



MILLENNIUM
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Issue Brief

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The MCC Effect

What is the MCC Effect?

The “MCC Effect” refers to the positive impact of the Millennium Challenge Corporation’s rigorous commitment to sound policies, beyond MCC’s direct development investments in the form of compacts and Threshold Programs in partner countries. The term has been used to describe all the favorable implications of MCC’s focus on policy performance—including country-led development and policy reform. However, a more specific use of the term refers to the incentives created by MCC’s selection criteria, captured on its annual country scorecards.

MCC’s selection criteria provide incentives for countries to reform policies, strengthen institutions and improve data quality in order to boost their performance on MCC’s scorecard. In an independent survey of development experts and foreign government officials in 2012, 92 percent of respondents believed MCC’s eligibility criteria had an impact on reform in their country.¹

The publicly available and transparent scorecards also allow other stakeholders—including donors, journalists, civil society organizations, and private sector investors—to assess governments’ performance and track trends over time. Many countries view their ability to perform well on MCC’s scorecard as a seal of approval, signaling to their citizens and to the private sector that the country is well-governed and open for business.

What is not the MCC Effect?

While the MCC Effect appears to impact many candidate countries—those categorized as low income or lower middle income countries—it does not impact every country. Some countries do not have sufficient capacity, resources or political will to focus on policy reform. Other countries have performed well on MCC’s scorecards for years and therefore have less incentive (and less room) for further improvement. Although it is unlikely that all candidate countries are incentivized, many appear to be: Development experts have identified 67 governments that undertook reform to improve performance on at least one of MCC’s eligibility indicators since 2004.

However, performing better on MCC scorecards is not the only reason countries reform their policies. The policies measured on MCC’s scorecards—including immunization rates, inflation and control of corruption—directly impact the well-being of countries’ citizens and the health of their economy. Many

Incentives vs. Conditionality

Incentives motivate governments to take action in order to receive an award.

Conditionality refers to requirements placed on countries in order to obtain or maintain assistance.

The MCC annual scorecard creates an incentive for countries to reform policies, strengthen institutions and improve data quality.

¹ Parks, B. and Rice, Z. 2013. Measuring the Policy Influence of the Millennium Challenge Corporation: A Survey-Based Approach. The Institute of Theory and Practice of International Relations: The College of William and Mary.

countries actively work to improve performance in these areas, and many donors assist them in these endeavors. However, MCC can give these governments an additional incentive and a method of tracking progress. In the 2012 survey, 80 percent of respondents agreed that MCC's eligibility criteria helped governments measure their own performance, and 78 percent agreed they strengthen government resolve to implement reforms.

The MCC Effect in Action

MCC measures the impact of its compact and Threshold Program investments across a *continuum of results*. Similarly, it is possible to track the MCC Effect across various stages of a continuum.



Inputs

Governments or civil society organizations often contact MCC, U.S. embassies or institutions that provide the data used in MCC's scorecard indicators to express their initial interest in learning about MCC's selection process and their performance on the scorecard.

- ★ MCC staff members have more than 50 meetings each year with foreign governments, civil society organizations, donors, or other agencies who are interested in learning more about how specific countries perform on the MCC scorecards.
- ★ In the 2012 survey of foreign governments and development experts from MCC candidate countries, nearly 70 percent of respondents said they have met with U.S. Government officials about issues related to performance on the MCC scorecard.²

Process

After the initial meetings, some governments establish inter-ministerial committees to help improve performance on the scorecard. These committees often communicate with MCC and the indicator institutions, familiarize themselves with the technical details of each indicator and learn how they are assessed by each indicator institution. They might prioritize indicators to focus on, determine plans for improving performance and ensure their plans are well integrated into the government's development strategy. They may also ensure the data on the scorecard is current. In the case of civil society organizations or journalists, they may use the scorecards to advocate for reform.

- ★ Following **Niger's** selection for Threshold Program eligibility in 2006, the Nigerien government formed an inter-ministerial committee —headed by a former chief of staff to the prime minister—that worked

² Ibid

with MCC and indicator institutions to improve policy performance and data quality. Even during periods of substantial domestic political change, including a coup and two elected governments, the committee continued to operate successfully. Its efforts ensured reforms implemented by the government were recognized, including the establishment of the Termit and Tin Toumma National Nature and Cultural Reserve (a protected area the size of Indiana) and progress on gender equality that ensured men and women enjoy the same rights to pass citizenship on to their children and apply for passports. In December 2012, the MCC Board of Directors selected Niger as eligible to develop a proposal for a compact.

