



MILLENNIUM
CHALLENGE CORPORATION

UNITED STATES OF AMERICA

MCC: Modernizing the Fight against Poverty

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Introduction

Twelve years ago, the U.S. Government's Millennium Challenge Corporation (MCC) was launched as a grand experiment in foreign assistance effectiveness; today, it stands as an established and respected leader in the field of international development. MCC's singular focus on economic growth is one of the most effective ways to lift people out of poverty, and its founding principles are today best practices across international development.

Through its investments, known as "compacts," MCC expands access to vital services — like electricity, transportation, education, clean water, and land — and connects some of the world's poorest people to jobs, markets, and opportunities. In addition to large-scale infrastructure projects, MCC's data-driven investments support the policy reforms, strong institutions, and good governance that build self-sufficiency and stimulate private investment in the fight against poverty.

MCC's investments are guided by its unique founding principles, including its selective approach to choosing partner countries. MCC only partners with countries that demonstrate a strong commitment to good governance, economic freedom, and investments in their citizens. This selectivity creates a powerful incentive for better governance and allows MCC to focus where the opportunities for growth and poverty reduction are greatest.

It is my privilege to lead this innovative agency, and I am proud of what MCC has accomplished on behalf of the American people. With its selectivity, focus, transparency, and accountability, MCC's model of development advances U.S. interests by promoting stability abroad and creating opportunities for U.S. companies here at home. In today's global economy, half of U.S. exports go to developing countries, and six of the 13 fastest growing economies in the world are located in Africa. Over the past 12 years, MCC has emerged as the cornerstone of America's economic relationship with many developing countries — and is helping to turn the frontier markets of today into America's major trading partners of tomorrow. As MCC turns the corner on its first decade, I am delighted to share MCC's track record of success and provide this look at how we can continue to drive the fight against poverty forward.

Tracking our Progress

Developed and conceived under President Bush's leadership with strong bipartisan support from Congress, MCC was still in its infancy at the outset of the Obama Administration. President Obama embraced MCC as a critical and powerful tool in the nation's foreign policy toolkit. Since then, MCC has successfully delivered hundreds of projects that are transforming the lives of millions of people around the world. Moreover, MCC has become a key driver of good governance standards in poor countries, while simultaneously rising through the ranks to be recognized as one of the most transparent development agencies in the world.

Since the start of President Obama's Administration, MCC has signed 15 compacts and six smaller threshold program grant agreements with partner countries and successfully completed 16 compacts and 18 threshold program grant agreements. Seventy percent of these investments fund large-scale infrastructure — like power, roads, ports, and bridges — and are accompanied by critical policy, governance, and capacity advancements.

MCC investments have also helped to advance broader development initiatives, including presidential and congressional priorities such as food security, access to electricity, and Internet access. MCC supported the development of analytical tools for Feed the Future, the U.S. government's global hunger and food security initiative, and continues to share best practices in areas such as irrigation, farmer

training, and land tenure. Through investments in electricity access, MCC has committed approximately \$1.5 billion in support of the goals of Power Africa. MCC's work in Morocco is advancing Let Girls Learn, a U.S. government initiative aimed at helping adolescent girls attain a quality education, through a nearly \$100 million investment in a new model for secondary education. And MCC has invested in several projects to promote internet connectivity, including using TV White Space to bring broadband internet access to schools in rural Namibia.

MCC achieves and measures its results by: (1) incentivizing countries to make reforms; (2) funding projects with measurable outcomes and benefits; (3) building capacity in partner countries toward self-sufficiency; and (4) leveraging the private sector.

