



The Millennium Challenge Corporation (MCC) & Global Health

November 2009

The Millennium Challenge Corporation (MCC) is a U.S. government corporation, established in January 2004 by the Millennium Challenge Act of 2003 [P.L. 108-199].^{1,2} First proposed by President Bush in 2002, its purpose is to promote economic growth and reduce poverty in low- and middle-income countries through the development of country agreements called "compacts" with the U.S. government, an approach considered to be a new model for U.S. foreign assistance when first proposed.³ The MCC competitively selects countries to develop compacts based on their demonstrated commitment in three areas: good governance; economic freedom; and investment in people, particularly women and children.^{1,2,3} Compacts are driven by country-identified priorities.

MCC Structure

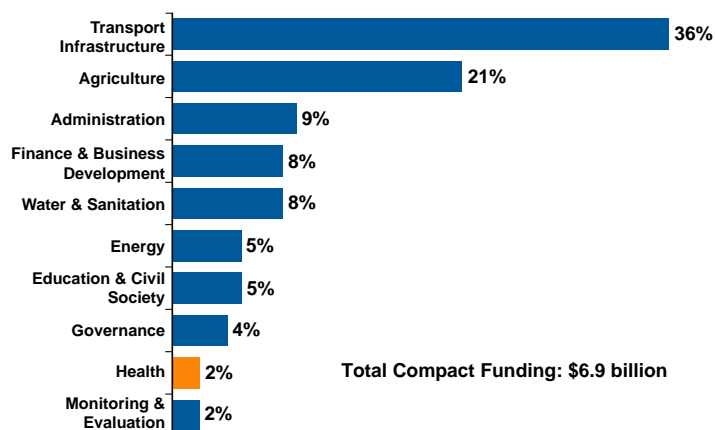
Housed in the Executive Branch, the MCC is led by a chief executive officer, who is a Presidential appointee requiring Senate confirmation. On September 21, 2009, President Obama nominated Daniel W. Yohannes to be the next MCC CEO. The MCC is overseen by a Board of Directors, consisting of five ex officio members and four public members. Ex officio members include the Secretary of State, Secretary of Treasury, U.S. Trade Representative, USAID Administrator, and the MCC CEO. Public members are nominated by the President from names submitted by the majority and minority leaders of the House and Senate.^{1,2}

Funding for the MCC & MCC Disbursements to Countries

The MCC was initially authorized by Congress for fiscal years 2004 and 2005, at "such sums as may be necessary". Although it has not yet been reauthorized, Congress has appropriated funds to the MCC each year.

- As originally envisioned, the MCC was to become a \$5 billion annual commitment by FY 2006, although White House budget requests have never exceeded \$3 billion and Congress has consistently appropriated less than requested each year.
- First funded at \$994 million in FY 2004, funding for the MCC reached its peak of \$1.75 billion in FY 2006, was level funded in FY 2007, and has declined since then; FY 2009 funding was \$875 million.^{6,9} The Administration's FY 2010 budget request includes \$1.4 billion for the MCC. It also asks Congress to authorize several changes to the MCC compact process.
- The MCC disburses funds to eligible countries who apply for and are awarded assistance. To date, the MCC disbursement rate has been relatively slow, with only 15% of obligated funding being disbursed as of June 2009.²

Figure 1. Millennium Challenge Corporation (MCC) Compact Funding, by Sector, as of July 22, 2009²



The MCC recognizes the promotion of health as integral to poverty reduction.¹² To date, however, health-focused projects proposed by countries have constituted only 2% of MCC's funding; clean water and sanitation projects account for an additional 8%.² Most MCC funding has instead supported broader sectors of economic development, particularly transportation infrastructure and agricultural projects, investments which may also affect health but less directly.

With the recent announcement by President Obama of a new U.S. government global health initiative,⁴ and broader efforts underway to reform U.S. foreign assistance, there is increased attention to the role of the MCC in supporting global health programs, including those focused on maternal and child health, HIV, and clean water and sanitation. The MCC's country compact mechanism has been called an "innovative model of development assistance,"⁵ and looked to as one potential approach for other U.S. global health and development assistance programs.^{6,7,8}

Country Candidacy & Eligibility²

The MCC Board carries out a multi-tiered country selection process in which candidate countries are first identified and then assessed for their eligibility to apply for assistance:

- **Candidate** countries are identified based on per capita income. Low and lower-middle-income countries, per World Bank income classifications, are candidates.
- **Eligible** countries are then selected from these candidates based on their demonstrated commitment to policies that promote good governance, economic freedom, and investment in people, as measured by 17 policy indicators, including a corruption indicator, across these three areas. Three indicators are health-focused: total public expenditure on health; immunization rates; and natural resources management (a composite indicator that includes child mortality rate, percent with access to water, and percent with access to sanitation). To be eligible to apply to the MCC for "compact" funding, countries must pass the corruption indicator and score at or above the median on all other indicators. Candidate countries that do not meet these criteria may be eligible for "threshold" program assistance if they demonstrate commitment to improving their performance to reach eligibility for compacts.

Compacts & Thresholds

- **Compacts** last no longer than five years, and countries may only have one compact at a time although compacts may include projects in multiple sectors. The first compact was signed in 2005. To date, 19 countries (Armenia, Benin, Burkina Faso, Cape Verde, El Salvador, Georgia, Ghana, Honduras,¹⁰ Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Senegal, Tanzania, Vanuatu) have been awarded compacts, totaling \$6.9 billion.^{2,8}
- **Thresholds** are smaller, shorter-term grants to help countries improve their performance on eligibility policy indicators. The first threshold was signed in 2005, and to date, 19 countries have been awarded threshold assistance, totaling \$470 million.² Sixteen are operational (Albania, Guyana, Indonesia, Jordan, Kenya, Kyrgyz Republic, Moldova, Niger, Paraguay, Peru, Philippines, Rwanda, Sao Tome and Principe, Uganda, Ukraine, Zambia)² and three have completed thresholds and now have compacts (Burkina Faso, Tanzania) or are compact-eligible (Malawi). Two additional countries (Liberia and Timor-Leste) are eligible for threshold assistance but have not yet been awarded program support.

