and began implementing an action plan to improve its performance in the Investing in People category.<sup>50</sup>

- ★ In late 2006, MCC and the Government of **Niger** discussed the indicators that are preventing it from becoming eligible for MCC compact funding. One of these indicators was the Land Rights and Access index. The Government took swift action in 2007, reducing the time and cost of property registration in urban areas by a third.<sup>51</sup> The Government is also seeking to reduce the time it takes to register property in rural areas from 34 to 19 days. This is part of a broader effort to increase agricultural productivity and curb environmental degradation by giving farmers an incentive to preserve their land and the natural resources on it. In 2007, *The New York Times* found that the government's efforts to strengthen property rights in rural areas had encouraged local farmers to not cut down their trees, but instead make money by selling the branches, pods, fruit, and bark from those trees.<sup>52</sup>
- ★ In order to gain a better understanding of the factors that are impeding its performance on the MCC eligibility indicators, the Government of **Djibouti** has engaged many of the indicator institutions, including the World Bank Institute, Freedom House, UNESCO, the World Health Organization, the International Finance Corporation, and the Heritage Foundation. It has also established a National Coordinator for MCC eligibility issues and sent a mission to Burkina Faso to learn more about what the government there done to improve its indicator performance.<sup>53</sup> With the support of the President, the Government of Djibouti is also developing a comprehensive action plan to improve Djibouti's indicator scores.
- ★ In 2007, the International Finance Corporation (IFC) informed MCC that **Malawi's** Minister of Private Sector Development (and former Ambassador to the U.S.) had taken a strong interest in the MCC eligibility indicators and how the Government of Malawi might improve its performance. The IFC reported that the Government was seeking to computerize its land registry, merge the export promotion agency and investment promotion agency and have it function as a single window for investors, reduce the time and cost associated with business licensing procedures, and establish two commercial courts to make streamline the contract enforcement process.<sup>54</sup>

## How are the MCC Indicators Being Used By “Champions of Reform” in Developing Countries?

*In many countries, the MCC eligibility indicators have bolstered support for “champions of reform” who face strong resistance to change from vested interests. In order to overcome opposition to reform, heads of state, ministers, parliamentarians, and activists increasingly look to the MCC scorecards as a credible source of information on the government’s policy performance from independent, third-party institutions. The prospect of significant MCC funding for economic growth and poverty reduction also increases the political feasibility of reform by enabling these “champions” to build broader coalitions of support.*

- ★ Shortly after the release of the World Bank’s Doing Business 2008 report, the **Government of Liberia** issued a public statement, noting that the country’s low scores on the Doing Business indicators were impeding Liberia’s ability to access the Millennium Challenge Account. The Government then made an appeal, asking “all Liberians, academia, business people, civil society, the legislature, media, all of Liberia, let us work together and build a new Liberia where jobs and opportunities are created by a strong domestic private sector.”<sup>55</sup>
- ★ According to a 2007 World Bank report which chronicles the Government of **El Salvador**’s efforts to make it easier for local entrepreneurs to start a business, the government “used access to the MCA as a reform rationale.”<sup>56</sup>
- ★ In 2006, while presenting a proposed increase in the budget of the Anti-Corruption Commission to Parliament, the **Prime Minister of Namibia** noted that “[our] resolve to actively implement a policy to fight corruption in a constructive manner [has] had indirect effects, including being nominated to benefit from the US government’s Millennium Challenge Corporation.”<sup>57</sup>
- ★ During a recent plenary session of Parliament (June 2008) in **Timor-Leste**, Estanislau da Silva, a member of Parliament and former Prime Minister, emphasized the need for the government to improve its performance on MCC’s Control of Corruption indicator.<sup>58</sup> In mid-2008, the Government of Timor-Leste developed a detailed action plan to improve its performance on several MCC eligibility indicators, including Control of Corruption.<sup>59</sup>
- ★ **Ugandan** parliamentarians from opposition parties drew upon their country’s ineligibility for MCC compact funding in 2006 as evidence that stronger efforts to fight corruption were urgently needed.<sup>60</sup>
- ★ In 2006, **Indonesia**’s highly-regarded Corruption Eradication Commission (KPK) pointed out to MCC staff that they had prioritized the fight against judicial corruption in the hopes of improving their country’s performance on two of the “Ruling Justly” indicators: Control of Corruption and Rule of Law. KPK has played a critical role in investigating and prosecuting high-level corruption in Indonesia, including the

former Governor of Aceh, and several senior officials within Indonesia’s Electoral Commission and the Supreme Court.<sup>61</sup>

- ★ Roberto Simon of the Government of **El Salvador** stated in November 2006 that: “We’ve worked very hard on the indicators. ... I think the MCC effect is, in a country like ours, giving us more reasons to do the things we need to do.”<sup>62</sup>
- ★ In 2005, **Yemen**’s Ministry of Planning and International Cooperation approached a group of parliamentarians to discuss the government’s strategic plan to meet the MCC eligibility criteria. According to the National Democratic Institute for International Affairs, which was present during the discussions, several of the parliamentarians viewed “the strategic plan as leverage ... for greater reform within Parliament.”<sup>63</sup>
- ★ While proposing a tough anti-corruption program in 2004, **Bangladesh**’s former Finance Minister, Saifur Rahman, cited his country’s exclusion from MCA eligibility as an example of the heavy price his country was paying for being branded as a corrupt country.<sup>64</sup>



## How are the MCC Scorecards Being Used by Civil Society Groups and Journalists in the Developing World?

*MCC's uniquely transparent and easy-to-read scorecards are published every year for more than one hundred low income and lower middle income countries, and a growing number of journalists, civil society organizations, and citizen activists anxiously await their publication. The MCC scorecards empower a wide range of domestic stakeholders to monitor their government's performance and advocate for reform.*

- ★ Larry Diamond, a **Senior Fellow at the Hoover Institution** and **Co-Editor of the Journal of Democracy**, notes that MCC “is showing promise as a tool that civil-society actors ... can use to campaign for governance reforms and as an incentive for corrupt governments in need of more aid to reform their ways.”<sup>65</sup>
- ★ In December 2007, **Freedom House's** Executive Director, Jennifer **Windsor** noted that MCC “play[s] an important role in changing the political calculus of those blocking democracy while encouraging democratic activists. In certain cases, it can tip the balance in favor of democracy.”<sup>66</sup>
- ★ In **El Salvador**, the press regularly reports on MCC eligibility issues.<sup>67</sup> In November 2007, shortly after MCC released new country scorecards, an op-ed appeared in a local Salvadoran newspaper entitled Careful with the 461 Million Dollars! It highlighted the fact that El Salvador no longer met the policy performance criteria in the Investing in People category, and that increased social investment would likely be necessary if the Government of El Salvador wanted to meet to formal eligibility criteria in future years.<sup>68</sup>
- ★ In **East Africa**, a local organization called the Uganda Debt Network, has advocated for more aggressive anti-corruption reform, and drawn attention to the fact that Uganda (unlike neighboring Tanzania) has thus far not been able to access hundreds of millions of dollars in MCC Compact assistance because of its below-average performance on the Control of Corruption index.<sup>69</sup>
- ★ In **Guatemala**, local media outlets publish the MCC scorecard in their newspapers to place pressure on their government. For example, shortly before MCC's Board of Directors met in December 2007 to make eligibility decisions, an op-ed appeared in the local Guatemalan newspaper Siglo 21, urging the government to make MCC eligibility a high priority.<sup>70</sup> In the run-up to the 2007 Presidential election, civil society organizations also asked the candidates to weigh in on what they would do to ensure that their country becomes MCC-eligible. Both of the leading presidential candidates, Álvaro Colom Pérez and Otto Pérez Molina, eventually sent letters to MCC, indicating their willingness to take the necessary steps to become eligible for MCC assistance. In late 2007, the outgoing administration also engaged Freedom House in a public dialogue about the next generation of governance reforms facing the incoming government, and the impact that these reforms would have on the MCC indicators.<sup>71</sup>

- ★ The MCC eligibility criteria have stimulated important public debate in **Timor-Leste** about how best to control corruption, with local newspapers, such as Timor Post and Diario Nacional, emphasizing the need for the country to improve its performance.<sup>72</sup>
- ★ According to **Megan Harris** of *United Press International*, “the much-praised ‘MCC effect’ has encouraged civic organizations to urge their governments to reform.”<sup>73</sup>

## Is There an MCC Effect on Data Quality and Availability?

*In recent years, important improvements in the quality, coverage, transparency, and “actionability” of the MCC eligibility indicators have occurred. These improvements are partly attributable to MCC’s use of the indicators and increased interest among and scrutiny from candidate countries. This aspect of the MCC Effect has significantly enhanced the development community’s ability to “measure for results.”*

- ★ The **Center for Global Development** reports that: “[t]here has been a positive trend of increased country coverage, more frequent data collection, or methodology overhaul among the various data sources used for selection indicators. It is probable that the increased attention that MCC’s use of an indicator brings to these various data sources provides impetus for improvement.”<sup>74</sup>
- ★ Simeon Djankov, the manager of the **World Bank’s** Doing Business project, noted in 2005: “I have given some examples like Burkina Faso and Paraguay where the governments came to us and said, ‘Look, we are in the preparatory phase of the Millennium Challenge Account applications. We would like to know what we can do, so we can meet the criteria.’ ... [Other] governments came to us and said, ‘We would like to be [measured] as well.’ At first, we were puzzled, why would you want to be benchmarked. ‘Well, because we would like to qualify for the Millennium Challenge Account.’”<sup>75</sup>
- ★ **Freedom House** reports that they have held discussions with a much wider range of countries since MCC began using their analysis as part of the selection process. Countries which previously dismissed exercises in assessing and ranking democratic performance have now requested meetings to learn more about the methodology and the issues driving their scores. Freedom House’s Executive Director, Jennifer Windsor has noted that “[i]n recent years, we have seen increased attention to the ratings process for Freedom in the World, particularly as a result of the U.S. government’s decision to use the publication’s ratings as part of the allocation process for the Millennium Challenge Account.”<sup>76</sup>
- ★ For 35 years, **Freedom House** assigned all countries two numerical ratings—one for Political Rights and another for Civil Liberties—based on a one to 7 scale. However, underlying those ratings are more detailed assessments of country performance based on a 40-point scale for political rights and a 60-point scale for civil liberties. In 2006, Freedom House publicly released the 40-point scale for Political Rights and a 60-point scale for Civil Liberties partly due to MCC’s use of the data and rising demand from MCC candidate countries.<sup>77</sup> These re-scaled indicators provide much greater differentiation, which enables MCC to better discriminate between high- and low-performing countries and to identify emerging trends. For example, using the 7 point methodology, countries like the Gambia might perform at or above the median on the Political Rights indicator.
- ★ In 2005, the **Heritage Foundation** reported that “another example [of the MCC Effect] is the interest MCA candidate countries have expressed in how the Index of Economic Freedom measures trade policy (another