MCC Compact and Threshold Program Portfolio (as of December 15, 2016)

Compacts in Implementation
(listed from oldest to most recent based on entry into force)

Country	Compact Signing	Compact Amount at Signing
Cabo Verde II	2/10/2012	\$66,230,000
Indonesia	11/19/2011	\$600,000,000
Malawi	4/7/2011	\$350,700,000
Zambia	5/10/2012	\$354,757,640
Georgia II	7/26/2013	\$140,000,000
El Salvador Investment	9/30/2014	\$277,000,000
Liberia	10/2/2015	\$256,726,000
Ghana Power	8/5/2014	\$498,200,000
Benin Power	9/9/2015	\$375,000,000
Morocco Employability and Land	11/30/2015	\$450,000,000
Niger	7/29/2016	\$437,024,000

Compacts in Development
(listed in order of expected Board presentation)

Country	Selection Date
Côte d'Ivoire	12/16/2015
Nepal	12/10/2014
Mongolia II	12/10/2014
Kosovo	12/16/2015
Senegal II	12/16/2015
Sri Lanka	12/13/2016
Tunisia	12/13/2016
Burkina Faso	12/13/2016
Lesotho ¹	12/10/2013
Philippines II ²	12/10/2014

¹ Board reselection for continued eligibility deferred starting in FY 2016.

² Board reselection for continued eligibility deferred starting in FY 2017.

Threshold Programs in Implementation
(listed from oldest to most recent)

Country	Threshold Signing	Total Amount
Honduras	8/28/2013	\$15,600,000
Guatemala	4/8/2015	\$28,000,000
Sierra Leone	11/17/2015	\$44,400,000

Threshold Programs in Development
(listed in order of expected Board presentation)

Country	Selection Date
Togo	12/16/2015
Timor-Leste	12/13/2016

Incentivizing Good Governance

MCC is highly selective in choosing partner countries and only invests in countries that meet stringent criteria measuring good governance. By only working with countries that share our commitment to core values like fighting corruption and respecting democratic and human rights, including the rights of women, MCC is advancing American values and building important relationships around the world.

Before spending a dollar of taxpayer money, MCC creates incentives for countries to make smart policy choices and promotes good governance through its rigorous country selection process. Over the past eight years, countries have enacted significant economic and political reforms to qualify for MCC assistance. Côte d'Ivoire is a remarkable example of this "MCC Effect." In 2013, the country was failing 15 of the 20 third-party policy indicators on MCC's annual scorecard. Côte d'Ivoire established a team in the prime minister's office charged with improving laws and tightening controls on corruption, and these efforts paid off. In 2015, Côte d'Ivoire passed 13 indicators – exceeding the 10 necessary to "pass" the scorecard and qualify for MCC assistance – and was selected to develop a compact.

MCC incentivizes good governance throughout its partnerships, and pushes for major policy and sectoral reforms to complement and sustain investments. Reforms alongside project investments create greater opportunities for economic growth, private investment, and sustainability.

Measurable Investments

MCC's compacts are designed to tackle the most binding constraints to economic growth, which are identified through rigorous analyses conducted by MCC and its partner country. For example, during its first partnership with Benin, which concluded in 2011, MCC invested \$190 million to expand the capacity of the national port. The port is a pillar of the economy and a gateway to international trade for Benin's landlocked neighbors. MCC's investment in the port contributed to a 95 percent increase in the volume of merchandise passing through the port, directly benefitting approximately 40,000 people involved in shipping. Decreased port congestion and reduced shipment costs are also expected to benefit rural and urban customers through reduced prices for imported consumer goods and productive inputs. MCC's second compact with Benin, signed in 2015, includes a \$375 million investment in power and serves as a vital step toward delivering opportunity to the two-thirds of the population without access to electricity.

Benin is just one example of MCC's lasting impact on people's lives. During President Obama's Administration, MCC has:

- Completed 3,035 kilometers of roads, which will benefit an estimated 8.8 million people.
- Built or rehabilitated nearly 1,200 water sources, which will provide improved access to water for an estimated 4.4 million people.
- Trained more than 200,000 farmers, improved irrigation for over 200,000 hectares, and facilitated \$75 million in agricultural and rural loans, which will benefit an estimated 3.5 million people.
- Strengthened legal land protections for more than 300,000 household, commercial, and other legal entities and supported land governance reforms, which will benefit an estimated 1.8 million people.
- Built or rehabilitated nearly 700 new schools and supported education activities to benefit nearly half a million students.
- Built over 4,000 kilometers of electricity lines and strengthened sector institutions, which will benefit more than 2 million people.

