

Capturing the Mutual Benefits of Development Assistance

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Introduction

The Millennium Challenge Corporation (MCC) was founded with the mutual benefits of development assistance in mind. In a 2002 speech introducing the Millennium Challenge Account, President George W. Bush stated, “We work for prosperity and opportunity because they're right. It's the right thing to do. We also work for prosperity and opportunity because they help defeat terror.” While terrorism and security were priorities in 2002 as MCC was being formed, foreign assistance can generate donor benefits that go beyond national security and geopolitics.

Historically, MCC has not focused on identifying, measuring, and communicating the benefits that return to the United States and the taxpayers, even while it has invested significantly in rigor, evidence, and transparency regarding our ability to promote prosperity in our partner countries. Assessing and communicating mutual benefits is not just an issue for MCC and the United States, but a concern for foreign assistance agencies across the globe, as discussed by Dercon (2025).

An emerging body of research has begun to examine and unpack the various ways foreign assistance provides mutual benefits. Heidland, Michael, Schularick, and Thiele (2025) discuss benefits across economic, geopolitical, and security domains. Within the economic domain, MCC has identified three categories of benefits most relevant for its portfolio of investments—growth of U.S. exports, resilience of U.S. supply chains, and benefits to U.S. firms operating and investing abroad.

Although not an exhaustive taxonomy of all possible benefits to the U.S., these categories represent the significant modalities through which foreign assistance supports a more prosperous America. As the data and evidence needed to assess these benefits are limited, the analysis aims to support a “quantitative narrative” of how MCC investments make America more prosperous. Basing such narratives on sound evidence, economic models, and economic logic continues MCC’s commitment to rigor and results.

Broadly, benefits to U.S. economic actors are referred to as “American returns.” In addition to the economic domain, MCC’s reporting on American returns will include discussion of geopolitical benefits and countering strategic competitors, although a systematic quantification of such elements is outside the present scope of plans. Overall, a rigorous approach to assessing American returns will help MCC ensure it is in step with the broader

America First realignment of foreign assistance that aims to make the U.S. safer, stronger, and more prosperous.

Notably, MCC's assessment of American returns will be complementary to, and yet distinctly separate from, the agency's statutorily mandated cost-benefit analysis. The cost-benefit analysis will continue to follow analytical best practices and be based on benefits accruing primarily to the partner country. The economic rates of return derived from the cost-benefit analysis will remain a critical input and criterion for shaping MCC investments, while the assessment of American returns will constitute an additional, complementary framework to help advance mutually beneficial investments as well as measure and communicate the economic benefits to the United States.

Growth of American Exports

MCC investments can promote U.S. exports through two primary paths—reducing trade costs and growing demand in our partner countries. MCC programs often target trade barriers, whether physical infrastructure such as port facilities, or regulatory constraints such as customs operations. By helping to relax binding constraints to economic growth, MCC programs also promote the growth of demand for U.S. exports. To assess these benefits, multiple approaches and trade models could be utilized.

One approach to assessing trade outcomes is to use export elasticities. For example, the U.S. is the largest exporter to Belize with over half a billion dollars of goods and services annually. Over the last decade, every one percent of growth in Belize's economy has driven a 1.2 percent increase in American exports to Belize. This elasticity is consistent with other studies such as Crane, Crowley, and Quayyum (2007) who estimated the U.S.'s export elasticity of income at 2.34, among the highest in the world alongside Germany. Elasticities larger than 1 may be expected as the U.S. produces high value goods (luxury or superior goods), which make up a larger share of a country's consumption as income grows. Such elasticities can be combined with an estimate of the economic growth a compact will generate to estimate growth in U.S. exports to our partner.

A second approach builds on available computable general equilibrium (CGE) models. Complex, large-scale, and data-intensive, these models specify economic behaviors and links between productive sectors, consumption, and trade. To assess the overall effect of foreign assistance on trade outcomes, Ayele, Mendez-Parra, and te Velde (2025) use the Global Trade Analysis Project (GTAP) model to assess EU foreign assistance from 2020 to 2022. The authors find that "EU exports are expected to rise by US\$27.6 billion" in response to \$27.4 billion in assistance provided.

