

## Overview of the MCC Compact

*Millennium Challenge Corporation (MCC) compacts are five-year agreements through which the United States provides grants to partner countries to support programs to reduce poverty through economic growth.* MCC compacts are designed to target key constraints to economic growth and poverty reduction, and generate increased income for beneficiaries. Key constraints vary by country, and accordingly MCC compacts have funded a wide variety of projects in infrastructure (e.g., roads, power, ports, water, and sanitation), agriculture, irrigation, property rights, education, health, and financial services.

Countries seeking to sign a compact with MCC must first be selected as eligible by MCC's Board of Directors (the Board). Eligible countries are responsible for the development of the compact, to which they are expected to commit significant financial resources and high-level attention.

Countries must remain eligible for MCC assistance until a compact is signed. MCC's Board makes annual eligibility determinations on the basis of a country's demonstrated commitment to just and democratic governance, economic freedom, and investments in people. Other factors include the availability of funding, MCC's opportunity to reduce poverty and generate economic growth, and, if applicable, a country's performance on a prior compact. For more information, see MCC's Report for Determining the Eligibility of Candidate Countries.

## Principles of Compact Development

Several principles are key to ensuring countries develop successful compact proposals. Eligible countries should demonstrate country ownership and commitment by providing leadership, mobilizing resources, and incorporating broad groups of stakeholders and potential beneficiaries throughout the compact development process. Countries should focus on economic growth by directly confronting the main constraints to private investment, even when difficult public policy decisions may be involved, including policy and institutional issues that may be the root causes of these constraints. Compact programs should be based upon strong program logic that clearly ties proposed projects to measurable results and high economic returns in terms of increased incomes for beneficiaries. Well-developed compact projects also have manageable technical, financial, environmental and social risks and allow for timely implementation within a fixed five-year compact term, given each country's own oversight and management capacities.

## The Compact Development Process

To develop a compact program, eligible countries typically follow a five-phase process. During Phase 1, an eligible country works with MCC to undertake preliminary analyses of constraints to growth and poverty reduction. During Phase 2, the eligible country identifies the root causes behind key constraints, and develops the program logic and proposes investment projects to address those issues. The most promising projects are further developed and appraised during Phase 3. MCC and the eligible country agree on the terms of the proposed program and sign the compact during Phase 4. Preparations for compact entry into force then begin in Phase 5. Once the compact enters into force, the fixed five year implementation period begins.

For more information on MCC Compacts and the Compact Development Process, visit <https://www.mcc.gov/resources/doc/compact-development-guidance-overview>.