MCA measure) and how they could improve their score. This interest has arisen among MCA-eligible countries and those hoping to qualify in the future.”<sup>78</sup> Elsewhere, the Heritage Foundation has noted “[b]y increasing transparency in compiling and disseminating economic statistics and competing with each other for MCC grants, ... countries have been motivated to pursue real policy improvements.”<sup>79</sup>

- ★ The **World Bank Institute**, which previously released its data every other year, decided in 2006 to update its Control of Corruption, Rule of Law, Government Effectiveness, Voice and Accountability, and Regulatory Quality indices annually. The World Bank Institute has also made each of the sub-component indicators that make up its indices publicly available, which has been a very valuable tool for MCA candidate countries interested in diagnosing and improving their performance.<sup>80</sup>
- ★ Due in part to increased demand from MCA candidate countries, the **International Finance Corporation** (IFC) has expanded its coverage from 120 to 178 countries. Many countries, such as Tanzania, Sao Tome and Principe, Timor-Leste, and Cape Verde have specifically requested that they be measured by the “Doing Business” team in order to increase their chances of being selected for MCA eligibility.<sup>81</sup>
- ★ As the Government of **Niger** began developing its threshold program and analyzing its own performance on the MCC eligibility indicators, it became increasingly clear that the underlying data on corruption and governance feeding into the World Bank Institute’s governance indices were sparse. This prompted the head of Niger’s National Statistics Agency and several other Nigerien government officials to engage the Gallup Organization in a dialogue about building local capacity to conduct sector-specific survey research on the prevalence and determinants of corruption. According to a representative from the Gallup Organization, representatives from the Government of Niger indicated that, “We’d like help to build capacity to do this [kind of work] ourselves. Independently from MCC, we want to be able to analyze corruption ourselves.”<sup>82</sup>
- ★ In several countries (e.g. **Guatemala, El Salvador**), low scores on one or more of the MCC eligibility indicators have prompted governments to work more closely with the World Bank Institute (WBI) on conducting in-depth diagnostics that will help them properly diagnose and address complex governance issues. WBI’s in-depth governance diagnostics are based on three separate public service delivery surveys: a survey of households, a survey of firms, and a survey of public officials. They have proven to be extremely valuable tools that provide ministry-specific data, which can help governments identify well-performing and under-performance agencies and develop agency-specific performance indicators.<sup>83</sup>

## Is There an MCC Effect in Compact Development and Implementation?

*MCC's unique approach places a premium on country-led program design and implementation. This ownership is critical for the effectiveness of the MCC program, but the skills and lessons from the compact development and implementation process are also in many cases being applied to other country priorities and processes. In this regard, MCC is having an impact on building the capacity of countries to fight poverty, even outside of its projects. In 2007, MCC hired a polling firm to conduct a blind survey of its country partners, and asked several questions related to country ownership. When country partners in compact implementation were asked if MCC's approach to country ownership would help them achieve their development goals, a substantial majority (81%) agreed that it would.<sup>84</sup>*

- ★ In 2007, Steve Radelet of the **Center for Global Development** noted that, “The ‘MCC Effect’ has led to important policy changes in many countries, and the early stages of compact implementation has led to the creation of increased capacity for project oversight and management.”<sup>85</sup>
- ★ In a recent study, the Center for Global Development found evidence of a strong “MCC effect” in **Nicaragua**: Although donors had been encouraging road maintenance reform for years, CGD found that the prospect of an MCC compact galvanized the political will to pass the necessary legislation. “In the words of one government official, the passage of the law was ‘unthinkable’ before the arrival of the MCC.”<sup>86</sup> The passage of this piece of legislation contributed to the collection of over \$10 million for road maintenance in 2006.<sup>87</sup>
- ★ In **Lesotho**, one government official noted during the compact development process that “even if we receive less than requested, the intangibles gained from taking control of our own development destiny are the most important part of the process.”<sup>88</sup>
- ★ Victoria Diaz, Government of **Honduras**’ MCA Coordinator, noted in 2005 that, “[O]ne of the things that we really liked a lot was the fact that MCC was very interested in building capacity. ... Hondurans and civil society was very happy with the fact that Hondurans were going to be in charge of the management of the program management unit.”<sup>89</sup>
- ★ The Center for Global Development reports that “a key characteristic of MCA programs globally is that they are not just about products (like roads); they are also about process (like institutional strengthening). **Honduras** offers some good examples of this side of the MCC’s approach. Even before spending significant program funds, the [MCA-Honduras] has created an unprecedented inter-agency planning process for rural roads, increased government commitment to better fund and manage national road maintenance, built a coalition for policy change in the financial sector, and helped strengthen the financial management capacity of the Ministry of Finance.”<sup>90</sup>

- ★ One of the challenges faced by the MCA-**Honduras**, the entity created by the Honduran Government to implement the compact, is ensuring that families with homes, businesses, or land within the area of the road expansion are treated fairly and provided with compensation for their lost assets and income sources. Resettlement is a particularly delicate issue, as many of these individuals have no legal claim to the land, which largely belongs to the government. MCC's Resident Country Director in Honduras reports that “[i]n order to help affected individuals maintain their livelihoods and possibly even improve their incomes, MCA-Honduras has designed and is executing the most comprehensive resettlement plan in the history of the country.”<sup>91</sup>
- ★ In 2007, the Government of **Cape Verde** expressed interest in ministries utilizing a “Management for Results” planning methodology that links budgets to performance based on the MCA-Cape Verde model. A working group has been established to lead the process of implementation. The Ministry of Environment and Agriculture is piloting the approach based on Cape Verde's experience with a Watershed Management and Agricultural Support project.<sup>92</sup>
- ★ The Center for Global Development reports that in **Madagascar** “there is a sense of pride and excitement stemming from the fact that the [MCC Compact] program is being run predominantly by Malagasy staff.”<sup>93</sup>
- ★ Until recently, procurement techniques and skills were not taught as part of the standard business degree at **Madagascar's** National University. MCA-Madagascar, the entity created by the Government to implement the compact, noticed that this gap in the curriculum had directly affected the speed at which they were able to move procurement processes through domestic channels. Based on its experience with procurement processes under the MCC compact, MCA-Madagascar approached the national university about the business curriculum, highlighting how much more efficient their own activities were now that all of the people with whom they interact also have some experience with procurement proceedings. MCA argued that for Madagascar to establish a competitive business environment, graduates of their business school needed to graduate with this training already in place. The school agreed. Beginning in 2007, the business curriculum included coursework on procurement practices, embedding this capacity in future generations of Malagasy business leaders and employees.<sup>94</sup>
- ★ In 2007, **Ghana's** Finance Minister informed MCC that his Government would soon go to the capital markets to borrow funds for infrastructure development. The Government drew on a team of Ghanaians that had previously participated in the compact development process to lead the effort in deciding how best to invest those funds for Ghana to achieve the best possible return. The Finance Minister also pointed out that the Government is applying the lessons they learned from working with MCC to ensure that the funding they raise has the most impact for the poor. This example strongly suggests that countries are making more extensive use of the experience gained through compact development. That is to say, MCC is having an impact on building the capacity of countries to fight poverty, even outside of its projects.<sup>97</sup>

## Can the MCC Effect Be Seen in the Way That Countries are Participating in the Consultative Process?

*MCC asks partner governments to undertake a meaningful, public consultative process throughout compact development and implementation. This allows civic, private, and political sector actors to play meaningful roles in setting priorities for the development of the country, and has empowered elected officials to exercise their representative rights and responsibilities. During implementation, civil society representatives participate directly in advisory boards that oversee implementation of the MCC compact.*

- ★ According to **Steve Radelet** of the **Center for Global Development**, “MCC has moved to the frontier of facilitating broad participation among government, non-government, civil society, and private sector representatives in determining priorities and designing projects and programs. Many aid agencies talk about a participatory approach, but the MCC has been on the forefront of actually making it happen. It is far ahead of any other US foreign assistance agency in facilitating broad participation among the public in its programs.”<sup>98</sup>
- ★ In June 2008, **Oxfam** noted that, “**Salvadorans** are drawn to the MCC model of aid, which embraces ownership by the recipient country. Interviewees recognize it’s too soon to judge whether the MCC model will better deliver aid in El Salvador than traditional methods. Yet they value how the MCC engages with the state and citizens—and welcome the departure from the status quo.”<sup>99</sup>
- ★ In June 2008, **Michele Kelemen** of **National Public Radio** reported that Burkina Faso and Namibia “have gone through many hoops to receive [MCC] aid, passing reforms and consulting with local civil society groups to develop programs to alleviate poverty.”<sup>100</sup>
- ★ In **Nicaragua**, extensive public participation in designing and implementing the MCC Compact has generated strong support from local officials, civil society groups, and program beneficiaries. This support buoyed the program during the last political transition, allowing it to progress uninterrupted.<sup>101</sup> According to the **Center for Global Development**, “[MCA-Nicaragua] relied on broad consultation. Local authorities and civil society in León and Chinandega helped develop the program parameters, so local-level political support was unwavering.”<sup>102</sup>
- ★ In **Benin**, over 100 local civil society organizations elected their own representatives to the working group that designed Benin’s compact proposal. This degree of civic participation is unprecedented, and will carry through to implementation now that Benin’s compact is signed. They identified a poor investment climate and the need for more dynamic private sector activity as key obstacles to growth and poverty reduction. The program they designed aims to secure title to better land and property, to expand access to credit for micro

and small and medium-sized business, to improve the ability of the justice system to settle small claims and to expand the capacity and improve the operation of the Port of Cotonou.<sup>103</sup>

