

**USAID ECONOMIC GROWTH OFFICERS WORKSHOP  
OCTOBER 15-19, 2007  
WASHINGTON, D.C.**

Session Title: The Role of the MCC in Economic Development

Date and Time: October 17, 2007, 10:45 a.m. – 12:30 p.m.

Type of Session: Plenary

Speaker(s): Rodney Bent, Deputy CEO, Millennium Challenge Corporation (MCC)

Moderator: Jeffrey Levine & Steve Hadley

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Overview of Session:



Rodney Bent addresses workshop attendees. Photo by Paul Goodman.

Rodney Bent, representing the MCC, called out the complementary differences between MCC and USAID. MCC is a boutique operation, offering large incentives for pointed reforms, while USAID is a full-service provider. He is taking great pains to keep the MCC at 300 people with a limited overseas presence and to have MCC instead take advantage of USAID's overseas presence around the world.

There followed a lively Q&A session, in which people raised issues like what the MCC will do if a government falls down on several indicators and they are midway through the compact (answer: TBD); or what to do if corruption issues emerge, or an election occurs and policies change (answer: it depends, see case of Ortega in Nicaragua); or, more fundamental issues: that MCC compact countries with good policies don't necessarily have good institutions, or that countries eligible for MCA are poised for economic takeoff, (answer: that's why you need good collaboration between donors).

**Speaker's Remarks: Rodney Bent**

Mr. Bent was previously the Deputy Associate Director at OMB; and served as a staff member at the House Appropriations Committee.

The MCC has signed 14 compacts. There are another 4 being signed over the next year (Mongolia & Tanzania are closest). This will bring them up to \$15 billion. They signed 15 threshold programs, most of which are implemented through USAID.

If USAID succeeds, the MCC succeeds. MCC is all about economic growth, because they are all about poverty reduction.

When MCC looks at what USAID is doing, it is in large part building on the work USAID has done. MCC spends a huge amount of time on economic rates of return, monitoring and evaluation (M&E), accountability, and results. The only way you can show impact is by setting

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up benchmarks. What can be measured can be improved. A fair amount of the debate in Washington is about attribution exercises. There are usually lots of causes of success.

Complementarities— most MCC projects have USAID antecedents. What MCC & USAID can do together is work on capacity constraints in these countries. USAID has the overseas staff; MCC has a very small staff. Mr. Bent has taken great pains to insist that MCC stay at 300 people. He is determined not to have a large footprint overseas; and he is determined to make use of USAID's overseas presence.

USAID and MCC do not overlap in some ways: USAID has the disadvantage of being a full-service provider. USAID is being asked to do a lot (health, econ, etc.). MCC is a boutique. MCC offers incentives. Because compacts are large amounts of money, (Tanzania is likely to be \$700 million), countries are willing to do quite a lot of reform to get that funding. But we have to make sure it is sustainable to get poverty reduction. That honey pot is a huge advantage...but some of it is illusory...because it is over 5 years.

Is MCC an angel of death? No. MCC went to OMB with USAID to talk about ways that our work is complementary.

Mr. Bent quickly opened the floor to questions, and requested that people speak frankly.

**Key Points Discussed During Question & Answer Segment:**

**Q:** How are you going to manage to get your projects done in 5 years?

**A:** We spend a huge amount of time on fiscal and procurement agents. We spend a lot of time talking with other donors. We are trying to get the authority from congress to get a second compact. Our compacts are limited to 5 years. Large infrastructure projects are always fraught with delays.

If you have a zero-tolerance for risk, you do not do anything. But we need to also have an honest dialogue about when to suspend.

**Q:** We have heard about potential cuts in MCC funding. What is the contingency plan if they are not able to do what they are promising?

**A:** MCC was going to be \$5 billion per year; now it is looking like there is a lot less (\$1.8 billion). Contingency plan: we will not do compacts. The advantage MCC has: funding is appropriated. They have been able to deliver on their end of the bargain. This avoids the situation of issuing contracts without the potential of full obligation: "You pretend to work; we'll pretend to pay you."

**Moderator:** When an MCC eligible country enters into a compact, all the funding is obligated. This is different from USAID, which can agree, but then not get all money obligated.

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**Q:** We are laboring under misconceptions that surrounded the initiation of the MCA. 1) Core truth that aid is more effective in countries with good policies. The first key problem: people confuse good policies with strong institutions. Poor countries with good policies do not necessarily have good institutions. The problem with this misconception is that it draws away from the need to keep improving policies. There is nothing in the MCA that says donors need to keep working on policies and institutions. Second, countries eligible for MCA were thought to be poised for takeoff. Half of the 14 compact countries are below the median for economic growth. Countries were thought to graduate in no time. You just have to do the math for Madagascar, to know that graduation is many years away.

**A:** You are right – good policies do not equal good programs. You need sustained attention. The real question is how do you do that? Where are the linkages? That is where having a united front among donors is important. If you do one or two compacts, people loosely talk about transformation. The Woods report (Allan Woods) was done a few years ago, giving an overview of what development is all about. These are not easy answers. One or two compacts are not going to help countries graduate or take-off.

**Q:** How do you see success? Do you see Congress et al giving MCC the space to do so?

**A:** We need to be clear about expectations upfront. We are trying to hold projects to those metrics. We need to expect some degree of failure. You have to take some risk. Risk/return calculus would be, for example, if we meet our targets  $\frac{3}{4}$  of the time, we are doing a hell of a job. In Vanuatu the GAO was saying that MCC had over-promised. We need to get peer reviews going. We need to publish our economic rate of return models. Let's talk about beneficiaries - where their income levels start, where they finish.

The congress is at best a biennial beast. MCC does not have earmarks or buy American restrictions. The only way to keep that is to show that you get a benefit for this. 20 years from now, it would not surprise him if these conditions were imposed. The MCC's 5-7 year model is a hugely uncomfortable place for Congress to be. MCC needs to appeal to common sense and a higher instinct...this is a tricky proposition.

**Q:** The test of a lot of good programs is that you know what your exit strategy is. What would happen if a compact country fell off 2 years into a compact? What will MCC do? Or will something be improvised?

**A:** We try to spend a lot of time on mediation. We have 16 indicators; they are all done by third parties. What happens is that each year we take snapshots of each income bracket. As countries do better, they could stay absolutely flat, but because the medians are overall improving, they are flat.

There is a lag in the indicators, and they are flawed. MCC's intention is to stop if countries go wrong. How wrong is wrong? Are there measurable or significant declines? In Nicaragua, Ortega fairly won the election; and then proceeded to publicly denounce the MCC program.

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There was incredible blowback; citizens were saying to the President that he made a mistake. And since then, there has been a noticeable change in Ortega's rhetoric.

If we have got a major infrastructure project underway, and we are tested...whether we stop will be the true test.

**Q:** We know that there is a lot of residual corruption, etc. When a government does not pay its bills, or there is some corruption, what is the MCC's role or policy in those cases?

**A:** It depends entirely on the context.

**Q:** Shouldn't we be using this clout at MCC to help advocate for broad EG programming and/or outcomes? USAID was building up this track record of assembling the human capacity to help get the leadership together. If you are giving \$700 million to a country, this is a strong position from which to ask countries to put together a leadership team, and put together a strong economic growth strategy.

**A:** I am a big believer in the F process. A key issue will be looking at the foreign assistance framework. It is not just a leadership team; it is a deep dive. What is it that is necessary? What will make it flourish? We spend a huge amount of time on country consultations. The real question is what causes economic growth? That requires a discussion that a lot of countries are uncomfortable having.