Each of these achievements stemmed from projects designed to catalyze economic growth and increase people's incomes. MCC compares the expected costs and benefits of each investment, generating an economic rate of return. The larger the rate of return, the larger the benefits. MCC strives to exceed a 10 percent projected rate of return before funding investments. In line with MCC's commitment to transparency and accountability, after a project ends, MCC again calculates an economic rate of return. During this Administration, MCC published the first two systematic reports on close-out rates of return and found, on average, a 15 percent close-out rate of return, well above MCC's 10 percent hurdle rate.

Building Partner Country Capacity

MCC does not just fund infrastructure; it builds partner country capacity, expertise, and know-how throughout the lifecycle of its partnerships. MCC's commitment to country ownership means that countries are full partners in developing compacts, and take the lead in compact implementation. By using and developing local expertise, MCC empowers citizens and builds self-sufficiency. This approach promotes the sustainability of MCC projects and extends the benefits of MCC's work beyond the strict five-year term of its compacts.

In Senegal, for example, the government is now widely adopting MCC's approach to improving local land governance through a blend of traditional and modern land practices. In the Philippines, the government has adopted the world-class design standards used to build an MCC-funded road that survived Typhoon Haiyan and is applying those standards to future roads. And in Honduras, the government adopted MCC standards of transparency and accountability to implement additional projects even after MCC's compact had closed.

Catalyzing the Private Sector

Private funding is increasingly driving global development. Fifty years ago, official development assistance represented the majority of capital flowing into developing economies — roughly 70 percent. Today, that figure stands at roughly 9 percent. The challenge and opportunity facing public development institutions today is determining how to effectively leverage private investment to accelerate growth and impact.

MCC's model and approach — from selecting countries to choosing projects to measuring results — is oriented around creating the right circumstances for businesses to invest in a developing country. MCC compact programs include investments that upgrade infrastructure and support pro-growth policies; features like these create enabling environments for trade and investment activity that make it

easier for companies to expand into developing markets. By strategically engaging the private sector at the earliest stages of compact development, MCC's project design process catalyzes both public and private resources to advance development objectives in MCC's partner countries. To maximize its impact, MCC works to draw in additional financing and expertise for sustainable development. MCC's \$11.2 billion compact portfolio has leveraged more than \$6 billion in partner commitments and more than \$850 million in domestic resource mobilization in our partner countries.

MCC's support for policy and institutional reforms in partner countries helps attract private sector investment. In 2014, MCC and the Government of Ghana signed a \$498 million compact to create a financially viable power sector that meets the needs of businesses and households. The Ghana Power Compact includes a strong government commitment to implement reforms needed to put the power sector on a sustainable, viable path, and already, the compact is expected to generate about \$4 billion in new private investment from both American and international businesses.

MCC also supports public-private partnerships to catalyze financing for development. In Jordan, for example, MCC facilitated a public-private partnership to expand the As-Samra Wastewater Treatment plant, originally built with support from USAID. The expansion project mobilized an additional \$110 million in private financing, leveraging MCC's \$93 million investment. The facility will address 70 percent of Jordan's wastewater treatment needs, and the deal's financing structure provides for high-quality operation and maintenance of the facility by a private sector operator. MCC is continuing to capitalize on the public-private partnership mechanism, including in its recently signed compact with Morocco. MCC's partnerships with the private sector not only leverage additional funding but also enhance the sustainability of U.S. taxpayers' investment.

The Road Ahead

In 2004, the United States stepped up with a bold and far-sighted proposal to fight poverty with the creation of MCC. Today, thanks in part to commitments by the United States and its partners, global poverty is on the decline. But more work remains. In 2015, countries from around the world came together to adopt the 17 Sustainable Development Goals (SDGs), including to end poverty in all its forms. Through MCC, the United States has an opportunity to continue to lead the global community in the effort to lift people out of poverty while advancing American values and security and creating opportunities for American businesses.