- ★ While designing its MCC compact, **Georgia** engaged in a participatory consultative process that was unique in its recent history. They held a series of regional forums and distributed questionnaires in which attendees were asked to rank a list of seven economic growth priorities/sectors. Following these meetings, a box was left in each region in order for specific proposal suggestions to be submitted by constituents. To generate interest and proposals, they incorporated public comment boxes, a website, a telephone-line, television advertisements, newspapers, talk shows (radio and television), brochures and a television documentary on the MCA. This ultimately resulted in 531 specific proposals and more than 140 written inquiries. This broad consultative process helped government ministries, parliament, nongovernmental organizations, businesses and the general public to coalesce around the idea that infrastructure rehabilitation and agricultural development were key priorities for poverty reduction and economic growth.<sup>104</sup>
- ★ During the development of **Armenia's** compact proposal, the Government placed particular emphasis on broad-based consultations covering the entire country. It created a Board of Trustees, a working group, and an advisory group to ensure that the consultative process was properly coordinated in a timely manner. The Board of Trustees was responsible for defining the mechanisms of the consultative process. The final proposal was developed with careful consideration of suggestions and recommendations obtained from 230 relevant parties representing a variety of stakeholder groups and including representatives of NGOs (among them NGOs engaged in gender issues), the business community, rural communities, and the church.<sup>105</sup>
- ★ According to the **Center for Global Development**, “when [Malawi’s] Ministry of Economic Planning and Development (MEPD) was chosen to be the lead agency on the MCA [threshold Program] proposal process, it pulled in a wide range of stakeholders—including but not limited to the Anti-Corruption Bureau, the Accountant General, the Law Commission, Parliament, the Ministry of Finance, several NGO networks, and a consortium of media professionals. Representatives from these agencies and groups were convened into a task force by USAID. The task force then divided into working groups and drafted component papers that fed into the broader proposal. Every Malawian interviewed emphasized the collaborative nature of the process—and appreciated the structure created by USAID that allowed this collaboration to flourish. One commented on the ‘very unusual level of commitment’ exhibited by all participants. ... This mix of collaboration, commitment and effective coordination yielded a strong, innovative and comprehensive proposal.”<sup>106</sup>



## Is the MCC Effect Having an Impact on the Private Sector in Developing Countries?

*MCC has seen a trend of increasing reform among countries that would like to join the MCC “club.” Countries like Guatemala, Albania, Niger, Paraguay, and the Dominican Republic are all implementing reforms that make it easier to start a business and own legal title to property. These reforms draw firms out of the informal economy where they can access credit and grow to their full potential, boost property values and investment, create greater economic opportunities for women, and promote long-term investments in land productivity. In a survey of 60,000 people in more than 50 countries, the World Bank found that men and women believe that the single most effective way to escape poverty is to start a business.*

- ★ **The World Bank’s** 2007 Celebrating Reform report hails MCC as a major catalyst for reform, “When the United States’ Millennium Challenge Account (MCA) made eligibility for funding dependent on the ease of business startup, countries from Burkina Faso to El Salvador to Georgia to Malawi started reforms.”<sup>107</sup>
- ★ **Simeon Djankov**, the head of the **World Bank’s *Doing Business* project**, argues that, “[T]he Millennium Challenge Corporation is [a] pioneer in linking its grants to a set of indicators on the ease of doing business. ... To qualify for the money, two-dozen countries have sped up business entry and reduced its cost.”<sup>108</sup>
- ★ In 2008, the **Center for Global Development** noted that, “MCC ... has used the ‘Business Startup Sub-Indicator,’ which measures the time and regulatory cost to starting a business, as part of its eligibility criteria. Many countries have responded with regulatory reforms that have removed some gates.”<sup>109</sup>
- ★ According to a 2007 **International Finance Corporation** report, “[I]f we were at the Oscars, development institutions would take a best-supporting actor award for several of the [investment climate] reforms described here. The large improvements in the business environment in Serbia, Macedonia, El Salvador, Guatemala were helped by the advice and attention of either the World Bank, the USAID, the MCA, or a bilateral agency like Sweden’s SIDA.”<sup>110</sup>
- ★ In February 2008, the **Heritage Foundation** reported that, “[T]he reforms brought about by ‘the MCC effect’ have encouraged entrepreneurial activities and created more favorable conditions for economic growth and development.”<sup>111</sup>
- ★ **Theodore Moran**, a professor at **Georgetown University** and a non-resident fellow at the **Institute for International Economics**, points out that, “[T]he Millennium Challenge Corporation occupies a special niche in facilitating international investment among those developing countries that are accelerating their internal reform process.”<sup>112</sup>

- ★ The Center for Global Development reports that, “[T]he ‘good housekeeping’ seal of approval provided by the MCC has ... influenced talks with large U.S. corporations considering investment in ... [El Salvador’s] Northern zone.... Salvadoran and U.S. companies are exploring investments in solar cells near Ciudad Dolores, where the mayor is excited that the Northern Longitudinal Road constructed has enabled him to begin negotiations with alternative energy entrepreneurs for the first time.”<sup>113</sup>
- ★ In 2007, **Burkina Faso** introduced a “one-stop shop” for company registration, reduced the number of days it takes to start a business from 45 to 18, cut the number of procedures associated with business registration from 12 to 6, and slashed the cost of starting a business by approximately 33 percent. Burkina Faso also reduced the cost of property registration, which has helped fuel a surge in the real estate market.<sup>114</sup> This is part of a broader government effort to encourage businesses and homeowners to apply for formal titles to their land and property. According to the Economist Intelligence Unit, “the new titles will give them full ownership, and this should make it easier to use land or property as collateral for bank loans, thereby stimulating greater investment and, the government hopes, generating more tax revenue.”<sup>115</sup>
- ★ Between 2005 and 2007, **Honduras** reduced the number of days it takes to start a business from 62 to 21. Since 2005, the number of registered businesses has increased from 22,000 to 34,000.<sup>116</sup> In a July 2007, former Minister of the Presidency, Yani Rosenthal, “indicated that even before signing the MCC [compact agreement], the Government of Honduras was aware that such a reduction was part of the selection criteria and has continued to focus on improving the measure.”<sup>117</sup>
- ★ **Georgia**, another country the World Bank cites as an example of the “MCC Effect,” has undertaken dramatic business environment reforms, catapulting it from 112th place to 18th place on the IFC’s “Ease of Doing Business Index.”<sup>118</sup> After significantly reducing the time, cost, and procedural complexity of starting a business, business registrations shot up by 55%.<sup>119</sup> Georgia now has more registered businesses per capita than Singapore or Hong Kong<sup>120</sup>, and more than 50,000 new Georgian businesses registered in 2007 alone.<sup>121</sup>
- ★ In **Guatemala**, the Government actively worked with a private sector foundation called FUNDESA to become MCC-eligible. They reduced the number of days it takes to start a business from 39 to 26 and the cost of starting a business by 25 percent. The impact of these reforms has been very significant: Guatemala has seen a 23 percent increase in the annual rate of new business registrations. That’s almost 7,000 new firms entering the formal economy.<sup>122</sup>
- ★ The Government of **Paraguay** has cut the cost of business registration by several hundred dollars and reduced the time it takes to register a business from 74 days to 35 days. These reforms have brought thousands of new firms into the formal economy. The government now plans to lower the average wait to fewer than 10 days – well beyond its original objective. The World Bank has traced these policy changes back to the positive incentive created by the MCC eligibility criteria.<sup>123</sup>

- ★ Due in part to the incentive of continued MCC eligibility, the Government of **Madagascar** reduced the amount of time it takes to start a business from 67 days to one week and cut the minimum capital requirement for new businesses by 80 percent. The impact of these reforms has been very significant: Madagascar has seen a 26 percent increase in the rate of new business registrations, bringing 200 additional firms into the formal economy where they can access credit and grow to their full potential.<sup>124</sup>



