



# The Case for Regional Compacts

## The Millennium Challenge Corporation's Role in Promoting Economic Growth

By Paul Applegarth, Casey Dunning, and John Norris    March 17, 2014

For 10 years, the Millennium Challenge Corporation, or MCC—an independent U.S. foreign aid agency—has offered multimillion-dollar development grants to countries with proven track records of good policy performance on governance, economic, and social issues. The MCC pioneered U.S. approaches to development best practices in transparency, program evaluation, and country ownership. Quietly and consistently, the agency has sought to show that seemingly difficult ideals, such as commitment to total aid-delivery transparency within countries, are not only possible to implement but also a pathway to better development results and impacts.

As the MCC approaches its 10-year anniversary, we ask: “What’s next?” The MCC has made a name for itself in poverty reduction and economic growth around the globe, partnering with 25 countries to deliver more than \$9.3 billion in large-scale, five-year compacts. The agency has also partnered with 24 countries to deliver more than \$500 million in smaller, three-year threshold programs.<sup>1</sup> It has already embarked on second compacts with seven countries, a sign that further poverty reduction is necessary in these countries and that the pool of well-governed, non-MCC countries is shrinking.<sup>2</sup>

Regional compacts and threshold programs offer an innovative future approach for the MCC to continue to deliver on its mandate to promote economic growth and reduce poverty. Crucially, such regional compacts would recognize that addressing transborder economic issues, such as infrastructure, is often fundamental to getting economic growth right in the developing world. Unlike existing compacts, regional compacts would allow the MCC to work simultaneously with two or more countries from its pool of eligible countries to promote critical elements of economic growth, such as customs arrangements, customs processes, and trade standards. In keeping with the MCC’s commitment to country ownership, the agency’s entry into regional programming would necessitate multiple countries coming together to hammer out agreements around policy reform, infrastructure investment, and development strategy. This would be a very useful role for the MCC, and it is one that deserves bipartisan support.

Compacts and threshold programs involving two or more countries could utilize relatively small amounts of funding to align reforms in policy areas with regional scope. Importantly, such regional compacts would play into what is increasingly the real comparative advantage for U.S. official development assistance: the ability to mobilize effective diplomatic and development efforts to remove regional economic and policy constraints to more vibrant and sustained economic growth.

Multicountry agreements would be a first for the MCC, and, as such, the idea naturally raises questions about its feasibility, cost, and potential for development impact.

---

## Feasibility of regional compacts and threshold programs

Issues related to the feasibility of regional MCC grants fall into three broad categories: legislative, operational, and political considerations.

### Legislative considerations

Critically, the MCC'S authorizing legislation does not legally prohibit the establishment of regional compacts and threshold programs.<sup>3</sup> The MCC is simply required to direct its funds “to support policies and programs that advance the progress of the country in achieving lasting economic growth and poverty reduction.”<sup>4</sup> Promoting cross-border trade, cooperation, and growth fit well within that directive. As part of this mandate, grants must be directed to an entity within an eligible country, whether that entity is a national government, a sub-regional or local governmental unit, or a nongovernmental organization or other private entity.

Thus, the MCC could feasibly award a regional compact or threshold program to a group of eligible countries, working in tandem with the group of countries to outline the agreement and then awarding funds based on it to individual countries.

Yet one legislative barrier does exist to the quick institution of regional compacts: Eligible countries are legally prohibited from undertaking concurrent compacts, which means that they can only have one compact in place at a time.<sup>5</sup> This makes the sequencing of multiparty regional compacts considerably trickier and means that regional compacts would have to be undertaken with eligible countries that have not yet begun a compact or have not yet entered into a second compact. Because compacts typically run for five years, this could be a significant hindrance to the development of viable and timely regional compacts, suggesting that some minor legislative changes would greatly facilitate the development of regional compacts as a tool for the MCC.

It is worth noting that no such legal restriction exists for the MCC's threshold programs, which feature assistance efforts designed to help countries tackle critical policy reforms in advance of a potential compact. While threshold programs typically occur before a compact, they can operate as a country is developing a compact or be awarded after a compact has been completed. The policy reform approach of threshold programs might be an ideal place for the MCC to initially experiment with regional agreements.