- ★ **Kosovo** became an independent country in 2008 and was not initially covered by many indicators. The Government of Kosovo worked with MCC and data institutions like the International Finance Corporation to expand coverage: The number of indicators covering Kosovo has since doubled from seven to 14. Of the indicators that still do not cover Kosovo, four come from United Nations agencies, which do not publish data on Kosovo because it is not a member. The Government of Kosovo and MCC work together to collect timely and accurate data on these four indicators, which are shared each year with MCC's senior staff and Board of Directors as supplemental information.
- ★ After **Liberia** was selected for Threshold Program eligibility in 2008, the Liberian government created a steering committee composed of ministers and deputy ministers from relevant agencies. With strong support from their president, the ministers were instructed to focus on improving Liberia's performance on the scorecard. While working with MCC, USAID and the indicator institutions, the steering committee uncovered outdated tariff data in the trade policy indicator and missing data on the education indicators. The steering committee coordinated across the government to ensure the data was updated in a timely manner. In 2012, Liberia passed the MCC scorecard for the first time and was selected by MCC's Board of Directors to develop a proposal for a compact.
- ★ In 2012, the Government of **Guatemala** partnered with FUNDESA, a nonprofit organization founded by local entrepreneurs, to work on improving performance on its scorecard. FUNDESA and the government drafted reports and presentations that outlined strategies for improving performance on the indicators and prioritized reforms according to short- and mid-term feasibility. Their strategy was integrated into the country's overall development strategy, signaling alignment between government and private sector priorities. Initial progress toward reform includes enacting a law against illicit enrichment, prosecuting people on human rights abuses and creating a Ministry of Social Development to prioritize nutrition, health and education. In December 2012, the MCC Board of Directors selected Guatemala as eligible to develop a proposal for a Threshold Program.
- ★ Along with governments, **civil society organizations** and **journalists** frequently track their countries' performance on MCC's scorecard. In the 2012 independent survey, 68 percent of development experts and foreign government officials agree that MCC's scorecards enable civil society or journalists to more effectively advocate for reform.³

³ Ibid.

Outputs

Over time, some governments subsequently implement reforms, strengthen institutions and improve data quality. Improvements can often be seen in third-party assessments, including the data provided by the indicator institutions that inform MCC scorecards.⁴

- ★ The Government of **Sierra Leone** began engaging regularly with MCC in 2006. At the time, Sierra Leone was only three years removed from its civil war and passed just six indicators on MCC's scorecard. Over the following years, the Government of Sierra Leone engaged with indicator institutions to learn more about its performance and how to improve. Actions included:
 - * In 2008, Sierra Leone expanded the mandate and resources of its anti-corruption agency, including giving it strong leadership and enforcement capacity. This agency subsequently won international awards and contributed to three years of sustained improvements on Worldwide Governance Indicators' control of corruption indicator.
 - * Within five years, Sierra Leone increased public health expenditures from 2.2 percent to 3.2 percent of gross domestic product and increased immunization coverage from 65 percent to 82 percent.
 - * Sierra Leone reduced average tariff rates from 13.6 percent to 9.9 percent, expanded access to credit and strengthened regulatory quality.
 - * In 2012, Sierra Leone passed the MCC scorecard for the first time and was selected by MCC's Board of Directors to develop a proposal for a compact.
- ★ Since MCC was created, **Georgia** has catapulted from 112th place to ninth place on the International Finance Corporation's Ease of Doing Business Index. It overhauled tax and customs administration, business registration, property registration, and the court system. In "Celebrating Reforms 2007: Doing Business Case Studies", the World Bank explicitly hails MCC as a catalyst for business-related reform in Georgia, Burkina Faso, El Salvador, and Malawi.⁵
- ★ In 2008, the Government of **Honduras** publicly committed to an anti-corruption plan, established to address specific policy weaknesses identified by the MCC scorecard. In 2012, the Open Budget Initiative found that the Honduran government had improved budget transparency by increasing public availability of key budget documents, including the executive's budget proposal, the mid-year budget review and the budget audit report. The Public Expenditure and Financial Accountability 2012 assessments found significant improvements in public financial management in three areas: internal controls on expenditure, reporting on extra-budgetary funds and congressional scrutiny of budget and audit reports.

