MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Fact Sheet

www.mcc.gov

The MCC Effect: The Prospect of Compact Eligibility is Incentivizing Policy Reform

The Millennium Challenge Corporation is an innovative and independent U.S. foreign assistance agency that is helping lead the fight against global poverty. Created by the U.S. Congress in 2004 with strong bipartisan support, MCC is changing the conversation on how best to deliver smart U.S. foreign assistance by focusing on good policies, country ownership and results.

MCC forms partnerships with some of the world's poorest countries, but only those committed to good governance, economic freedom and investments in their citizens. MCC provides these well-performing countries with large-scale grants to fund country-led solutions for reducing poverty through sustainable economic growth. MCC grants are designed to complement other U.S. and international development programs and create an enabling environment for private sector investment.

What is the MCC Effect?

The MCC Effect refers to the positive impact of MCC's rigorous policies beyond its direct investments in partner countries. MCC's selection criteria provide incentives for countries to adopt policy reforms and strengthen institutions in order to become eligible for an MCC grant; many countries view their ability to meet MCC's eligibility standards as a seal of approval, signaling to the private sector the country is well-governed and open for business.

MCC's competitive selection process is a key contributing factor to the MCC Effect. In the selection process, MCC's Board of Directors examines a country's performance on 20 independent and transparent policy indicators. To be considered for eligibility, countries must also pass half of the 20 selection indicators and score well (relative to their income group peers) in the control of corruption and democratic rights policy areas.

MCC favors policy indicators developed by independent, third-party institutions that rely on objective, publicly available data and have an analytically rigorous methodology. By relying on third-party institutions such as the World Health Organization, the International Monetary Fund, the United Nations Children's Fund, UNESCO, and Freedom House, MCC ensures data comes from independent, credible subject-matter experts. Each of these institutions employs rigorous methodologies and quality control checks to ensure data is comparable across countries and updated on a timely basis.

MCC publishes easy-to-read country scorecards that measure policy performance for nearly 90 low income and lower middle income countries. The MCC scorecards empower a wide range of stakeholders—including journalists, civil society organizations and private sector investors—to monitor countries' performance and advocate for reform.

The MCC Effect in action

Policy reforms may be enacted in areas as diverse as anti-corruption, governance, women's rights, judicial procedures, and business registration. Some countries that do not qualify for an MCC compact have taken steps to improve their investment climate to become eligible, and MCC regularly engages with ministerial committees and presidential commissions established by candidate countries to devise, implement and track reform strategies that address the MCC selection criteria.

Maleribe Leleka is proud to be a new property owner and grateful that, because of Lesotho's 2006 Legal Capacity of Married Persons Act, she can apply for a loan without her husband's consent. The Government of Lesotho passed the law as part of its efforts to improve their policy environment in preparation for an MCC compact.

Guatemala, Kosovo, Niger, Paraguay, Sierra Leone, and Côte d'Ivoire have implemented reforms that make it easier to start a business, own legal title to property or ensure women have equal rights to participate in the economy. In Lesotho, now an MCC partner country, reforms have focused on gender equity.

Prior to compact signature in Lesotho, MCC joined a chorus of other donors and groups pressing for changes in legal rights of women. The prospect of MCC compact funding prompted the Government of Lesotho to pass landmark legislation giving women the legal right to own property and the right to enter into binding contracts for the first time.

MCC and counterparts in Lesotho then designed a compact activity explicitly to build on this new legal framework. The compact's Gender Equality Project trains and educates women and men about the new law, designed to ensure equal access to economic resources and to expand opportunities for meaningful participation in the economy by all segments of Lesotho's society. The project also includes sensitizing relevant authorities and stakeholders to develop knowledge, awareness and practices that support gender equality in economic rights.

The MCC Effect and poverty reduction

Reforms generated by the MCC Effect have improved access to credit, boosted property values, supported gender equity, and promoted long-term investments in land productivity. These, in turn, contribute to helping individuals and firms enter the formal economy and pursue greater economic opportunities.

By incentivizing reform through competitive selection and ensuring an ongoing commitment to those policies, MCC and its partner countries are promoting good governance, economic growth and poverty reduction around the world.

For More Information
Please visit www.mcc.gov.