# Appendix: References

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2. See Radelet, Steve. 2007. The Millennium Challenge Account In Africa: Testimony Before the House Committee On Foreign Affairs Subcommittee on Africa and Global Health. June 28, 2007. <http://www.cgdev.org/content/opinion/detail/13957/>. Elsewhere, Sheila Herrling and Steve Radelet of the Center for Global Development have reported that “[t]here are many signs of ‘the Millennium Challenge Corporation effect’ in which potential recipients work hard to improve their scores on the indicators in order to be selected for the program.” See pg. 280 of Herrling, Sheila and Steve Radelet. 2008. “Modernizing U.S. Foreign Assistance for the Twenty-first Century,” in *The White House and the World: A Global Development Agenda for the Next U.S. President*, edited by Nancy Birdsall. Washington D.C.: Center for Global Development. pp. 273-298. In November 2007, Radelet was asked to comment on whether he was aware of any countries that were seeking to improve their performance on the indicators because of the MCC eligibility incentive. “[He] replied that there were certainly indications that countries are trying to change their status on the indicators to qualify for MCC, especially with the economic and human investment indicators. With the governance indicators, there are definite signs the countries are trying to change their status regarding control of corruption. He also noted that Freedom House has started to get a lot more calls about their indicators; countries are trying to find out why they got a five instead of a 4.5.” See [http://pomed.org/docs/CGD\\_MCC\\_Countries\\_11\\_29.pdf](http://pomed.org/docs/CGD_MCC_Countries_11_29.pdf).
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5. <http://www.npr.org/templates/story/story.php?storyId=19053773>
6. Carnegie Endowment for International Peace. 2007. The Millennium Challenge Corporation and Democracy Promotion: Event Summary. December 6, 2007. <http://carnegieendowment.org/files/Summary2.pdf>. Freedom House has also reported that “many foreign governments have engaged in a dialogue with [our organization] to discuss our analysis, particularly steps they could take to improve their standing within the context of the Millennium Challenge Account.” See <http://www.freedomhouse.org/template.cfm?page=139&edition=7>. Additionally, in 2006, Windsor noted that “in recent years, we have seen increased attention to the ratings process for Freedom in the World, particularly as a result of the U.S. government’s decision to use the publication’s ratings as part of the allocation process for the Millennium Challenge Account.” See <http://www.freedomhouse.org/template.cfm?page=70&release=418>.
7. <http://www.one.org/blog/2008/06/27/fighting-cuts-to-the-mcc/>
8. Schaefer, Brett and Anthony Kim. 2008. Different Take on Africa. *The New York Post*. February 19, 2008. [http://www.nypost.com/seven/02192008/postopinion/opedcolumnists/dubyas\\_different\\_take\\_on\\_africa\\_98317.htm](http://www.nypost.com/seven/02192008/postopinion/opedcolumnists/dubyas_different_take_on_africa_98317.htm). According to Schaefer (2005: 13), “the evidence thus far indicates that such an [MCC Effect] exists. Even before the MCA approved its first grant, it spurred reform among candidate countries. For instance, one of the economic indicators used by the MCA to determine eligibility is the number of days it takes to open a business. It chose this indicator as a measure of the regulatory burden on entrepreneurship and business investment. According to the World Bank, which is the source for this indicator, establishing a business in sub-Saharan Africa took 74 days on average in 2004 (the MCA’s first year). In 2006, the average had fallen to 63 days and, out of the 31 countries measured in both 2004 and 2006, 17 countries reduced the number of days required versus only five that increased the number of days required.<sup>35</sup> Moreover, six countries not measured in *Doing Business* in 2004 provided the World Bank the data necessary to conduct their measurement in the 2006 edition. Thus, the opportunity to receive MCA grants is both providing an incentive for countries to improve their business environment and encouraging transparency.” See Schaefer, Brett D. 2005. Promoting Economic Prosperity through the Millennium Challenge Account. Heritage Lectures No. 920. November 2005.
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18. *n/a*: Phillips, Michael. 2007. Bush's Aid Policy Prods Countries: Yemen and Lesotho Embrace Overhauls; The Gambia Balks. *The Wall Street Journal*. March 14, 2007; Page A6. The article points out that Herrling gives MCC "full credit" for a series of policy and institutional reforms adopted by the Government of Yemen after being suspended from MCC's threshold Program in November 2005.
19. Emphasis added. [http://www.manilastandardtoday.com/?page=news1\\_mar13\\_2008](http://www.manilastandardtoday.com/?page=news1_mar13_2008). In June 2008, President Arroyo of the Philippines also noted that "we are very religious about looking at the [MCC scorecard] all of the time and making sure that we continue to comply with all of the expectations of the MCC. It's a very, very big honor for us and something very, very important to us." See Millennium Challenge Corporation. 2008. "Philippines President Visits MCC." June 23, 2008. See <http://www.mcc.gov/press/events/documents/outreach-062308-philippines.php>
20. The Analyst. 2008. Interview with President Ellen Johnson-Sirleaf. February 17, 2008. [http://www.analystliberia.com/ behold\\_bush\\_comes\\_feb21\\_08.html](http://www.analystliberia.com/ behold_bush_comes_feb21_08.html). During Congressional confirmation hearings in August 2008, Liberia's Minister-Designate of Planning and Economic Affairs, Mr. Amara Konneh, indicated that he would "work towards the full qualification of Liberia for the Millennium Challenge Account." See The Analyst. 2008. "We Will Reduce Poverty." August 19, 2008. [http://www.analystliberia.com/we\\_will\\_reduce\\_poverty\\_aug18\\_08.html](http://www.analystliberia.com/we_will_reduce_poverty_aug18_08.html)
21. President Compaoré also outlined a series of improvements that the Government of Burkina Faso is making to invest in its people: "In the area of health, we note remarkable progress with the allocation of 15% of the national budget to this sector." See Speech by His Excellency the President of Burkina Faso at the 14 July 2008 Burkina Faso MCC Compact Signing Ceremony. See <http://www.mcc.gov/press/events/documents/signing-071408-burkinafaso.php>.
22. Millennium Challenge Corporation. 2006. "Millennium Challenge Corporation Holds a Public Meeting on the MCC Compact between the United States and El Salvador." Hall of Americas, November 30, 2006: Washington, DC. <http://www.mcc.gov/press/events/2006/transcript-113006-elsalvadoroutreach.pdf>. In 2006, President Saca of El Salvador noted that "since [MCC] announced the inclusion of [lower middle income] countries in their programs, El Salvador has worked hard, first to achieve eligibility, then to present a quality proposal and, finally, to establish an agreement of mutual accord with the MCC." See Millennium Challenge Corporation. 2006. Signing Ceremony for Millennium Challenge Corporation's Compact with the El Salvador. Benjamin Franklin Room, the U.S. State Department, Washington, D.C. November 29, 2006. <http://www.mcc.gov/press/events/2006/transcript-112906-elsalvadorsigning.pdf>.
23. [http://www.mcc.gov/press/newsletter/issues/mayo6\\_newsletter.shtml](http://www.mcc.gov/press/newsletter/issues/mayo6_newsletter.shtml)
24. See World Bank. 2007. *Celebrating Reform 2007: Doing Business Case Studies*. Washington D.C.: World Bank. Also see <http://usinfo.state.gov/journals/itdhr/1206/ijde/millennium.htm>.
25. Spiro Clark, Elizabeth. 2005. The Millennium Challenge Account: Spur to Democracy? *The Foreign Service Journal* (April 2005): 31-35. [http://isd.georgetown.edu/associates\\_clark\\_mca.pdf](http://isd.georgetown.edu/associates_clark_mca.pdf)

26. Spiro Clark, Elizabeth. 2005. The Millennium Challenge Account: Spur to Democracy? *The Foreign Service Journal* (April 2005): 31-35. [http://isd.georgetown.edu/associates\\_clark\\_mca.pdf](http://isd.georgetown.edu/associates_clark_mca.pdf)
27. ABC Color. USA Donates 35m Dollars to Help Paraguay Combat Corruption. February 14, 2006.
28. See [http://honduras.usembassy.gov/english/mission/sections/econ\\_busregtime.pdf](http://honduras.usembassy.gov/english/mission/sections/econ_busregtime.pdf). The number of registered businesses has increased from 22,000 to 34,000 since 2005. <http://psdblog.worldbank.org/psdblog/2008/06/trimming-red-ta.html>
29. Center for Global Development. 2005. "Assessing Nicaragua's Millennium Challenge Account Compact" Event. Washington Terrace Hotel 1515 Rhode Island Avenue, N.W. Washington, D.C. June 27, 2005. <http://www.cgdev.org/doc/event%20docs/NicaraguaMCAAccountevttrans.pdf>. Also see <http://www.scoop.co.nz/stories/WO0508/Soo143.htm>.
30. See Brown, Rachel, Hannah Flamm, Laurie Gagnon, David Mok, Julia Silberman, Kelsi Stine, and Diego Villalobos. 2008. Guatemala and the Millennium Challenge Account: The Quest for Threshold Program Assistance. Tufts Institute for Global Leadership Working Paper. See <http://www.tuftsgloballeadership.org/>
31. [http://www.hri.org/news/balkans/rferl/2005/05-11-15\\_rferl.html](http://www.hri.org/news/balkans/rferl/2005/05-11-15_rferl.html)
32. El Heraldo. 2008. Exigen combate concreto contra la corrupción. March 7, 2008. Pg. 10. *La Tribuna*. 2008. Gobierno presenta informe sobre corrupción a la Cuenta del Milenio. March 6, 2008. Pg. 11. A Spanish language version of the plan is available at <http://www.sdp.gob.hn/NEWSDP/documentos/IIAPCCo208.pdf>.
33. See Newton, James, Sylvia Solf, and Adriana Vicentini. 2007. "Starting a business (quickly) in El Salvador." In *Celebrating Reform 2007: Doing Business Case Studies*, pp. 9-15. Washington D.C.: World Bank; World Bank. 2006. *Doing Business 2007: How to Reform*. Washington D.C.: World Bank. The World Bank also reports that "It is no accident that Eastern Europe is the fastest reforming region. Reformers there could push through controversial changes by saying that the EU requires them. And El Salvador used access to the MCA as a reform rationale." See <http://www.reformersclub.org/documents/reform/Introduction.pdf>. In the run-up to the fiscal year 2006 MCC country selection process, the Government of El Salvador provided MCC with an extensive list of adopted and planned reforms. President Antonio Saca approved an executive decree that established a code of ethics for public employees and created a Public Service Ethics Commission to develop and carry out policies that foster integrity, impartiality, and honesty on the part of public officials. See Groff, Stephen P. and Raymond C. Offenheiser. Fund the fight against global poverty. *The Christian Science Monitor*. October 3, 2008. <http://www.csmonitor.com/2008/1003/p09s02-coop.html>
34. *n/a*: See World Bank. 2007. *Celebrating Reform 2007: Doing Business Case Studies*. Washington D.C.: World Bank. Also see pg. 46 of Independent Evaluation Group. 2008. *Doing Business: An Independent Evaluation*. Washington D.C.: World Bank. [http://siteresources.worldbank.org/EXTDOIBUS/Resources/db\\_evaluation.pdf](http://siteresources.worldbank.org/EXTDOIBUS/Resources/db_evaluation.pdf). Georgianow outperforms Belgium, Germany, the Netherlands, and Austria on the World Bank's "Ease of Doing Business index." After significantly reducing the time, cost, and procedural complexity of starting a business, business registrations shot up by 55% (World Bank. 2006. *Doing Business 2007: How to Reform*. Washington, DC: World Bank). Georgia now has more registered businesses per capita than Singapore or Hong Kong, and more than 50,000 new Georgian businesses registered in 2007 alone. See [http://www.doingbusiness.org/documents/Press\\_Releases\\_08/IEG\\_Issues\\_brief.doc](http://www.doingbusiness.org/documents/Press_Releases_08/IEG_Issues_brief.doc) and [http://www.investinggeorgia.org/i2/Georgian\\_economy.pdf](http://www.investinggeorgia.org/i2/Georgian_economy.pdf).
35. There is also evidence that the MCC's "incentive effect" has had a positive impact on public good provision in Georgia. John Taylor, the former Under Secretary for International Affairs at the U.S. Treasury, noted in November 2004 that Georgia's performance in the Investing in People category "show[s] relatively poor performance on the health and primary education expenditure indicators.... On health expenditures, Georgia was in the 8th percentile relative to the 74 other countries used to assess performance. On primary education expenditures, Georgia was in the 7th percentile. Partially in response to the poor outcomes identified by the MCA indicators, the [G]overnment has made increasing social expenditures a priority. In the case of health, expenditures are expected to increase by almost three times to 1.3 percent of GDP – the exact kind of response that MCA was designed to elicit." See Taylor, John B. 2004. *Economic Freedom and Georgia's Rose Revolution*. Remarks at the Caucasus Business School, Tbilisi, Georgia. November 22, 2004. [http://www.stanford.edu/~johntayl/taylorspeeches/Economic%20Freedom%20and%20Georgia%20\(22%20Nov%2004\).doc](http://www.stanford.edu/~johntayl/taylorspeeches/Economic%20Freedom%20and%20Georgia%20(22%20Nov%2004).doc). Since the Saakashvili administration came to power, public health spending as a percentage of GDP has steadily increased to 1.8%. These funding increases appear to be having a real impact. According to the World Bank, "[i]ncreased public financing for health care and better targeting of primary care to the poor are gradually improving the utilization of health care services. According to household survey data, the utilization of health care by the poorest two quintiles increased from 3.5 percent of total consumption expenditures in 2004 to 4.5 percent in 2005 and to about 6 percent in 2006." World Bank. 2008. *Georgia - Fourth Poverty Reduction Support Operation Program Document*. May 5, 2008. Washington D.C.: World Bank.
36. Gerson, Michael. 2007. One Tool America Needs. *The Washington Post*. August 1, 2007. Page A17
37. Phillips, Michael. 2007. Bush's Aid Policy Prods Countries: Yemen and Lesotho Embrace Overhauls; The Gambia Balks. *The Wall Street Journal*. March 14, 2007; Page A6. In August 2008, Nancy Birdsall, President of the Center for Global Development, noted that MCC is "a kind of aid that is meant to create incentives for governments to do better. [A] wonderful example is that it's because of ... Lesotho's desire to get access to [MCC funding] that it decided to ... [change] its legislation to ensure that married women, who earlier could not own property, [can] now ... own property. This is the kind of change that in