We strongly recommend that the MCC and its Republican and Democratic supporters put in place appropriate authorizing legislation that would allow the MCC to engage in concurrent compacts, paving the way for regional compacts. The current consideration of legislation related to the "Power Africa" initiative might provide a good vehicle for doing so.<sup>6</sup>

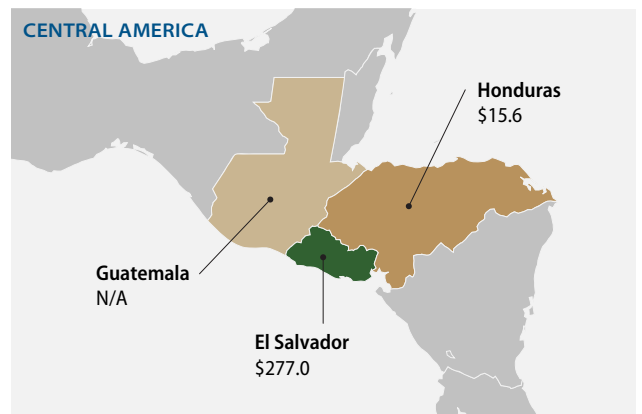
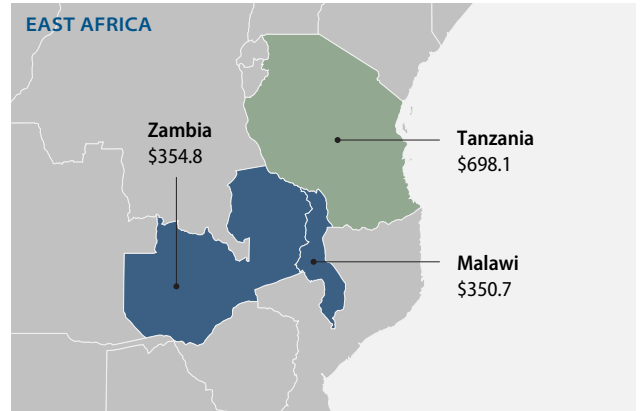
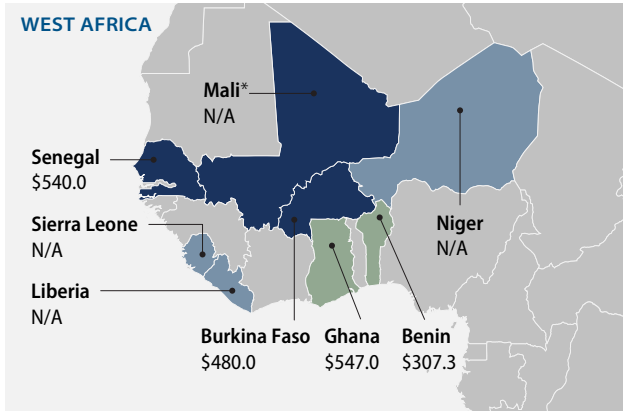
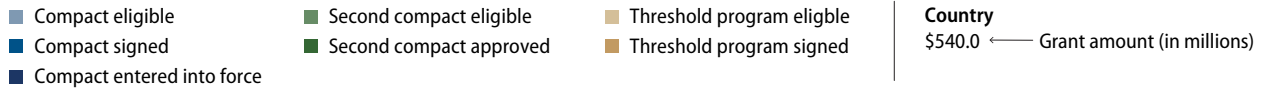
### Operational considerations

The next step to determine the viability of regional compacts and threshold programs is to assess the MCC's current pool of eligible countries for potential options. For the purposes of this analysis, we explore potential regional agreements based on countries that the MCC's board of directors has deemed MCC eligible, without regard to where countries are in compact or threshold program implementation. Ideally, the MCC can move toward a future scenario in which its board and Congress recognize the viability of potential regional compacts or threshold programs and select a set of countries as appropriate for this specific purpose. A regional approach to development projects is certainly nothing new, even by U.S. development standards. The U.S. Agency for International Development, or USAID, currently has eight regional programs across the globe that conduct multi-country programming, but these programs are prescribed by the agency.<sup>7</sup>

As shown on the map below, potential regional compacts are feasible, according to agency standards, in a multitude of regions. The richest area for a regional compact is clearly West Africa. Except for Senegal, all of these West African, compact-eligible countries have compacts in development and have not yet started to implement them. Ghana is currently developing a second compact, while Niger and Liberia are developing their first. Benin and Sierra Leone were in the process of developing compacts when the MCC board retracted their eligibility in December 2013. However, the MCC remains engaged with these countries on their compact plans.<sup>8</sup>

The East Africa region is also home to a potential regional agreement between Malawi, Tanzania, and Zambia, as all of these countries are currently compact eligible. Both Malawi and Zambia, however, are currently implementing their first compacts and so would have to wait to enter into a regional compact—unless some legislative relief is provided—due to the current legislative restrictions against concurrent compacts. Tanzania, meanwhile, is developing its second compact.<sup>9</sup>

**FIGURE 1**  
**Potential Areas for MCC Regional Agreements**



\* Due to the military coup in Mali in 2012, the MCC chose to prematurely terminate its compact program in the country on August 24, 2012.  
 Source: Millennium Challenge Corporation and authors' calculations.

