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CHALLENGE CORPORATION  
UNITED STATES OF AMERICA

## Issue Brief

SEPTEMBER 23, 2010 | WWW.MCC.GOV

# MCC and the United States' Global Development Policy

President Obama's new Global Development Policy embodies a set of principles and practices at the core of MCC's model. The United States' new approach recognizes broad-based economic growth as the primary foundation for sustained poverty reduction. It puts accountability at the center, focusing on good governance among country partners, a commitment to country-led plans, and high standards of managing for results and transparency. MCC has six years of experience testing these very principles.

The principles that are central to MCC's model—results, selectivity, ownership, and transparency—are not new. They reflect decades of global development experience and are part of the global aid effectiveness agenda. These principles are increasingly incorporated, in some form, into donor policy and programming globally. However, MCC's rigorous and transparent approach to putting these principles into practice has placed it on the forefront of accountable and innovative development assistance, and makes it an integral part of the United States' new approach to global development.

MCC's mandate is clear and focused: to reduce poverty through economic growth in poor, well-governed countries. All of MCC's investments are made with one goal in mind: to sustainably increase incomes for program beneficiaries by tackling countries' most critical barriers to growth and poverty reduction.

Barriers to growth vary across countries, so MCC invests in the countries' own priorities, and where returns will be highest in terms of increased incomes. With its country partners in the lead, MCC's portfolio has focused significantly on market-based solutions to food security, with over half of MCC investments in rural development and infrastructure that link producers to market opportunities. MCC country partners also prioritize investments in financial sector reform, health, education, or major infrastructure such as roads, energy, and water and sanitation as vital to addressing their constraints to growth and poverty reduction.

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**PRINCIPLES** *into* **PRACTICE**

MCC was founded with a focused mandate to reduce poverty through economic growth.

MCC's model is based on a set of core principles essential for development to take place and for development assistance to be effective – good governance, country ownership, focus on results, and transparency.

The *MCC Principles into Practice* series offers a frank look at what it takes to make these principles operational.

The experiences captured in this series will inform MCC's ongoing efforts to refine and strengthen its own model.

In implementation of the U.S. Global Development Policy, which emphasizes many of the principles at the core of MCC's model, MCC hopes this series will allow others to benefit from and build on MCC's lessons.

MCC's approach starts from the premise that countries themselves must create the conditions for development to take hold. That is why selectivity and good governance are at the center of its model. MCC's focus on governance creates incentives for countries to become more capable and accountable partners that contribute to the global economy and provide citizens with the opportunity, means, and freedom to improve their lives.

## MCC's Principles into Practice

### Focus on Results

Everyone wants to achieve results. What distinguishes MCC is its technically rigorous and transparent methods of projecting, tracking, and evaluating the impacts of its investments. MCC begins by assessing countries' key constraints to growth and performing cost-benefit analysis of countries' proposed investments. MCC closely monitors progress during implementation and funds rigorous independent impact evaluations for over half of its investment portfolio, more than any other donor. *With this approach, MCC is able to answer the fundamental questions of aid effectiveness: Do the expected results of a given investment justify the allocation of scarce aid dollars? Has the investment achieved its aims?* For MCC this means that:

- ★ **“Results” mean different things at different times.** The result that MCC is most interested in seeing—and being able to attribute to its support—is increased incomes among beneficiaries. MCC's focus is sustainable growth, so most of its investments take several years to implement and gradually generate new income over many years. Yet, even before incomes begin to rise, MCC countries show tangible results. MCC tracks interim indicators such as number of farmers trained, hectares planted with high-value crops, miles of road constructed, or land titles granted because these are the drivers of the income gains its investments aim to achieve.
- ★ **“Results” are not always good news.** Monitoring makes it clear when programs are making progress and when they are off track. Independent impact evaluations reveal if investments do not yield expected outcomes. This ‘bad news’ is useful for revising implementation approaches midstream and for learning more about what works in development. Communicating the ‘bad news’ is also a fundamental part of MCC's commitment to transparency.

### Selectivity and Good Governance

MCC is founded on the principle that its assistance will do the most good in poor countries that already perform well in areas that foster economic growth. In practice, this means MCC's Board of Directors selects partner countries based on their track records in ruling justly, promoting economic freedom, and investing in their people as measured by transparent, third-party indicators. *MCC is the only donor agency to base selection so heavily—and so transparently—on publically available third party data.* MCC has experienced that:

- ★ **Selectivity creates incentives for reform.** MCC's approach to eligibility shines a light on the policy performance of poor countries worldwide. Some countries see MCC selection as international

recognition, and work hard to attain it. Many countries report that MCC's approach has encouraged them to implement reforms even before MCC funds are awarded.

- ★ **Data are powerful but have limits.** MCC uses country performance data to select partners because it wants to allocate scarce development resources where they can do the most good for growth and poverty reduction. In so doing, MCC has seen that:
  - \* *This use of data has proven powerful in an unexpected way.* In recent years, the quality, coverage, and transparency of many development indicators have improved, partly because MCC's selection process has increased attention on these indicators. This enhances the development community's ability to understand country performance precisely at a time when it is seeking partners strong in priority areas like governance, business environment, and health and education.
  - \* *Yet, the use of data also has limits.* MCC's eligibility indicators work well to assess countries' relative performance and guide initial selection. But, they alone are not adequate for tracking ongoing trends and cannot predict future policy performance. MCC's Board of Directors—composed of U.S. Government and private sector leaders—plays a critical role in putting the indicators in broader context to understand and respond to changes in country partner performance, and to make tough decisions when poor performance warrants suspension or termination of MCC eligibility or programs.