- the medium-term really makes a difference in people's lives: growth, better governance, and more democracy so people have voice. That's the sense in which the glass is really more than half full now in Africa. And I think the U.S. has played an important role in ... helping countries move in those good directions." See Birdsall, Nancy. 2008. Panel on Combating Global Poverty. Program organized by the Council on Foreign Relations at the 2008 Democratic National Convention. Denver, Colorado. August 27, 2008. [http://fora.tv/2008/08/27/Combating\\_Global\\_Poverty\\_Panel\\_Discussion](http://fora.tv/2008/08/27/Combating_Global_Poverty_Panel_Discussion). U.S. Congresswoman Diane Watson (D-CA), Vice Chair of the House Africa Subcommittee of the House Committee on Foreign Affairs, also noted in 2007 that, "It was through the work of the Millennium Challenge Corporation that we were able to encourage the best instincts of Lesotho's political leadership to make these changes in the law. It is instructive to pay attention to how the MCC's leadership convinced Lesotho to make the changes. They did not demand that they change as a quid pro quo for MCC assistance. Instead, they appealed to Prime Minister Mosisili and his [G]overnment's sense of reason by convincing them that any assistance provided by the United States for economic development would be only half as effective if half of Lesotho's population was excluded from the formal economy." See [http://www.accessmylibrary.com/coms2/summary\\_0286-32461389\\_ITM](http://www.accessmylibrary.com/coms2/summary_0286-32461389_ITM).
38. See World Bank. 2007. *Doing Business 2008*. Washington D.C.: World Bank and the International Finance Corporation. In June 2008, National Public Radio also reported that Burkina Faso and Namibia "have gone through many hoops to receive [MCC] aid, passing reforms and consulting with local civil society groups to develop programs to alleviate poverty." See Kelemen, Michele. 2008. Senates Aims to Slash Bush's Foreign Aid Program. National Public Radio, June 23, 2008. See <http://www.npr.org/templates/story/story.php?storyId=91791870>.
  39. Dugger, Celia. 2007. U.S. Agency's Slow Pace Endangers Foreign Aid. *The New York Times*. December 7, 2007. Pg. 1. The impact of these reforms has been significant. According to the World Bank *Doing Business 2008* report, "in Burkina Faso, property registrations rose by 27% in the 5 months after this year's [2007] reduction in the [property] transfer tax" (pg. 27). See World Bank. 2007. *Doing Business 2008*. Washington D.C.: World Bank and the International Finance Corporation.
  40. Brown, Rachel, Hannah Flamm, Laurie Gagnon, David Mok, Julia Silberman, Kelsi Stine, and Diego Villalobos. 2008. Guatemala and the Millennium Challenge Account: The Quest for Threshold Program Assistance. Tufts Institute for Global Leadership Working Paper. See <http://www.tuftsgloballeadership.org/>
  41. In 2007, the Government of Guatemala created a detailed action plan to improve its performance on the MCC democracy indicators. Their action plan identified the following priorities: approval of regulations to allow for the review of public and private financing of political organizations, a \$54 million increase in the budget of the Supreme Electoral Tribunal, and a thorough purging and updating of the electoral registry. They also outlined additional steps to be taken over coming years, including stiffer penalties for those who commit crimes against journalists, plans to reform the electoral law, approval of a consultation law for indigenous people, and implementation of a policy for the protection of human rights defenders. See Mandaville, Alicia Phillips. 2007. MCC and the Long Term Goal of Deepening Democracy. Washington D.C.: Millennium Challenge Corporation. See <http://www.mcc.gov/documents/mcc-112007-paper-democracy.pdf>.
  42. In early 2008, President Arroyo of the Philippines said: "I believe that if we can all come together, redouble our efforts and continue to meet the criteria of the Millennium Challenge Corp., the long-term benefit to our nation will be the best gift I can leave this nation when I step down in 2010." [http://www.manilas-tandartoday.com/?page=news1\\_mar13\\_2008](http://www.manilas-tandartoday.com/?page=news1_mar13_2008)
  43. In addition to political and economic reforms being implemented under its threshold program, the Government of Jordan initiated a broader package of legislative reforms in 2007 to improve its performance on the MCC indicators. In 2007, a Municipalities Law was passed, allowing for the election of municipal mayors and council members, the reduction of the voter eligibility age from 19 to 18, and the establishment of a 20 percent quota for women in municipal councils. A public access to information law was also passed, which is a first of its kind in the Middle East. Additionally, the Government amended the Press and Publications Law in 2007, abolishing imprisonment as a penalty for press offenses. For more on the 'MCC effect' in Jordan, see [https://dspace.swem.wm.edu/dspace/bitstream/10288/502/1/Rob\\_Landicho\\_Final%20Thesis%20Copy.pdf](https://dspace.swem.wm.edu/dspace/bitstream/10288/502/1/Rob_Landicho_Final%20Thesis%20Copy.pdf).
  44. <http://www.one.org/blog/2008/07/15/frist-africa-trip-day-2/>
  45. See <http://www.mcc.gov/press/speeches/documents/stmt-031307-danilovichnacfo.php> and <http://usinfo.state.gov/journals/itdhr/1206/ijde/millennium.htm>. In December 2006, the Government of the Dominican Republic held a Cabinet meeting to discuss possible increases in public funding for primary education and public health. The Ministry of the Economy informed MCC that this discussion was an example of the "MCC Effect." Between 2006 and 2007, public spending on education and health increased from approximately 3.8% to 4.4% of GDP. See Jiménez, Maneul. 2006. Sólo Educación y Salud tendrán más presupuesto. Hoy Digital. December 14, 2006.
  46. World Bank. 2007. *Doing Business 2008*. Washington D.C.: World Bank and the International Finance Corporation.
  47. In July 2007, U.S. Ambassador to Cameroon, Niels Marquardt, noted in an interview with a local newspaper that "a number of African countries have succeeded in establishing [compacts] with the Millennium Challenge Corporation that award from 100 to 600 million dollars. Cameroon is competing for this kind of assistance. I think there is a growing understanding of what is necessary for Cameroon to be successful. Perhaps it is a medium term rather than a short term goal given what still has to be done, but the kinds of achievements that Cameroon needs to implement to become eligible are the same things that