MCC will deepen the core aspects of its model that have made it the gold standard for development effectiveness. This includes preserving its commitment to:

- Competitive selection based on a country's performance on 20 independent and transparent policy indicators, while continuously seeking to update MCC's scorecard tool to reflect the best data available.
- Country-led solutions, in which selected partner countries identify their priorities for achieving sustainable economic growth and poverty reduction after broad consultation within their society and in close partnership with MCC; and country-led implementation, coupled with MCC's rigorous monitoring of funds.
- Delivering results, preserving transparency, and promoting accountability, while ensuring that the American people are getting a strong return on their investment.

Looking to the future, MCC is sharpening its approach and bolstering its ability to transform lives and reduce poverty around the globe. This year, MCC released a strategy that charts its course forward. The strategy seeks to achieve greater leverage and results, partner consistently and catalytically with the

private sector and other development actors, and continue to drive innovations in development effectiveness across the development community.

The principles underlying MCC's strategic vision have prompted three priority areas for the years ahead: (i) Regional investments; (ii) Refining partner selection; and (iii) New partnerships.

Regional Investments

MCC is increasingly focused on making coordinated regional investments — particularly in transportation, energy, and water — to expand and link infrastructure and help partners work together to build and grow regional markets, facilitate trade, and achieve greater impact through economies of scale. This, in turn, will help generate new business and wider market opportunities for companies in the U.S. and abroad.

It is increasingly clear that the path to economic growth and poverty reduction in many of MCC's partner countries lies in regional integration. Bipartisan support exists in Congress and among the development stakeholder community for legislation that would give MCC expanded authority to pursue regional investments, and MCC will continue to work with Congress on other new tools and authorities that would allow MCC to engage regionally to increase the impact of its programs and investments.

Refining Partner Selection

MCC continues to explore where poverty persists to ensure the agency is helping those most in need. By statute, an MCC candidate country is any country below the World Bank's Upper Middle Income Country (UMIC) threshold. Today, poverty is increasingly concentrated in middle-income countries, and MCC's strict reliance on simplistic income classifications results in its inability to work with countries representing a significant proportion of the global poor. In response, MCC has been conducting extensive research into alternative methods for measuring country needs to amend its current approach to defining its annual candidate pool. Changes to MCC's approach, however, require Congressional action.

MCC also continues to explore new types of investments to have the greatest impact on poverty. To date, MCC has focused strictly on the nation-state partnership, given the strictures of its statute. But poverty reduction may be best addressed at the regional or sub-national level. In addition to seeking authority to pursue regional investments, examining whether to and how to develop partnerships at the sub-national level, and how selection in such situations would work, presents another opportunity to enhance the agency's impact.

New Partnerships

During this administration, MCC has committed to developing a more strategic approach to partnerships to expand the impact and sustainability of its investments. Through its compacts, MCC can play a transformational role in attracting private investment into specific sectors and projects. The agency will pursue a variety of partnerships to leverage both public and private sector partners — collaborating to promote shared interests and objectives. To this end, MCC has been actively exploring innovative approaches to partnerships within our investments, including investing in competitive financing facilities, exploring results-based financing, utilizing blended capital, and encouraging policy, institutional, and regulatory reform. MCC also embraces partnerships with other U.S. Government agencies and investors to leverage resources for the greatest development impact.

I am honored and humbled to lead an agency built on the pillars of effective development. MCC was founded on lessons from decades of development and charged with strengthening the U.S. Government's effort to lift people out of poverty. As its record over the past 12 years shows, MCC has lived up to its

mandate. The agency continues to modernize the fight against global poverty while transforming the lives of millions of people around the world. With bipartisan support from Congress, MCC has advanced American values abroad and our security at home, accelerated the fight to end poverty, and created new partners for American businesses.

In the years ahead, MCC is poised to broaden and deepen its impact. We have outlined a strategic path forward that will help the agency continue to adapt to a changing development landscape and strengthen its ability to generate economic growth and fight poverty across the globe. As an institution committed to data, transparency, and accountability, MCC has learned the value of maintaining its core model while being flexible to meet changing conditions and new global poverty challenges.

MCC proudly punches far above its weight. For more than a decade, thanks to its world-class staff, its focused mission, and bipartisan support from Congress and the Administration, MCC has created hope and opportunity for millions of people around the world. Moving forward, MCC is poised to remain at the forefront of the global effort to transform lives and create opportunity for all.