MCC has undertaken a similar analysis using the CGE approach to extend these results for U.S. foreign assistance. Preliminary results suggest that benefits to the U.S. are positive even though the magnitude of benefits are more modest relative to those presented in Ayele et al. (2025) for the EU, driven by differences in analytical choices. Moreover, as in their analysis, the main avenue of effect is the estimated improvement in trade efficiency associated with Aid for Trade (AfT) disbursements. The relative impact of U.S. AfT on U.S. GDP is substantial, with the estimated value of incremental GDP representing over 100 percent of the value of annual AfT distributed. Other avenues (e.g., improved capital infrastructure and increased consumption demand), while benefiting the recipient nations, showed comparatively small impacts on U.S. production and trade.

Such models can be adapted to assess typical MCC interventions, e.g., modelling sector-specific changes or changes in trade costs. Another approach is to use a fixed-price multiplier (FPM) framework to trace the short-run export-induced effects of aid through the U.S. production and labor markets. As MCC continues to explore the various analytic approaches, it recognizes that the approach and model most appropriate for an MCC program may depend on the country context and interventions supported by the investment.

Securing U.S. Supply Chains

Many supply chains the U.S. economy relies upon are vulnerable to disruption due to an overreliance on a few source markets. While onshoring may be the most robust way to mitigate such risk, it is not always possible. Some supply chains require natural resources, low-cost labor, or industry ecosystems that are not available in the United States, at least in the short run. In these cases, “friendshoring” to allied countries may be a more viable strategy to mitigate supply chain risk.

Not every MCC country can be a viable contributor to every critical supply chain. But in cases where MCC partners can contribute to select supply chains, MCC investments have the potential to catalyze growth in these sectors and reduce reliance on one (or more) source countries. While MCC has little experience to date directly addressing supply chain risk, the examples below illustrate potential sectors that could be addressed in future MCC programming.

Perhaps the most salient supply chain risk currently is in critical minerals. To assess the risk, Nassar et al. (2025) estimate both the likelihood of supply chain disruption and the resulting cost to the U.S. economy for each of 84 mineral commodities. For some of these minerals, MCC partner countries can play a role in diversifying the supply chain. MCC investments in foundational infrastructure like energy and transportation as well as policy

improvements in areas such regulation, licensing, and permitting may support investment in extraction and processing of minerals. MCC is currently building on the work of Nassar et al. (2025) to develop an approach that can assess the value of diversifying critical mineral supply chains and mitigating risk

Beyond minerals, many other U.S. supply chains face substantial risk. The 2021-22 post-Covid microchip shortage was an acute example. The U.S. automotive sector was particularly hard hit, producing around 10 million fewer vehicles and incurring hundreds of billions in lost revenue. The risk stems not only from chip fabrication, but throughout the microchip supply chain. The Philippines, a current MCC partner, plays a significant role in the assembly, testing, and packaging (ATP) step of the supply chain – a role that contributed significantly to the 2021 disruption. Berg and Bledsoe (2025) identify ATP as a strategic sector to de-risk that is also prime for cooperation with developing economies.

Agricultural supply chains can also pose a strategic risk.¹ The Department of Homeland Security (2024) discusses the critical role of natural rubber in the U.S. economy. Natural rubber is an ingredient in thousands of products ranging from aviation and automobile tires to medical supplies. Because synthetic rubber cannot replicate the durability and heat resistance of natural rubber, multiple supply chains are dependent on the rubber tree including aerospace and medical supplies. The global rubber supply in turn is dependent on a small number of countries in Southeast Asia. The supply is vulnerable to risks like leaf blight or shipping lane disruption. Promoting diversification through West Africa's small but growing production of rubber could mitigate some risks.