- Cameroonians themselves have set as goals." See Cameroon Tribune. 2007. Niels Marquardt. "We Have a Relationship of Friendship, Partnership, Frankness." July 5, 2007. See <http://allafrica.com/stories/printable/200707050993.html>
48. <http://www.doingbusiness.org/Reformers/Africa.aspx>
  49. World Bank. 2007. *Doing Business 2008*. Washington D.C.: World Bank and the International Finance Corporation. Also see See pg. 46 of Independent Evaluation Group. 2008. *Doing Business: An Independent Evaluation*. Washington D.C.: World Bank. [http://siteresources.worldbank.org/EXTDOIBUS/Resources/db\\_evaluation.pdf](http://siteresources.worldbank.org/EXTDOIBUS/Resources/db_evaluation.pdf)
  50. See World Bank. 2007. *Doing Business 2008*. Washington D.C.: World Bank and the International Finance Corporation. In March 2008, MCC and the Government of Madagascar discussed the indicators which prevented it from meeting the Fiscal Year 2008 policy performance criteria. These indicators included Health Expenditures, Primary Education Expenditures, and Immunization Rates. Between March 2008 and July 2008, the Government added \$510,000 to its 2008 health budget and \$6.4 million to its 2008 primary education budget. It also submitted recommendations for increasing the 2009 health budget. As part of a broader action plan to improve its performance in the Investing in People category, the Government of Madagascar is seeking to improve its performance on the Immunization Rates indicator by strengthening the vaccine cold chain, reducing vaccine "stock-outs," reducing damage to and/or loss of vaccines, and increasing citizen participation in public health programs. According to the Center for Global Development, "senior [Malagasy] officials reported [in 2006] that the [G]overnment is keenly aware of the importance of maintaining MCA eligibility. It has, for example, responded quickly to USG concerns about trafficking of persons with serious crackdowns." See <http://www.cgdev.org/doc/MCA/MadagascarField.pdf>
  51. The Government of Niger also reduced the cost of starting a business by almost 60 percent. See World Bank. 2007. *Doing Business 2008*. Washington D.C.: World Bank and the International Finance Corporation.
  52. Polgreen, Lydia. 2007. In Niger, Trees and Crops Turn Back the Desert. *New York Times*. February 11, 2007. <http://www.nytimes.com/2007/02/11/world/africa/11niger.html?pagewanted=1&r=1>
  53. <http://www.mcaburkina.bf/actu25.html>
  54. Email correspondence with Caralee McIiesh, Program Manager, World Bank, March 15, 2007.
  55. Davies, Doe S.K. 2007. Official Expounds On DB Ranking. *The News (Monrovia)*. September 28, 2007. During Congressional confirmation hearings in August 2008, Liberia's Minister-Designate of Planning and Economic Affairs, Mr. Amara Konneh, indicated that he would "work towards the full qualification of Liberia for the Millennium Challenge Account." See The Analyst. 2008. "We Will Reduce Poverty." August 19, 2008. [http://www.analystliberia.com/we\\_will\\_reduce\\_poverty\\_aug18\\_08.html](http://www.analystliberia.com/we_will_reduce_poverty_aug18_08.html)
  56. The World Bank reports that after being deemed MCC compact-eligible for the first time in 2005, El Salvador's "reform spirit received another boost." Shortly after the MCC announcement, President Saca announced: "We have improved substantially the environment to do business in El Salvador. ...We reduced the cost and time for the government formalities. With the recent launch of the one-stop shop at the Central Registry for company startup, we reduced the number of days to register a business, reducing the cost by 67%." See Newton, James, Sylvia Solf, and Adriana Vicentini. 2007. "Starting a business (quickly) in El Salvador." In *Celebrating Reform 2007: Doing Business Case Studies*. Washington D.C.: World Bank. pp. 9-15. <http://www.reformersclub.org/documents/reform/Introduction.pdf>
  57. Dentlinger, Lindsay. 2006. Fight Against Corruption Reaches 'Major Milestone. *The Namibian*. <http://www.namibian.com.na/2006/April/national/headlines.html>
  58. Timor Post. 2008. AMP government not to get funds from MCC. June 17, 2008. *Diario Nacional*. 2008. MCC to provide fund for TL in a short time. June 19, 2008.
  59. The Government of Timor-Leste has deemed 2008 the "year of administrative reform" and announced plans to create an independent civil service commission and an independent auditor general that reports directly to Parliament; conduct internal audits within all ministries; and make income and asset disclosure mandatory for all cabinet members.
  60. Kelley, Kevin J. 2006. East Africa: Graft Costs Uganda And Kenya Millions in U.S. Aid. *The East African*. November 14, 2006.
  61. Millennium Challenge Monthly. February 2006. Vol. 2 Issue 2
  62. Millennium Challenge Corporation. 2006. "Millennium Challenge Corporation Holds a Public Meeting on the MCC Compact between the United States and El Salvador." Hall of Americas, November 30, 2006: Washington, DC. <http://www.mcc.gov/press/events/2006/transcript-113006-elsalvadoroutreach.pdf>
  63. See [http://pdf.dec.org/pdf\\_docs/PDACF483.pdf](http://pdf.dec.org/pdf_docs/PDACF483.pdf).

64. BBC News. 2004. Bangladesh to tackle corruption. November 22, 2004. <http://news.bbc.co.uk/2/hi/business/4032647.stm>
65. Pg. 47 of Diamond, Larry, 2008. The Democratic Rollback: The Resurgence of the Predatory State. *Foreign Affairs*. March/April 2008. Pp. 36-48.
66. Carnegie Endowment for International Peace. 2007. The Millennium Challenge Corporation and Democracy Promotion: Event Summary. December 6, 2007. <http://carnegieendowment.org/files/Summary2.pdf>. Freedom House has also reported that “many foreign governments have engaged in a dialogue with [our organization] to discuss our analysis, particularly steps they could take to improve their standing within the context of the Millennium Challenge Account.” See <http://www.freedomhouse.org/template.cfm?page=139&edition=7>. Additionally, in 2006, Windsor noted that “in recent years, we have seen increased attention to the ratings process for Freedom in the World, particularly as a result of the U.S. government’s decision to use the publication’s ratings as part of the allocation process for the Millennium Challenge Account.” See <http://www.freedomhouse.org/template.cfm?page=70&release=418>.
67. La Prensa Gráfica. 2005. El Salvador gana Fondos del Milenio. 9 November 2005. Available online at <http://www.laprensagrafica.com/portada/default.asp>
68. Silva, Héctor. 2007. Cuidado con los \$461 Millones! *La Prensa Grafica*. November 25, 2007. <http://www.laprensagrafica.com/opinion/929292.asp>. In mid-2008, the Government of El Salvador created an action plan to improve its performance on the Investing in People indicators. Among other commitments, the Government announced that it would increase educational infrastructure investment; seek to negotiate an increase in the Ministry of Health 2009 budget; expand participation in the “Play and Read” program; and introduce a unique student code to be able to track school drop-out rates, repetition rates, student transfers within the system, and those at risk of dropping out.
69. Mbaziira, Rukia. 2007. Many people dying due to corruption. *New Vision*. October 17, 2007. Also see Kisambira, Edris. 2007. New Anti-Fraud Agenda. *East African Business Week*. October 15, 2007.
70. Siglo 21. 2007. Se Abre Una Puerta Oportuna. December 3, 2007. <http://www.noticomer.com/cgi-bin/noticias/print.pl?article=1011>
71. According to a group of researchers at Tufts University’s Institute for Global Leadership, a Guatemalan civic organization called FUNDESA “has been an active proponent of putting the MCA on the [G]overnment’s agenda.” See Brown, Rachel, Hannah Flamm, Laurie Gagnon, David Mok, Julia Silberman, Kelsi Stine, and Diego Villalobos. 2008. Guatemala and the Millennium Challenge Account: The Quest for Threshold Program Assistance. Tufts Institute for Global Leadership Working Paper. See <http://www.tuftsgloballeadership.org/>.
72. Timor Post. 2008. AMP government not to get funds from MCC. June 17, 2008. *Diario Nacional*. 2008. MCC to provide fund for TL in a short time. June 19, 2008. In mid-2008, the Government of Timor-Leste developed a detailed action plan to improve its performance on the Control of Corruption indicator (among other MCC eligibility indicators).
73. Harris, Megan. 2008. Analysis: Promising aid program faces cuts. *United Press International*. January 22, 2008. [http://www.terraily.com/reports/Analysis\\_Promising\\_aid\\_program\\_faces\\_cuts\\_999.html](http://www.terraily.com/reports/Analysis_Promising_aid_program_faces_cuts_999.html)
74. CGD has also noted that “MCC’s use of an indicator for eligibility decision-making appears to be creating an incentive not only for countries to adopt targeted reforms, but also for source agencies to improve; this is an important contribution by the MCC to measuring development impact well beyond its own programs.” See <http://www.cgdev.org/section/initiatives/active/mcamonitor/newsletter/fall11#10>. In November 2007, Steve Radelet of the Center for Global Development was asked to comment on whether he was aware of any countries that were seeking to improve their performance on the indicators because of the incentive created by MCC eligibility. He “noted that Freedom House has started to get a lot more calls about their indicators; countries are trying to find out why they got a five instead of a 4.5.” See [http://pomed.org/docs/CGD\\_MCC\\_Countries\\_11\\_29.pdf](http://pomed.org/docs/CGD_MCC_Countries_11_29.pdf)
75. See [http://www.brookings.edu/fp/events/20050624\\_MCCtranscript.pdf](http://www.brookings.edu/fp/events/20050624_MCCtranscript.pdf). Djankov has also noted that “[t]here is a clear trend: moving from indicators constructed by commercial entities – as a side business for their clients – to indicators constructed by organizations that provide a public good. This has brought in improved methodologies and better sources of information. [It has also] resulted in an innovation: aid flows or advisory services informed by the measurement of the ease of enterprise. The United States’ Millennium Challenge Account is the pioneer in this market.” See Djankov, Simeon. 2007. Measuring the Ease of Enterprise. World Bank Working Paper, December 2007. Washington D.C.: World Bank.
76. <http://www.freedomhouse.org/template.cfm?page=70&release=418>. In 2005, Freedom House reported noted that “[i]n order to examine in more detail some of the issues pertinent to the MCA, Freedom House designed [the Countries at the Crossroads] survey to focus on government performance in 30 countries.” See Repucci, S. 2005. “A Survey of Governance in 30 Underperforming States,” in *The Global Corruption Report 2005*, pp. 255-257. In 2006, due to increased demand for actionable information from MCC candidate countries, Freedom House added a policy recommendation section to its *Countries at the Crossroads* publication. Several MCC threshold countries, and countries aspiring to MCC eligibility, have drawn upon these recommendations in designing reform programs. Finally, in 2007, MCC facilitated a dialogue between Freedom House and the State Department’s Office of Population, Refugees, and Migration. This resulted in Freedom House making a minor, but important, adjustment to their methodology: Freedom House now asks their *Freedom in the World* analysts a supplemental question about the rights of refugees.
77. In a September 2006 press release, Freedom House noted that its decision to disclose the more granular data on political rights and civil liberties was part of an “effort to be more transparent about its ratings systems with the hope of fostering greater dialogue within countries about specific areas in need of reform.