The potential for a regional threshold program also exists in Central America. Both Guatemala and Honduras are threshold eligible, while El Salvador is compact eligible and currently implementing its second compact. Although the MCC board would have to make El Salvador threshold eligible for the country to undertake such a program, there is no prohibition against concurrent threshold programs in Central America. Despite the fact that Honduras is implementing its first threshold program, Guatemala is developing its first threshold program, and El Salvador is implementing a second compact,<sup>10</sup> the MCC and these countries could, for example, develop a series of policy reforms designed to strengthen regional trade.

One important operational consideration that could be a key obstacle to regional compacts is that a country would have to prioritize a regional project over purely domestic projects. A country's compact could be a mix of national and regional projects, but it would need to select a regional project as part of its compact after its in-country consultative process.

### Political considerations

Finally, there is the question of whether an MCC move to undertake regional agreements would be politically feasible, especially with members of Congress. The MCC rightly enjoys broad bipartisan congressional support on the Hill for its operations, and its board has always been comprised of respected internationalists from both the Republican and Democratic parties. If the MCC can clearly demonstrate the added development value of regional agreements—including their ability to promote inter-country policy reforms in critical areas such as trade and customs—it should be able to find considerable backing on the Hill. With congressional members and the development community placing increasing emphasis on harnessing the power of private capital, investing in much-needed infrastructure in places such as sub-Saharan Africa, and creating a supportive and enabling environment for economic growth, the time seems ripe for the MCC to make the case for regional compacts. The U.S. private sector, which often relies heavily on cross-border networks to move goods and services, should also be strongly supportive of such a regional approach.

Some members of Congress already support the creation of concurrent compacts and are proposing legislation that would allow it.<sup>11</sup> A move in this direction would only strengthen the potential feasibility of regional compacts. As it stands, no members have actively campaigned against an MCC regional approach, and the grounds for doing so are not immediately apparent.

---

### The costs of MCC regional agreements

As with any development program, the scope of proposed intervention would do much to dictate costs, but the MCC has the ability to try regional agreements in different parts of the globe on a highly cost-effective basis. As noted above, the MCC would initiate regional agreements with eligible countries already in compact or threshold program negotiations. There would therefore be no additional operational costs in selecting countries for a regional agreement.

There would also be minimal operational costs to coordinate a potential regional agreement among two or more countries—namely, in undertaking a constraints-to-growth analysis of the proposed region and ensuring that all countries and the MCC are able to come together on a potential agreement. Such regional constraints-to-growth analyses

would be enormously beneficial not only to the MCC and potential compact countries but also to the private sector, international financial institutions, other donors, and a wide range of individuals and organizations trying to understand the specific regional hurdles that must be addressed in order to jumpstart growth. The inherent value of regional constraints-to-growth analyses also further supports taking a regional compact approach, rather than simply coordinating elements of two bilateral compacts.

The MCC already has compact and threshold program development teams for each eligible country,<sup>12</sup> so operational costs would most likely be de minimis in practice. There is, however, the possibility that the MCC might incur significant costs due to extended processing time and potential delays. This would need to be accounted for before undertaking any regional programs.

Actual programmatic costs would depend on whether the proposed MCC intervention was a compact or threshold program and how many countries were involved. Because threshold programs focus on policy reform rather than the large capital investments that compacts do, it might be prudent to begin with regional threshold programs to show that regional agreements are possible and have strong development impact on both national economic growth and individual household incomes. A regional threshold program might also be a good tool for encouraging policy reform that could lead to better policy performance for the MCC's eligibility selection system.

---

## The potential development impact of regional agreements

Compact and threshold programs have covered a range of issues that would benefit from a regional approach, including trade policy, access to market infrastructure, energy infrastructure, and financial-sector reform. Many compacts, such as those in El Salvador and Georgia, include projects that explicitly seek to increase the transnational flows of goods, energy, and people.

