

December 16, 2024

# Millennium Challenge Corporation

## Overview

The Millennium Challenge Corporation (MCC) is an independent agency established in 2004 by the Millennium Challenge Act (Title VI of Division D, P.L. 108-199). It was created amid intense congressional debate over U.S. foreign aid effectiveness. MCC reflects some views that emerged from that debate, with features such as the following:

- **Singular Mission.** Congress created MCC to focus exclusively on economic growth and poverty reduction, refraining from setting sectoral or geographic priorities.
- **Competitive Selection.** MCC is to select countries through “objective and quantifiable indicators,” rewarding well-governed poor countries where MCC may produce sustained, substantial poverty reduction.
- **Country Ownership.** Recipients must design and implement their own programs, under MCC oversight.
- **Fixed Timeline.** MCC obligates all funds upon program approval and strictly limits implementation timelines.
- **Evidence and Openness.** MCC subjects programs to extensive evaluation and releases nearly all reporting and congressional notifications publicly.

For more information on MCC, see CRS Report RL32427, *Millennium Challenge Corporation: Overview and Issues*.

## Selection

MCC awards assistance through a competitive selection process based on countries’ performance on a quantitative “scorecard” of indicators sourced from third-party organizations. The Board of Directors chooses countries in a three-step process, usually between August and December, and is currently making selections for FY2025.

**Candidacy.** Countries are “candidates” if their per capita gross national income (GNI) is below the World Bank’s lower-middle-income threshold (\$4,515 for FY2025) and if they are not prohibited from receiving U.S. foreign aid.

**Scorecards.** MCC issues a scorecard for every country under the GNI threshold, including prohibited countries. Countries pass or fail on each of 20 indicators, organized by three themes: investing in people, economic freedom, and ruling justly. Countries pass by outperforming the median in their income group (low-income and lower-middle-income) for most indicators, but some have a set minimum value. Countries must meet three minimum “hard hurdles” for the Board to consider them for a compact: pass more than half of the indicators, meet a minimum score on one of the two democracy indicators (civil liberties and political

rights), and surpass the median on a control of corruption indicator.

**Selection.** MCC’s Board reviews countries’ scorecards alongside other factors, such as MCC’s budget availability, candidates’ track record with previous compacts (if any), potential impact on poverty, and the country’s governance trajectory, among other factors.

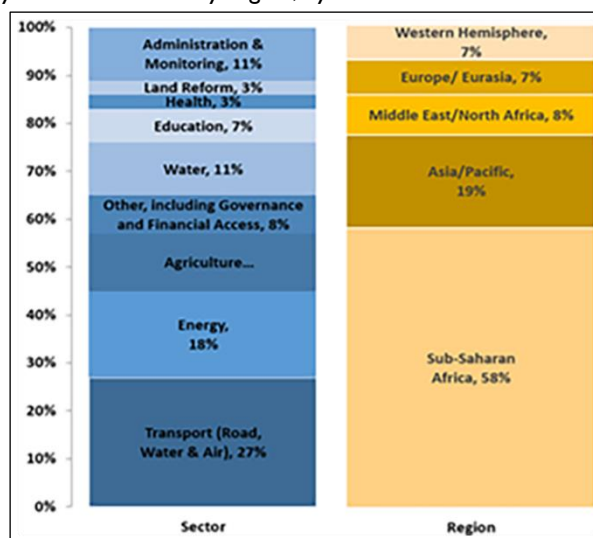
## Programs

MCC offers two types of programs for selected countries. MCC’s flagship program is the *compact*, a five-year grant agreement generally valued between \$100-\$700 million. Partner governments develop and implement compacts under MCC guidelines and oversight. First, countries perform a “growth diagnostic,” an analysis of the principal constraints (usually one to three) to faster economic growth and poverty reduction. Countries select constraint(s) and propose corresponding projects to MCC’s Board. If the Board approves, MCC and the partner country sign a compact. Compacts do not launch immediately. A usually years-long interim period follows, during which countries continue preparatory activities to make implementation feasible within five years. The Board may deselect countries during this period if governance erodes.

Compacts generally invest in hard physical infrastructure and incorporate complementary policy reforms and administrative capacity-building. As with broader U.S. development aid, sub-Saharan Africa is a top MCC focus region (**Figure 1**). Transport and energy are the top sectors.

**Figure 1. MCC Compacts, 2004-2024**

By sector focus and by region, by dollar value



Source: MCC budget request, FY2025; CRS analysis of MCC data.

**Note:** Signed compacts as of September 2024; data do not reflect terminated compacts or de-obligations after signature.

As of September 30, 2024, eight countries were actively implementing compacts: Côte d’Ivoire, Mongolia, Senegal, Nepal, Lesotho, Kosovo, Malawi, and Indonesia, in order of launch. MCC had signed but not yet launched compacts with four other countries (Timor-Leste, Benin, Mozambique, and Belize). Since its creation, MCC has signed 45 compacts in 32 countries worth over \$17 billion, although not all have been fully implemented.