- The more detailed data will also help to inform decision-making by the Millennium Challenge Corporation and other donor agencies that factor in an assessment of human rights and freedom in determining their assistance priorities.” See <http://www.freedomhouse.org/template.cfm?page=70&release=418>.
78. See Schaefer, Brett D. 2005. Promoting Economic Prosperity Through the Millennium Challenge Account. Heritage Lectures No. 920. November 2005. <http://www.heritage.org/Research/TradeandForeignAid/hl920.cfm><http://www.heritage.org/Research/TradeandForeignAid/hl920.cfm>. In 2006, the Heritage Foundation re-scaled its Trade Policy indicator to help MCC better differentiate between high-performers and low-performers. Two years later, the Heritage Foundation announced that it would significantly reducing the reporting lag associated with its trade indicator by releasing new data shortly before MCC’s annual country selection process. See Markheim, Daniella and Ambassador Terry Miller. 2008. Trade Liberalization Continuing Despite Doha Impasse. Heritage Foundation Backgrounder #2187. September 19, 2008. <http://www.heritage.org/Research/TradeandForeignAid/bg2187.cfm>
  79. Schaefer, Brett D. and Anthony B. Kim. 2008. President Bush’s Trip to Africa: Solidifying U.S. Partnerships with the Region. Heritage Foundation WebMemo #1817. February 15, 2008. [http://www.heritage.org/Research/Africa/wm1817.cfm?renderforprint=1#\\_ftnref12](http://www.heritage.org/Research/Africa/wm1817.cfm?renderforprint=1#_ftnref12)
  80. The World Bank Institute reports that many MCC candidate, threshold, and compact countries have contacted them to learn how they can improve performance on their governance indicators. Over the last two years, the World Bank Institute met with Dominican Republic, El Salvador, Fiji, Guatemala, Rwanda, Yemen, Ecuador, Honduras, Kyrgyz Republic, Nigeria, Paraguay, Tanzania, Uganda, Cameroon, Malawi, the Philippines, and Indonesia, among many other countries.
  81. See [http://www.brookings.edu/fp/events/20050624\\_MCCtranscript.pdf](http://www.brookings.edu/fp/events/20050624_MCCtranscript.pdf)
  82. Based on correspondence with Bronson Lee, Director and Associate Partner of Gallup’s Global Public Sector Division. July 8, 2008.
  83. For more information, see <http://www.worldbank.org/wbi/governance/capacitybuild/about.html>. In 2007, the head of Guatemala’s Presidential Commission for Modernization of the State was quoted in a local newspaper saying, “We are working to qualify for the Threshold Program, which is the first step. ... We have already submitted documentation, and we are constantly updating and sending data.” See Solano, Celso. 2007. País busca aplicar a Reto del Milenio. Siglo 21. December 3, 2007. Pp. 3-4. Also see <http://www.copre.gob.gt/>.
  84. *n/a*: Although the sample sizes are very small, these data are reassuring in that MCC’s continued technical engagement is not reducing countries’ valuation of ownership or satisfaction with MCC’s approach. See Phillips-Mandaville, Alicia. 2008. MCC’s Approach to Country Ownership. MCC Working Paper: A Draft for Comment and Discussion. September 2008. <http://www.mcc.gov/documents/mcc-082908-workingpaper-ownership.pdf>.
  85. See <http://www.cgdev.org/content/opinion/detail/13957/>. In September 2008, Andrew Natsios, Professor of Diplomacy at Georgetown University and former USAID administrator noted that “all of the research ... shows that if there is local ownership and local capacity and sustainability at the local level ... the chances of foreign aid programs being successful dramatically increases. If things are managed from Washington, they don’t work too well. And the way in which we are now running most of our foreign aid programs, *other than MCC*, is highly Washington-focused.” Emphasis added, Natsios, Andrew. 2008. Panel on “The Future of U.S. Foreign Assistance” at University of Minnesota’s Hubert H. Humphrey Institute of Public Affairs. Co-sponsored by Oxfam America and the German Marshall Fund of the United States. <http://shows.implex.tv/Qwikcast/Root/Humphrey-Institute/1423/preflight2.htm>
  86. Lucas, Sarah. 2007. Nicaragua: Field Report. Washington D.C.: Center for Global Development. [http://www.cgdev.org/doc/MCA/Nicaragua\\_fldrpt.pdf](http://www.cgdev.org/doc/MCA/Nicaragua_fldrpt.pdf)
  87. <http://www.mcc.gov/documents/qsr-imp-nicaragua.pdf>
  88. <http://usinfo.state.gov/ei/Archive/2005/Apr/15-552445.html>
  89. <http://www.fc-tv.com/clients/mcc/mcc-05-26-05.asx>. The Center for Strategic and International Studies. 2005. Millennium Challenge Account: Lessons Learned, Expanding Public Participation in Latin America. May 26, 2005.
  90. See [http://www.cgdev.org/doc/MCA/Honduras\\_fldrpt.pdf](http://www.cgdev.org/doc/MCA/Honduras_fldrpt.pdf). Due in part to discussions that occurred between MCC and the Government of Honduras regarding the financial sustainability of the road investments, the Government has recently implemented reforms to secure unprecedented levels of funding for road maintenance. In addition to dramatic increases in funding for road maintenance, the reporting requirements for the country’s road maintenance plan have improved transparency in planning and execution. See Millennium Challenge Corporation. 2008. 2007 Annual Report: Changing Lives. Washington D.C.: Millennium Challenge Corporation. <http://www.mcc.gov/documents/mcc-2007-annualreport.pdf>; Phillips-Mandaville, Alicia. 2008. MCC’s Approach to Country Ownership. MCC Working Paper: A Draft for Comment and Discussion. September 2008. See <http://www.mcc.gov/documents/mcc-082908-workingpaper-ownership.pdf>.
  91. The plan features a strong communications and community consultation component, market value compensation, resettlement sites and a social compensation plan for vulnerable populations disproportionately affected by the project. MCA-Honduras will provide people with a choice of in-kind or monetary

- compensation for their lost assets, including housing and land. Negotiations are carried out individually with affected households after extensive community consultation sessions with local leaders and door-to-door outreach to affected families. Those households choosing monetary compensation will be paid their property's market value. Those who chose in-kind compensation will be moved to resettlement sites close to where they used to live. These sites offer safe and adequate housing conditions, commercial space, and communal markets that include parking facilities close to the highway. To date, 80% of households in the poorest zones have chosen in-kind compensation, which demonstrates their confidence in this approach. See <http://www.mcc.gov/documents/successstory-052808-makingheadway-honduras.pdf>.
92. Based on a conversation with the Minister of Finance and MCC Resident Country Director for Cape Verde, Stahis Panagides. Email correspondence with Stahis Panagides on July 24, 2007.
  93. <http://www.cgdev.org/doc/MCA/MadagascarField.pdf>
  94. Millennium Challenge Corporation. 2008. *2007 Annual Report: Changing Lives*. Washington D.C.: Millennium Challenge Corporation. <http://www.mcc.gov/documents/mcc-2007-annualreport.pdf>
  95. n/a: <http://www.mcc.gov/documents/cn-071807-mozambique.pdf>
  96. n/a: <http://www.mcc.gov/blog/ceo/category/el-salvador/>. Also see Crone, Amy. 2008. El Salvador Field Report. MCA Monitor. Washington D.C.: Center for Global Development.
  97. The level of expectation—and responsibility—demanded by country ownership has stretched capabilities in MCC partner countries and caused new capabilities to be developed. Papa Kwesi Ndom, Ghana's former Public Sector Reform Minister, best described this when he said: "Unlike other traditional development assistance programs where the donor proposes how funds are used, countries selected under the Millennium Challenge Account propose programs to receive funding. Thus, the MCA is designed to allow developing countries to take ownership and responsibility for funds provided by the Millennium Challenge Corporation. I wish to confirm to the Honorable Members of the House that our professionals have designed a program that belongs to us and one that we Ghanaians can implement successfully. See <http://www.mcc.gov/press/releases/documents/release-052107-danilovichatunesco.php>.
  98. <http://www.cgdev.org/doc/commentary/testimony/MCC%20Testimony%20June%2028th.pdf>
  99. See Oxfam America. 2008. Smart development in practice: Field report from El Salvador. Boston, MA: Oxfam America. See [http://www.oxfamamerica.org/newsandpublications/publications/research\\_reports/field-report-from-el-salvador/SDP-FieldReport-ElSalvador.pdf](http://www.oxfamamerica.org/newsandpublications/publications/research_reports/field-report-from-el-salvador/SDP-FieldReport-ElSalvador.pdf). Oxfam American (2008) also noted that "[t]he MCC brings with it a new paradigm on country ownership, unlike anything pursued by other US agencies. In El Salvador, the MCC builds on and reinforces a pre-existing national development plan that was developed using uncommonly consultative methods...That the MCC recognized the value of this autonomous process only adds to its strengths and shows its openness to working with locally grown institutions." Also see Crone, Amy. 2008. El Salvador Field Report. MCA Monitor. Washington D.C.: Center for Global Development.
  100. Kelemen, Michele. 2008. Senates Aims to Slash Bush's Foreign Aid Program. *National Public Radio*, June 23, 2008. See <http://www.npr.org/templates/story/story.php?storyId=91791870>
  101. Millennium Challenge Corporation. 2008. *2007 Annual Report: Changing Lives*. Washington D.C.: Millennium Challenge Corporation. <http://www.mcc.gov/documents/mcc-2007-annualreport.pdf>  
Lucas, Sarah. 2007. Nicaragua: Field Report. Washington D.C.: Center for Global Development. [http://www.cgdev.org/doc/MCA/Nicaragua\\_fieldrpt.pdf](http://www.cgdev.org/doc/MCA/Nicaragua_fieldrpt.pdf). Fox News. 2008. Effectiveness of U.S. dollars in Nicaragua. January 24, 2008. [http://www.foxnews.com/video2/launchPage.html?012408/012408\\_sr\\_lajeunesse&Less%20Is%20More&Special\\_Report&Effectiveness%20of%20U.S.%20dollars%20in%20Nicaragua&Special%20Report&-1&Less%20Is%20More&Video%20Launch%20Page&Shows&http%3A//media2.foxnews.com/thumbnails/012408\\_012408\\_sr\\_lajeunesse\\_320x240.jpg](http://www.foxnews.com/video2/launchPage.html?012408/012408_sr_lajeunesse&Less%20Is%20More&Special_Report&Effectiveness%20of%20U.S.%20dollars%20in%20Nicaragua&Special%20Report&-1&Less%20Is%20More&Video%20Launch%20Page&Shows&http%3A//media2.foxnews.com/thumbnails/012408_012408_sr_lajeunesse_320x240.jpg).
  102. Lucas, Sarah. 2007. Nicaragua: Field Report. Washington D.C.: Center for Global Development. [http://www.cgdev.org/doc/MCA/Nicaragua\\_fieldrpt.pdf](http://www.cgdev.org/doc/MCA/Nicaragua_fieldrpt.pdf)
  103. Danilovich, John. 2006. Providing Incentives, Promoting Governance. Speech delivered at the European Policy Centre in Brussels. April 6, 2006. [http://useu.usmission.gov/Dossiers/Sustainable\\_Development/Apro606\\_Danilovich\\_EPC.asp](http://useu.usmission.gov/Dossiers/Sustainable_Development/Apro606_Danilovich_EPC.asp)
  104. Danilovich, John. 2008. A Call for Smarter Aid. *www.forbes.com*. July 7, 2008.  
Millennium Challenge Corporation. 2006. MCC Report to Congress: Consultative Processes as a Key to Effective Development. March 28, 2006 Report to Congress. [http://www.mca.gov/about/reports/other/mcc\\_consultative\\_processes\\_report.pdf](http://www.mca.gov/about/reports/other/mcc_consultative_processes_report.pdf). These country-owned priorities for development are at the core of Georgia's \$295.3 million MCC grant. Because of this grant, Georgia has successfully completed emergency repairs to the North-South Gas Pipeline, which provides gas for commercial and residential purposes, and funded agribusiness development projects that will benefit 1,030 farmers and equip a rural community of 42,000 people with necessary agricultural supplies
  105. Millennium Challenge Corporation. 2006. MCC Report to Congress: Consultative Processes as a Key to Effective Development. March 28, 2006 Report to Congress. [http://www.mca.gov/about/reports/other/mcc\\_consultative\\_processes\\_report.pdf](http://www.mca.gov/about/reports/other/mcc_consultative_processes_report.pdf)