By building agreements that take into account regional perspectives and multiple countries, the MCC could conceivably increase the number of beneficiaries and the sustained development impact of a given intervention. If a country's compact included both national and regional elements, such as new customs infrastructure along with reformed regional trade policies, the country and the MCC could tailor development projects so that they reached the greatest number of intended beneficiaries.

Successful regional compacts could also pave the way to improved regional collaboration and cooperation on a whole range of important issues, including trade, migration, customs regimes, the environment, energy, and even security. Indeed, many of America's most important international successes since World War II have been grounded in an understanding that nurturing strong and democratic regional institutions, cooperation, and integration can directly advance U.S. economic and security interests.

MCC regional agreements would also be instrumental in evolving constraints-to-growth analyses from single-country endeavors to multicountry endeavors. While regional constraints-to-growth analyses are feasible in theory, MCC standardization of this approach would do much to make them practically viable for both it and other development agencies. This would, no doubt, be beneficial to countries as they hone national development strategies—and to the U.S. development apparatus as it seeks to get greater development impact for its assistance dollars.

---

## Conclusion

While still a relatively young agency, the MCC has proven to be a nimble and effective organization that is ready for the next phase in its evolution. In its 10-year history, the makeup of developing countries has evolved, and the MCC must find ways to adapt to the changing landscape.

Regional agreements—whether they are compacts or threshold programs—would serve to push the MCC into uncharted territory, a plus for an organization that prides itself on innovation in development practice. Regional constraints-to-growth analyses and negotiations led by multiple countries are just two of the improvements that MCC regional agreements would contribute to U.S. development policy and practice.

Perhaps most importantly, regional agreements have the potential to increase the scope of the MCC's development impact by reaching more beneficiaries. Regional development issues often know no boundaries; it should only follow that approaches to tackle these complex problems include all those countries affected. While regional agreements will no doubt take political effort—from both the MCC and its congressional allies—to make reality, the potential benefit to the agency and the potential development impact for its beneficiaries justify the MCC's move toward implementing regional compacts and threshold programs.

*Casey Dunning is a former Senior Policy Analyst for the Sustainable Security and Peacebuilding Initiative at the Center for American Progress. John Norris is the Executive Director of CAP's Sustainable Security Initiative. Paul Applegarth was the MCC's first CEO and is currently CEO of Value Enhancement International.*

---

## Endnotes

- 1 Compacts are large-scale grants that run for five years. The average MCC compact is \$347 million, and it usually represents a mix of capital investments and policy reforms. Threshold programs are smaller grants, usually lasting two to three years and averaging \$21 million. Under their current formulation, threshold programs only focus on policy reforms within a given country. See Millennium Challenge Corporation, "About MCC," available at <http://www.mcc.gov/pages/about> (last accessed March 2014).
- 2 Millennium Challenge Corporation, "Countries & Country Tools," available at <http://www.mcc.gov/pages/countries> (last accessed January 2014).
- 3 Millennium Challenge Corporation, "Title VI—Millennium Challenge Act of 2003" (2003), available at [http://www.mcc.gov/documents/reports/mca\\_legislation.pdf](http://www.mcc.gov/documents/reports/mca_legislation.pdf).
- 4 Ibid., p. 4.
- 5 Millennium Challenge Corporation, "Title VI—Millennium Challenge Act of 2003."
- 6 U.S. Agency for International Development, "Power of Africa," available at <http://www.usaid.gov/powerafrica> (last accessed January 2014).
- 7 U.S. Agency for International Development, "Mission Directory," available at <http://www.usaid.gov/mission-directory> (last accessed January 2014).
- 8 Millennium Challenge Corporation, "MCC Board Selects Countries for Compacts and Threshold Programs," Press release, December 10, 2013, available at <http://www.mcc.gov/pages/press/release/mcc-board-selects-countries-eligible-for-compacts-and-threshold-programs>.
- 9 Ibid.
- 10 Millennium Challenge Corporation, "Countries & Country Tools."
- 11 *Foreign Relations Authorization Act, Fiscal Years 2012 and 2013*, S. 1426, 112 Cong. 1 sess. (Government Printing Office, 2011).
- 12 Millennium Challenge Corporation, "Chapter 1: Establishment of the Country Compact Development Team," available at <http://www.mcc.gov/pages/countrytools/guidance/compact-development-guidance-chapter-1> (last accessed March 2014).