MCC provides smaller *threshold* programs to pilot partnerships with countries on the cusp of passing their scorecards. These programs, generally with budgets of tens of millions of dollars, target an issue likely to feature in a future compact and are used by MCC to test a country’s ability to run a full compact. MCC countries have implemented 32 threshold programs to date, with programs ongoing in Togo, The Gambia, the Solomon Islands, Kenya, and Kiribati as of September 30, 2024. Mauritania, Tanzania, and the Philippines are developing thresholds.

### Organization

The MCC Board is vested with all decisionmaking power. A Chief Executive Officer leads day-to-day operations and reports to the Board. For all compacts and thresholds, the Board makes selections, approves the agreements, and may suspend or terminate activities. The Board consists of five government officials—the Secretaries of State (chair) and the Treasury (vice chair), the U.S. Trade Representative, the U.S. Agency for International Development (USAID) Administrator, and MCC’s CEO—and four private sector members nominated by the President from lists submitted by the Majority and Minority Leaders of Congress’s two chambers. The Senate must confirm Board members. Four MCC departments administer agency operations, such as compact design and oversight. MCC also has an Advisory Council and an Economic Advisory Council comprising outside experts, which generally meets twice a year.

### Budget

The Biden Administration proposed \$937 million in MCC funding for FY2025, matched in House-passed (H.R. 8771) and Senate-proposed (S. 4797) measures (**Table 1**). Since FY2011, annual appropriations have settled near \$900 million, supporting two new compacts a year on average.

**Table 1. MCC Funding, Millions Current USD**

Fiscal Year	2021	2022	2023	2024	2025
Request	\$800	\$912	\$930	\$1,073	\$937
Enacted	\$912	\$912	\$930	\$930	n.a.
Rescission		-\$515	-\$100	-\$475	

**Source:** Public Laws and MCC budget requests.

**Note:** Enacted does not include rescissions, which may apply to prior year appropriations.

### Issues for Congress

In MCC’s third decade, Congress may examine MCC’s impact and model in the context of active issues like MCC’s budget, operational challenges, and program focus.

**Budget Management.** Enacted funding has never approached the \$5 billion annual budget MCC once envisioned. MCC administers a modest share of total U.S. foreign assistance—less than 1% of FY2022 obligated nonmilitary aid, compared with 8.8% in 2008, MCC’s peak funding year. Congress has rescinded over \$1 billion in prior-year MCC funding since FY2022, after the Board canceled some compacts due to policy concerns. Congress may consider whether MCC’s flat budget trendline is consistent with the agency’s mandate and current U.S. development priorities. These trends coincide with a two-decade U.S. reorientation in aid toward health and humanitarian assistance and away from MCC’s focus on governance and economic growth.

**Compact Timelines.** In MCC’s first decade, compacts launched about three years after initial selection; during its second decade, that period grew to around five years, as countries delayed launches to stand up implementation units and meet policy conditions. MCC says reforms in 2021 have begun to accelerate that timeline. Members may assess such delays, their contributing factors, and possible consequences for impact.

**Board Membership.** The Senate has not confirmed a private sector Board member since 2019, leaving three of the four seats vacant. The sole remaining member’s term expired in 2024, but Congress granted a term extension allowing the Board to maintain a decisionmaking quorum. Congress may address this issue again before that extension expires at the end of December 2024.

**Threshold Authority.** Congress has restrained MCC’s threshold programs, first with a hard cap on funding in FY2011 and later with a decade-long restriction on threshold programs in prior compact countries. Congress lifted the latter restriction in FY2024 after MCC identified some past compact recipients whose governance had eroded and then improved. Members may consider merits or drawbacks of using threshold programs to not only reward democratic progress but also arrest democratic decline, notably where committed governments face external threats such as malign foreign influence and transnational crime.

**Country Candidacy Thresholds.** Outside experts have called attention to the “middle-income trap,” a finding that many countries escape extreme poverty only for growth to stagnate. Bills to replace MCC’s lower-middle-income ceiling with the graduation threshold used for the World Bank’s concessional lending window (\$7,895 GNI in FY2025) have been reported out of committee in the House (H.R. 3042) and Senate (S. 1240). Members may assess how such changes would affect MCC programs and budget.

**Countering China.** MCC’s mission is meant to focus on development rather than great power competition, and the agency has touted its ability to work in certain places because of that lack of focus on geopolitics. Officials have justified some recent programs on foreign policy grounds, and MCC is a partner to some executive initiatives to counter China. Members may weigh MCC’s role, if any, in countering China and potential consequences for the organization’s mission and overseas reputation.

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