The Millennium Challenge Corporation (MCC) – a new approach in donor aid

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Early in 2004, the US Congress passed a law designed to boost a new approach in donor aid. Its implementation was entrusted to the semi-governmental Millennium Challenge Corporation (MCC). It pays to take a look at the principles, intentions, and methodology of the new approach as well as at its process of implementation and the objections that have been raised so far.

There are ten items that stand out under the heading of principles, intentions, and methodology:

Payment is for performance, not promises. Unlike traditional aid, the MCC programme rewards poor countries whose governments have made the 'right' decisions to boost growth and alleviate poverty. No money will be paid either for promises of reform nor for a 'political dialogue' aimed at reforms. It is hoped the MCC's 'rewards' will convince the citizens in the receiving countries that the right decisions have been made even before they begin to produce real growth.

These 'right decisions' must be made in four areas or 'policy categories': economic freedom, investing in people, equitable governance, and corruption control. It is certain that no country will make such decisions because it needs investments now but can wait for the profits, or because its elites are unable to perceive the mutual relationship between investment and profit, or because these elites themselves are the beneficiaries of an authoritarian system through corruption, for example.

Decisions and performances are measured objectively. To ensure that the MCC programme provides incentives for 'right decisions', the degree to which a country qualifies in each of the four policy categories will be established on the basis of 'objective' factors developed not by the MCC but by other organizations. In the area of economic freedom, for instance, these factors include inflation, trade policy, taxation policy, control quality, the number of business start-ups, land rights, and access to land ownership. Investing in people is measured by inoculation rates, public spending on health and primary-school education, the proportion of girls who finish primary school, and the management of natural resources. Equitable governance is judged by civil liberties, political rights, civic involvement, effective governance, and the rule of law. Corruption is assessed on the basis of a universal standard. A country that is unable to reach a defined standard in any of these categories will nevertheless retain its candidate status if it can establish that concrete steps have been taken to solve the problem. In such cases, judgement is in the discretion of the MCC board.

The focus is on low-income countries. 75 percent of the MCC programme funds will be earmarked for low-income countries, the other 25 for countries with a low to medium income.

The intention is to alleviate poverty by growth. Although a country may qualify for an MCC programme on the basis of its performance in the four policy categories, the MCC's investments always aim at alleviating poverty.

Conception, design, and implementation will be 'owned' by a country. In contrast to traditional aid, investment programmes will be drawn up not by the donor but by the receiving country. Programmes must be 'implemented, managed, and maintained by the country'. If both parties agree to a programme draft, they will sign a 'compact' to facilitate its implementation, preferably within five years.

To justify 'right decisions' and transform poverty alleviation, sufficient funds are indispensable. If a country has made the 'right decisions', it is to be hoped that the MCC's investment in the programme will indeed transform poverty alleviation.

The amount of red tape associated with the implementation of a programme should be limited, especially on the part of the donor. To maximize the success of the compact programmes, the staff of the MCC has been limited to 300 worldwide. Added to that, there are consultants and the staff of the local organizations entrusted with implementing the programme.

The impact and outreach of a programme are recorded, measured, and evaluated. Each project will be recorded, measured, and evaluated on the basis of 'objective' indicators throughout its implementation.

Process transparency must be ensured. The entire process will be public and transparent. Besides, it will be published on the MCC's homepage.

There are fourteen items that appear under the heading of implementation and criticism:

Compact funding is insufficient, and a term of five years is too short. Some 18 compacts, each valued at 350 million US dollars, had been approved by the end of 2008. However, the struggle against poverty is a difficult, multi-dimensional, long-range process. Successful transformation cannot be bought within five years for a sum of 350 million US dollars.

Low-income countries are particularly hard to transform. Countries with a low to medium income are somewhat better off, for the broader a country's middle class, the better its prospects of growth.

The MCC's incentives are asymmetrical. The potential impact of the MCC is based on the assumption that its rewards might induce government officials in low-income countries that follow 'wrong policies' to change their thinking. Yet it is often these very government officials who benefit from these 'wrong policies', especially through corruption.

How meaningful are the MCC's indicators? 'Objective' though they may be, most indicators depend on subjective assessments and the goals of the institutions that define them. In this case, the term 'objective' means the opposite of 'MCC-dependent' or 'MCC-owned' rather than 'subjective'.

Lagging indicators. Indicators almost always lag behind performance. The picture they draw is worse than reality if a country is 'right', and better if it is 'wrong'.

Are judgements based on averages, or are they absolute? The qualification of a country is based not on absolute indicators but on its position relative to the average of its 'peers'. So does a 'relatively' good performance really imply success in the future? Isn't it that a country is merely better than most others, although its performance is bad? And if it is so, does this not clash with the MCC's principle to reward those performers that are really good?

How many good performers are there? It may be that the number of good performers who deserve such sophisticated programmes is not that great. Reducing both the programmes and the group of beneficiaries would be worthy of consideration. Making too many compromises and watering down the original idea of the MCC would hardly make sense.

Corruption remains a hard indicator. Unlawful transfers of public goods into private hands have paralyzed many countries which otherwise pursue policies that are 'good'. Corruption is a serious subject indeed. If the MCC did not insist on each country qualifying with regard to corruption control, the number of candidate countries would grow, but the power of the MCC programme to stimulate others to make the 'right decisions' would be weakened.

The MCC board may use its discretion. It is in a position to drop indicators and award compacts even to countries that do not conform to the 'objective' qualifying factors. A recent public case was that of Georgia, to which the MCC conceded a compact in 2005 although the indicators were lagging behind the reality of the country. However, the award of a compact was regarded as justified because Tbilisi had already initiated reforms. Yet it was suspected that the scale had been tipped not by development-related criteria but by foreign-policy considerations. The question is whether it is justifiable to compromise the ’purity’ of the MCC’s principles if the real objective is to pursue the donor’s foreign-policy goals.

Should payments be delayed? It takes time to draft, negotiate, and implement a compact programme. Viewed from this perspective, it appears a good thing to delay payments if the MCC takes its time to make sure that a programme will be successful.

Programmes are focussed on agriculture and infrastructure. In many candidate countries, opting for high-profile public programmes or grassroots programmes in agriculture or the infrastructure was the obvious choice. Only a few countries decided in favour of programmes in the social sector.

What happens if development goes into reverse? Should the MCC suspend a compact programme if a qualified country changes its policy ’regressively’, falls behind, and no longer conforms to the criteria? Should 30 kilometres of paved roads or a half-built irrigation system be left to fall into ruin? Would that not symbolize the failure of the MCC? However, the corporation hopes that inertia will keep a country going on once it has chosen the right path.

Is the MCC shy of risks? The MCC leaders’ desire for successes that can be shown to the world may have led to insipid risk-free programmes that are hardly conformable with the MCC’s original principles. Can roads, bridges, and budget assistance be brought in line with the mission of the MCC?

And lastly: what is still there to distinguish an MCC programme from traditional aid? The question is whether the MCC still is as innovative as it once intended to be. Is it still a realistic goal to alleviate poverty worldwide through compacts? And is it not a fact that its programmes by now closely resemble those of traditional aid, an image which the MCC deliberately set out to avoid once upon a time?

IN: Auslandsinformationen 10/2009, *ISSN 0177-7521, Konrad-Adenauer-Stiftung e.V., Berlin, p.97-101*