## Country-led Planning and Ownership in Implementation

The starting point for MCC's approach to country ownership is that development programs will be more effective if they are part of countries' own development strategies. That is why, as a first step, MCC partner countries have the lead in prioritizing investments for MCC support. MCC then takes this principle further. MCC partner countries also take the lead in overseeing program implementation, and in being accountable to domestic stakeholders for decision-making and results. *MCC has experienced that the principle of ownership is not enough; it must be well-defined and structured.* For MCC this means that:

- ★ **Ownership is a partnership.** MCC's partner countries exercise ownership within the framework of MCC's mandate of economic growth and poverty reduction, and its standards for fiscal accountability, consultation, environmental and social impacts, gender integration, and transparency. MCC has turned down country proposals with insufficient promise of high returns in terms of poverty reduction, and has paused implementation of projects out of compliance with MCC standards for environmental protection, social impact, or health and safety. By maintaining high standards, MCC investments yield better development outcomes with a keen eye on cost-effectiveness, and help build local capacity to operate by international standards essential for attracting private investment.
- ★ **Partnerships benefit from structure and clear expectations.** In its early days, MCC's effort to adhere to the notion of ownership meant it offered little guidance for country proposals. MCC has since learned that clear expectations enhance country ownership because countries know better how to prepare proposals and focus stakeholder consultations. Over time, MCC has developed a set of clear guidance for how country proposals can fit with MCC's model, and transparent standards against which MCC assesses and approves investment proposals.
- ★ **Ownership extends beyond governments.** MCC works with country partners to take the lead on consultations with citizenry, civil society, and the private sector. MCC sees this as essential not just while

setting investment priorities, but for designing programs with beneficiaries' needs in mind, leveraging additional resources for increased impact, and monitoring program implementation.

- ★ **Ownership requires tough decisions.** Part of 'owning' the investments that MCC supports, and ensuring their sustained benefits, is countries' will to enact project-related policy reforms even when they are hard. In areas such as land tenure, management of utilities, financial sector strengthening, and ongoing maintenance of infrastructure investments, MCC partner executives, parliaments, judiciaries, and civil society are taking on tough reforms that have lasting impacts. Part of ownership is also admitting when things are not going according to plan, and sharing the responsibility for hard decisions to stop, restructure, or scale back on a planned program.

## Transparency

Transparency is at the heart of accountability. Easy access to financial and program information allows partner governments to plan and budget their own development strategies, and for citizens in those countries and in the United States to hold their governments accountable for good investments and results. In practice, MCC has more information in the public domain than any other donor. *The White House Open Government Innovations Gallery featured MCC's approach to measuring results as "Putting Results at the Forefront: Where Transparency Meets Smart U.S. Foreign Aid."* MCC has experienced that:

- ★ **Transparency breeds more transparency.** Having set a standard for transparency early, MCC has steadily increased the information available on its website, often in response to stakeholder recommendations. MCC is a public institution so U.S. taxpayers, and partner country citizens as well, have a right to this information. The MCC website features criteria for country selection, as well as candidate countries' performance on these criteria. For all compact programs, the website has five-year budgets, cost-benefit analysis, projected outcomes, financial and program monitoring data, and results of independent impact evaluations as programs complete. MCC is also transparent about the way it does business, with guidance documents and all upcoming and awarded procurements available online.
- ★ **Transparency demands expectations management.** MCC provides information about projected impacts at the start of five-year programs. Even though projections are based on rigorous economic analysis, it is natural for programs to evolve during implementation. Changes due to increasing costs, new technical information, monitoring findings, or political conditions affect country partners' ability to reach expected results. These changes, and the reasons behind them, must be clear to stakeholders in partner countries and the United States.
- ★ **Transparency raises the bar for data quality and management.** To report program results against targets, MCC and country partners need data. This is built into MCC's approach to monitoring and evaluation, but collecting reliable data from programs in poor countries can be challenging. It requires clear standards and capacity building to ensure data quality, central systems for vetting and reporting data, the ability to make and communicate updates to projections when necessary. And patience. Yet, in an effort to be robust, it is equally important not to drown partner countries in reporting requirements that distract from actual program implementation. MCC is still learning how to strike this balance.

## The Vision Forward

Building on these experiences, MCC is applying lessons to refine its current approach, push itself to increase its impact, and remain on the cutting edge of accountable and effective development assistance. Four key priorities define MCC's vision looking ahead.

1. **MCC will reinforce and renew its focus on results.** MCC is committed to capturing its results along the program continuum and communicating them in clear and compelling ways to key stakeholders, the United States Congress, the development community, and the public.
2. **MCC will increase the use of new partnerships and new financing structures.** To significantly expand the reach, impact, and sustainability of MCC investments, MCC will leverage its investments through creative partnerships with the private sector, including small and medium-sized businesses, foundations, philanthropic and social responsibility firms, and nongovernmental organizations. MCC will explore the value of alternative financing structures, such as output-based aid, co-financing, parallel financing, and targeted investment funds.
3. **MCC will emphasize effective policy reform.** The link between sound policies and sustainable development is strong. To increase program impact and broader development outcomes, MCC will strengthen its focus on policy reforms at the country, sector, and project levels.
4. **MCC will strengthen gender integration and social assessment.** Gender integration and social assessment issues play a central role in sustainable poverty reduction. MCC seeks to deepen its leadership in this area by increasing the capacity, resources, and accountability within MCC and among country partners to ensure that gender analysis is integrated across MCC investments.