The MCC's Health Portfolio

The MCC has committed \$174.9 million to **health projects** (2% of MCC funding) as part of two compacts and three thresholds, the first of which was signed in 2005.^{11,12} These range from 6% of MCC funding in Mongolia to 33% in Lesotho. An additional \$527.1 million has been committed to **water and sanitation projects** (8% of MCC funding) as part of five compacts, the first of which was signed in 2005.¹¹ These range from 5% of El Salvador's compact to 45% of Lesotho's.^{11,12} Projects include:

- **HIV/AIDS:** Lesotho's compact includes the renovation and expansion of antiretroviral treatment clinics and construction of a new central laboratory and new central blood collection and processing facility, all designed to strengthen HIV prevention and care services.¹² These investments are also expected to benefit TB services.
- **Maternal & Child Health.** Threshold programs in Indonesia and Peru focus on increasing childhood immunization rates, and Kenya's threshold includes health care procurement and delivery enhancements primarily designed to improve maternal and child health. Lesotho's compact includes renovation and expansion of the country's health clinic system (beyond clinics for HIV care), expected to improve maternal and child health.
- **Non-Communicable Diseases.** Mongolia's compact includes investments in prevention, early diagnosis, and management of non-communicable diseases such as heart disease, stroke, and diabetes.

- **Water Supply/Sanitation.** Clean water and sanitation projects primarily focus on improving the supply infrastructure to enhance access. For example, Mozambique's compact invests in basic drinking water supply and sanitation, the rehabilitation and expansion of water supply systems in urban areas, and related policy activities. Tanzania's compact includes large system development designed to increase the quantity and reliability of potable water for domestic use in two cities.

Looking Ahead

The MCC was created as a new model for U.S. foreign assistance and has been called an example of "smart aid." Since its launch, the MCC has documented results in several countries, but challenges have also emerged. With new leadership soon to begin at the MCC combined with a broader U.S. strategy for global health, several key issues face the MCC in moving forward.^{3,9} These include:

- The relative emphasis placed on health investments in MCC compacts and thresholds, particularly in recognition of the integral role of health in poverty reduction;
- The extent to which the MCC coordinates with other U.S. agencies, particularly USAID, and how it is integrated into other key initiatives including the new Global Health Initiative, PEPFAR, and the President's Malaria Initiative;
- Whether the MCC will be reauthorized and if so, what changes will be enacted;
- Future funding for the MCC, and how funding levels will affect the size of country compacts and potential for impact, and whether the MCC will be able to increase its disbursement rate of disbursement to eligible countries over time.

¹ Millennium Challenge Corporation Act of 2003. P.L. 108-199.

² Millennium Challenge Corporation: www.mcc.gov.

³ CRS. *Millennium Challenge Corporation*. RL32427; July 14, 2009.

⁴ The White House, Office of the Press Secretary. *Statement by the President on Global Health Initiative*; May 5, 2009.

⁵ U.S. Department of State. *The U.S. Commitment to Development*; July 2009.

⁶ PEPFAR. *Partnership Frameworks*: www.pepfar.gov/frameworks/index.htm.

⁷ Secretary Clinton. Remarks at the Millennium Challenge Corporation Signing Ceremony With Senegal; September 16, 2009.

⁸ The Next Phase Of The Global Fight Against HIV/AIDS, Hearing, Committee On Foreign Relations, U.S. Senate 110th Congress, First Session; October 24, 2007

⁹ MCC. *Congressional Budget Justification 2010*.

¹⁰ Honduras' compact ended in February 2009.

¹¹ MCC. *MCC's Commitment to Clean Water, Sanitation, and Improved Water Infrastructure*; March 2009.

¹² MCC. *MCC Supports Global Health Initiatives*; July 2009.

This publication (#7994) is available on the Kaiser Family Foundation's website at www.kff.org.

TABLE 1. MCC Compact & Threshold Countries with Health and Water/Sanitation Project Components^{2,11,12}

Country	Compact / Threshold	Date Signed	Project Focus	Funding (in millions)	
				Project \$ / Total \$	% of Total
HEALTH					
Indonesia	Threshold	Oct-06	Maternal & Child Health	\$20.0 / \$55.0	36.40%
Kenya	Threshold	Nov-05	Maternal & Child Health	\$4.0 / \$12.7	31.50%
Lesotho	Compact	Jul-07	HIV/AIDS; Maternal & Child Health; TB	\$122.4 / \$362.6	33.80%
Mongolia	Compact	Oct-07	Non-Communicable Diseases	\$17.0 / \$285.0	6.00%
Peru	Threshold	Jun-08	Maternal & Child Health	\$11.5 / \$35.6	32.30%
Sub-total				\$174.9 million	
WATER/SANITATION					
El Salvador	Compact	Nov-06	Basic drinking water supply/sanitation; policy	\$23.7 / \$461.0	5.10%
Georgia	Compact	Sep-05	Large systems	\$69.5 / \$395.3	17.60%
Lesotho	Compact	Jul-07	Large systems; water resources protection; policy	\$164.0 / \$362.6	45.20%
Mozambique	Compact	Jun-07	Large systems; basic drinking water supply/sanitation; policy; education/training	\$203.6 / \$506.9	40.20%
Tanzania	Compact	Feb-08	Large systems	\$66.3 / \$698.0	9.50%
Sub-total				\$527.1 million	
TOTAL				\$702.0 million	