Benefits to American Firms Abroad

American firms often have significant economic interest in MCC partner countries. These firms stand to benefit from MCC projects that improve the business environment and relax constraints to investment. The US private sector may benefit from increased productivity of their existing operations, and/or through taking advantage of new investment opportunities that are unlocked.²

¹ Increasing the productivity of other agricultural supply chains may be economically relevant for the U.S. through terms of trade effects—by lowering or stabilizing U.S. domestic prices—even if these products do not have potential for widespread disruption of the U.S. economy. Relevant products may include coffee, cocoa, and bananas, where the U.S. has limited potential for domestic production and MCC partner countries play a significant role in the U.S. supply.

² While MCC projects aim to provide benefits through the economic growth generated, rather than through the procurement of inputs, procurement is a direct and measurable way the U.S. private sector can benefit from MCC projects. Thus, MCC has a forthcoming U.S. Private Sector Engagement strategy to maximize the ability of U.S. firms to participate in MCC-funded procurements.

One starting point for analysis is an inventory of US business entities in the partner country. Various databases on foreign direct investment are available to track new and existing investment projects by sector and country of origin. The value of these investments, the sectors they operate in, and their interactions with known constraints to growth may reveal potential benefits from MCC investments that accrue to American business (e.g. through improved productivity and increased revenue).

In Sierra Leone, the US Development Finance Corporation (DFC) is providing \$412 million in financing to the private sector for investment into the country's energy and generation infrastructure. These investments are predicated on and enabled by the foundational work that MCC is undertaking in the country's power transmission and distribution network. In Nepal, MCC investments in the energy grid are similarly unlocking billions of dollars of investment in hydropower generation, from which U.S. firms such as General Electric can benefit.

Considerations of American Returns and MCC's Constraints Analysis

Constraints analysis is a foundational step in MCC program development. It applies growth diagnostic tools to identify the distortions that most constrain a partner country's economic growth. Targeting these distortions helps MCC maximize the economic growth it generates in partner countries. This approach also enhances MCC's ability to generate American returns. Whether by growing U.S. export markets, growing production in critical supply chains in partner countries, or growing the footprint of the U.S. private sector abroad, realizing American returns is predicated on economic growth in our partner country. Yet the constraints analysis process could more explicitly examine how relaxing constraints in our partner countries promotes American Returns.

In conducting the constraints to economic growth analysis, MCC has always consulted the U.S. private businesses engaged in our partner countries. Their perspectives were typically aggregated with those from other foreign and domestic private investors in the country. The perspective of the U.S. private investors could be made more explicit in the constraints analysis process. This could include identification of sectors where the U.S. private sector is most involved and where constraints disproportionately affect those sectors. In addition, the analysis can assess hurdles facing foreign direct investment, which can differ substantially from those facing domestic investors.

Questions

1. What are the strengths and limitations of the approach MCC is taking in quantifying American returns to foreign assistance? What might help address the limitation of these approaches?
2. Are there other dimensions of donor returns that MCC should consider quantifying?
3. What alternative analytic approaches can capture the various dimensions of donor returns?
4. What are potential advantages and pitfalls of considering donor returns along with developmental impacts in prioritizing MCC investments?

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Appendix – Overview of MCC’s Model and Economic Analysis

MCC forms time-bound partnerships with developing countries who are committed to good governance, economic freedom and investing in their citizens. MCC has larger country partnerships called [Compacts](#) and smaller engagements called [Thresholds](#) for partners not ready for a full compact engagement. Some of the key aspects of the MCC model include:

[Competitive selection](#): MCC’s Board examines a country’s performance on independent and transparent policy indicators that determine eligibility for MCC programs.

[Project selection informed by economic priorities](#): MCC works with country partners to identify and select the priority sectors for intervention. The selection is informed by a growth diagnostic or “constraints analysis” that helps direct projects to sectors with the highest impact.

[Rigorous ex-ante project appraisal](#): All projects are subject to a cost-benefit analysis and must provide an economic rate of return of at least 10 percent.

[Country owned implementation](#): MCC works with our country partners to establish a Millennium Challenge Account, the partner-led accountable entity that implements MCC compacts within the statutorily defined five-year period.

[All projects are independently evaluated](#): Evaluations are integral to MCC’s commitment to accountability, learning, transparency, and evidence-based decision making.