



Millennium Challenge Corporation and the Long Term Goal of Deepening Democracy

The Millennium Challenge Corporation's mission is to reduce poverty through economic growth, however, MCC recognizes that the development of a country's economy and the development of its democratic institutions can be complementary objectives. While each of our partner countries, by definition, already have existing democratic institutions, MCC believes that two elements of its approach – creating incentives for reform and respecting existing domestic actors and processes – constitute a unique and valuable contribution to the long-term deepening of those institutions.

Creating incentives for democratic reform

One of MCC's core principles is that aid is most effective in countries with a sound, predictable policy environment, and a key element of a good policy environment is a commitment to accountable and democratic governance. To identify the best performing countries, MCC uses a transparent selection process that assesses policy performance in a number of areas, including democratic governance. MCC has three indicators of democratic standing: Political Rights, Civil Liberties, and Voice and Accountability, which are all developed by independent third party institutions. Good performance in these areas of governance is critical to determining if a country will receive MCC assistance. MCC's selection process, therefore, provides incentives for democratization by publicly recognizing governments that demonstrate true commitment to democracy and by rewarding these governments with resources for poverty reduction and economic growth programs.



Since MCC's inception, several countries, including El Salvador, Jordan, Indonesia, Guatemala, Dominican Republic, Philippines, Moldova, and Ukraine have established ministerial commissions or committees to focus or coordinate reform efforts—including democratic reforms—that are related to MCC eligibility.

The Millennium Challenge Corporation is a U.S. Government agency designed to work with some of the poorest countries in the world. Established in January 2004, MCC's mission is to reduce poverty through the promotion of sustainable economic growth. Before a country can become eligible to receive assistance, MCC looks at their performance on 17 independent and transparent policy indicators. Countries that perform well on the indicators may be considered eligible for Compact Assistance.

Deepening democracy through compact development and implementation

MCC's compacts are designed to reduce poverty through economic growth, but they also contribute to strengthening democratic institutions and processes in three important ways:

- Partner countries must maintain a meaningful, public consultative process throughout the development of the compact and its implementation. This allows civic, private, and political sector actors to play their roles in setting priorities for the development of the country and empowers elected officials to exercise their representative rights and responsibilities. During implementation, civil society representatives participate directly on the Board of Directors responsible for overseeing implementation of the MCC compact and advisory boards to these implementing organizations;
- Compact programs must adhere to domestic legal or constitutional requirements, such as ratification of the compact, or notification to the legislature when appropriate, and funds received pursuant to the compact must be reflected in the national budget. This not only allows elected officials to debate contents of the program, thereby increasing political commitment, but also reaffirms the legislature as the democratic space for political debates and decision-making; and
- Compact implementation must be transparent. The implementing agencies in compact countries provide transparent procurements, reporting, and outreach activities that strengthen domestic accountability.

The Threshold Program

Leveraging MCC's incentive effect with investments in democracy promotion

MCC's Threshold Program is designed to support policy reform in countries that strive to qualify for our larger Millennium Challenge Compact programs. Through the Threshold Program, MCC provides assistance for democracy promotion to countries that have demonstrated a desire to adopt significant governance reforms. MCC works closely with the U.S. Agency for International Development on its Threshold Programs. Examples of the Threshold Programs include:



Jordan: The program aims to strengthen democratic institutions by supporting Jordan's efforts to broaden public participation in the political and electoral process, increasing government transparency and accountability.



Malawi: The program is designed to strengthen the legislative and judicial branches of government, provide support for anti-corruption agencies, strengthen independent media coverage, and expand and intensify the work of civil society organizations.

The building blocks of MCC’s approach to democracy

A. Founded Firmly in Core Principles

MCC was founded on a set of core principles—policy performance, country ownership, and accountability—that motivate a heightened awareness of democratic process.

- **Policies matter:** Aid is most effective in countries with a sound, predictable policy environment, including a commitment to accountable and democratic governance.
- **Country ownership:** Partner countries are responsible for identifying the greatest barriers to their own development with input from the public, as well as civic, political, and private sector actors. They are also responsible for implementation, which requires high-level engagement from both the public and private sectors.
- **Accountability:** From required public consultations during the development of compacts, to detailed monitoring and evaluation plans, to publicly posted results reporting, MCC asks partner countries to demonstrate substantial domestic accountability to their own citizens.

B. Built on the Work of the International Democracy Community

MCC draws on the lessons learned and best practices of others engaged in direct democracy assistance. Their work demonstrates the importance of democratic institutions as well as processes, like legislative oversight and civic input. MCC’s approach to reinforcing democratic institutions and processes does not stand alone, but rather represents a long term compliment to the kind of direct democracy assistance work supported by these other programs.

C. Buttressed by Research on the Economic Role of Institutions

Also underpinning MCC’s approach is the rapidly growing academic research that highlights the importance of domestic institutions to economic growth. MCC’s mission to reduce poverty through economic growth is intimately linked to the performance of democratic institutions.

Democracy as a foundation for sustainable growth

Over time, democracies experience more predictable and lasting growth, greater economic stability, more equal distribution of income, and recover more quickly from economic shocks. The histories of our partner countries demonstrate that they understand the importance of this link. By combining incentive structures that encourage democratic reform with implementation procedures that support democratic engagement, MCC is taking an innovative, approach to fostering democracy, economic growth and poverty reduction.

For in-depth information, read *Millennium Challenge Corporation and the Long Term Goal of Deepening Democracy*.



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