106. See <http://www.cgdev.org/section/initiatives/active/mcmonitor/fieldreports/malawifield>
107. See World Bank. 2007. *Celebrating Reform 2007: Doing Business Case Studies*. Washington D.C.: World Bank.
108. Djankov, Simeon. 2008. Measuring the Ease of Enterprise. IFC Working Paper. Washington D.C.: International Finance Corporations. [http://www.doingbusiness.org/documents/Measuring\\_the\\_Ease\\_of\\_Enterprise.pdf](http://www.doingbusiness.org/documents/Measuring_the_Ease_of_Enterprise.pdf). In 2005, Djankov reported that “w[e] have ... seen a number of reforms around the world in both rich and poor countries, but ... in many of the developing countries the reform has actually been primarily as a result of the inclusion in the Millennium Challenge Account.” See Brookings Institution. 2005. Environment, Poverty, and the Millennium Challenge Corporation: Leveraging U.S. Aid to Improve Natural Resource Management. June 24, 2005. Falk Auditorium: Washington, DC. [http://www.brookings.edu/fp/events/20050624\\_MCCtranscript.pdf](http://www.brookings.edu/fp/events/20050624_MCCtranscript.pdf).
109. Pg. 153 of de Tray, Dennis and Theodore Moran. 2008. “Getting the Focus Right: U.S. Leadership in the Fight against Global Corruption,” in *The White House and the World: A Global Development Agenda for the Next U.S. President*, edited by Nancy Birdsall. Washington D.C.: Center for Global Development. pp. 141-170. <http://www.cgdev.org/content/publications/detail/16560>
110. World Bank. 2007. *Celebrating Reform 2007: Doing Business Case Studies*. Washington D.C.: World Bank. <http://www.reformersclub.org/documents/reform/Introduction.pdf>
111. Schaefer, Brett D. and Anthony B. Kim. 2008. President Bush’s Trip to Africa: Solidifying U.S. Partnerships with the Region. Heritage Foundation WebMemo #1817. February 15, 2008. [http://www.heritage.org/Research/Africa/wm1817.cfm?renderforprint=1#\\_ftnref12](http://www.heritage.org/Research/Africa/wm1817.cfm?renderforprint=1#_ftnref12). Schaefer and Kim (2008) also note that “[b]y increasing transparency in compiling and disseminating economic statistics and competing with each other for MCC grants, ... countries have been motivated to pursue real policy improvements.”
112. Pg. 127 of Moran, Theodore. 2008. “Foreign Direct Investment and Development,” in *The White House and the World: A Global Development Agenda for the Next U.S. President*, edited by Nancy Birdsall. Washington D.C.: Center for Global Development. pp. 121-140.
113. See pg. 4 of Crone, Amy. 2008. El Salvador Field Report. MCA Monitor. Washington D.C.: Center for Global Development.
114. According to the *Doing Business 2008* report, “[property] registrations rose by 27% in the 5 months after this year’s reduction in the [property] transfer tax.”
115. World Bank. 2006. *Doing Business 2007: How to Reform*. Washington, DC: World Bank. Also see Green, Matthew. 2007. The economy: The hardest battles are yet to be fought. *Financial Times*. September 18th, 2007.
116. <http://psdblog.worldbank.org/psdblog/2008/06/trimming-red-ta.html>
117. [http://honduras.usembassy.gov/english/mission/sections/econ\\_busregtime.pdf](http://honduras.usembassy.gov/english/mission/sections/econ_busregtime.pdf)
118. World Bank. 2007. *Celebrating Reform 2007: Doing Business Case Studies*. Washington D.C.: World Bank. Also see pg. 46 of Independent Evaluation Group. 2008. *Doing Business: An Independent Evaluation*. Washington D.C.: World Bank. [http://siteresources.worldbank.org/EXTDOIBUS/Resources/db\\_evaluation.pdf](http://siteresources.worldbank.org/EXTDOIBUS/Resources/db_evaluation.pdf)  
Georgia now outperforms Belgium, Germany, the Netherlands, and Austria on the World Bank’s “Ease of Doing Business index.”
119. World Bank. 2006. *Doing Business 2007: How to Reform*. Washington, DC: World Bank.
120. [http://www.doingbusiness.org/documents/Press\\_Releases\\_08/IEG\\_Issues\\_brief.doc](http://www.doingbusiness.org/documents/Press_Releases_08/IEG_Issues_brief.doc)
121. [http://www.investingeorgia.org/iz/Georgian\\_economy.pdf](http://www.investingeorgia.org/iz/Georgian_economy.pdf). Georgia’s private sector created 85,000 new jobs in 2006, which reduced the unemployment rate by 2 percent. See <http://www.reformersclub.org/Documents/Speeches/WolfowitzSpeech.pdf>
122. World Bank. 2007. *Doing Business 2008*. Washington D.C.: World Bank and the International Finance Corporation.
123. [http://www.brookings.edu/fp/events/20050624\\_MCCtranscript.pdf](http://www.brookings.edu/fp/events/20050624_MCCtranscript.pdf)
124. The *Doing Business 2007* report notes that “the recent pick-up in reform shows that what gets measured gets done. The United States’ Millennium Challenge Account sets explicit targets on the time and cost to start a business: to qualify for its grants, countries must do better on both measures than the median eligible country. Reforms in Burkina Faso, El Salvador, Georgia and Madagascar all met the targets.” Also see pg. 46 of Independent Evaluation Group. 2008. *Doing Business: An Independent Evaluation*. Washington D.C.: World Bank. [http://siteresources.worldbank.org/EXTDOIBUS/Resources/db\\_evaluation.pdf](http://siteresources.worldbank.org/EXTDOIBUS/Resources/db_evaluation.pdf). John Taylor, the former Under Secretary for International Affairs at the U.S. Treasury, noted in October 2004 that “[e]ven before MCC funding has been distributed to the selected countries, ... country performance on the individual indicators has had tremendous impacts. For example, one of the indicators is a measure of the days it takes to start a business in a country. This indicator

is something concrete and tangible that countries were able to improve upon almost immediately. Benin, Bolivia, Madagascar, Mongolia, Nicaragua and Sri Lanka all improved their days to start a business indicator in the run up to the selection of countries for 2004.” See Taylor, John B. 2004. Getting International Economic Development Right: Is Effective Foreign Assistance Possible? Remarks at the Cleveland Council on World Affairs, Case Western Reserve University, Cleveland, Ohio. October 26, 2004. See [http://www.stanford.edu/~johntayl/taylor speeches/Getting%20International%20Economic%20Development%20Right%2026%20Oct%2004\).doc](http://www.stanford.edu/~johntayl/taylor speeches/Getting%20International%20Economic%20Development%20Right%2026%20Oct%2004).doc).



# Reducing Poverty Through Growth



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