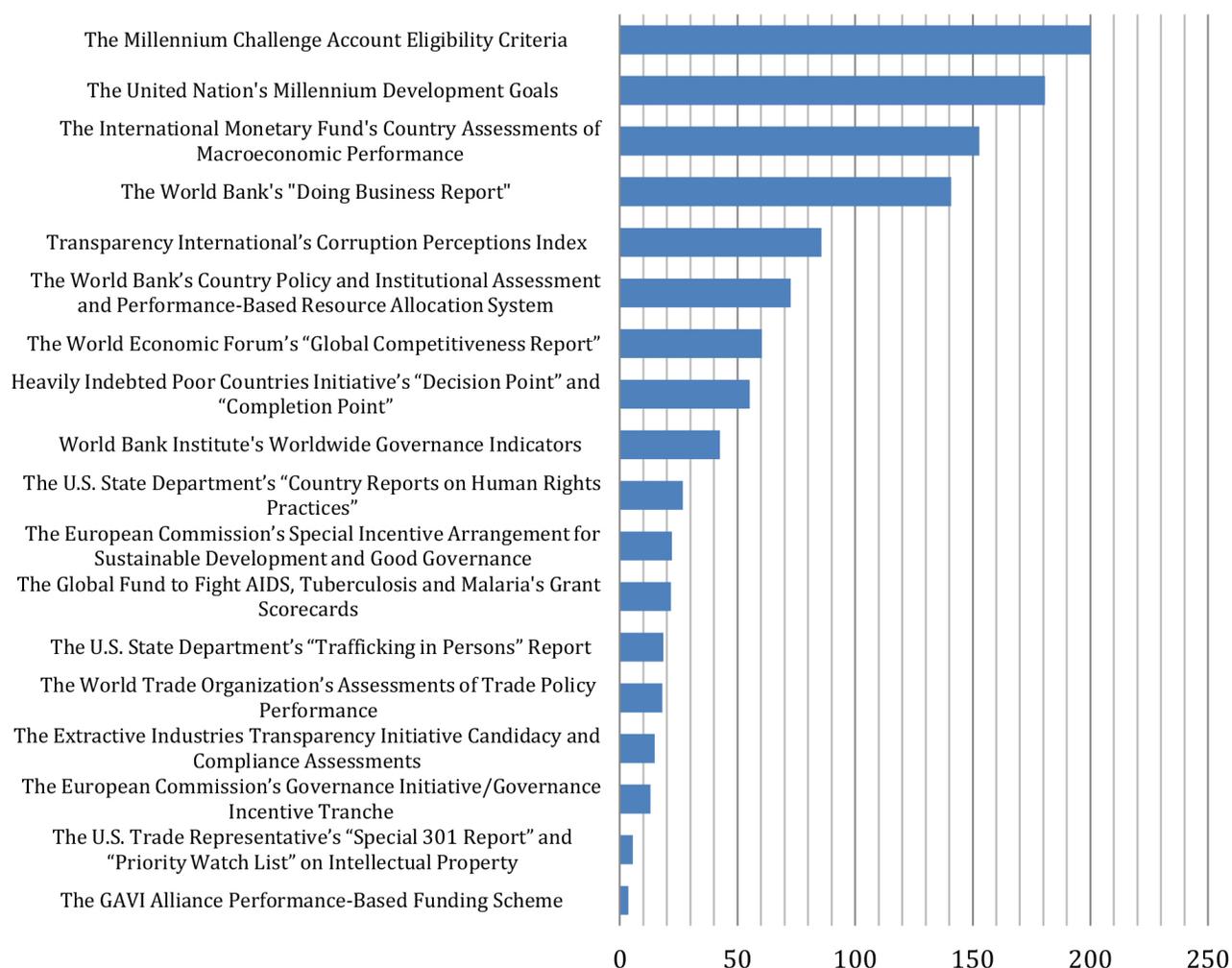
⁴ Sometimes these improvements can be tracked on MCC's scorecards. However, it is very difficult to track countries' performance over time using MCC's scorecards exclusively because of the relative nature of the MCC scorecards, given the changing groupings of countries in income categories, the historical revisions and annual methodology changes made by indicator institutions, the impact of outside variables, time lags, and the changes MCC has made to its scorecard over time.

⁵ World Bank. 2007. *Celebrating Reforms 2007: Doing Business Case Studies*. Washington DC, World Bank.

Outcomes

The policy reforms undertaken by governments may lead to important outcomes related to poverty reduction and economic growth. For example, after significantly reducing the time, cost and procedural complexity of starting a business in **Georgia**, business registrations shot up by 55 percent.⁶ As **Sierra Leone** invested more in public health and improved immunization rates, the rate of child mortality fell 209 to 185 deaths per 1,000 births.⁷ Reforms generated by the MCC Effect have an important impact on countries, even in countries where MCC has not established a partnership or disbursed any funding. MCC continues to gather information on this type of outcome associated with the MCC Effect and welcomes the findings of outside research in this area.

The Influence of External Assessments of Government Performance



When asked to identify the three most influential external assessments of government performance from a list of 18 options, respondents to an independent survey of development stakeholders repeatedly identified MCC eligibility criteria.

Chart courtesy Bradley Parks and Zachary Rice, College of William and Mary

⁶ World Bank. 2006. *Doing Business 2007: How to Reform*. Washington, DC: World Bank.

⁷ World Bank. 2013. *World Development Indicators: Mortality Rate, under 5*. Washington, DC: World Bank.