

JOHN F. KERRY, MASSACHUSETTS, CHAIRMAN

CHRISTOPHER J. DODD, CONNECTICUT  
RUSSELL D. FEINGOLD, WISCONSIN  
BARBARA BOXER, CALIFORNIA  
ROBERT MENENDEZ, NEW JERSEY  
BENJAMIN L. CARDIN, MARYLAND  
ROBERT P. CASEY, Jr., PENNSYLVANIA  
JIM WEBB, VIRGINIA  
JEANNE SHAHEEN, NEW HAMPSHIRE  
EDWARD E. KAUFMAN, DELAWARE  
KIRSTEN E. GILLIBRAND, NEW YORK

RICHARD G. LUGAR, INDIANA  
BOB CORKER, TENNESSEE  
JOHNNY ISAKSON, GEORGIA  
JAMES E. RISCH, IDAHO  
JIM DeMINT, SOUTH CAROLINA  
JOHN BARRASSO, WYOMING  
ROGER F. WICKER, MISSISSIPPI  
JAMES M. INHOFE, OKLAHOMA

# United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, DC 20510-6225

DAVID McKEAN, STAFF DIRECTOR  
KENNETH A. MYERS, Jr., REPUBLICAN STAFF DIRECTOR

January 25, 2010

The Honorable Daniel Yohannes, CEO  
Millennium Challenge Corporation  
875 Fifteenth Street NW  
Washington, DC 20005

Dear Mr. Yohannes:

We wanted to take this opportunity to congratulate you on your recent confirmation as Chief Executive Officer of the Millennium Challenge Corporation (MCC). Your strong background will help you guide MCC through upcoming decisions.

As you know, we are strong supporters of the MCC model and its mandate to fight global poverty through economic growth. We believe the core principles upon which MCC was founded – competitive selection of countries based on policy performance across independent and transparent indicators, country ownership of compact design and development, and country-led implementation of compacts – have allowed MCC to become a development leader.

At the same time, we also believe that MCC faces a number of critical challenges as it reflects on its first five years of its existence. As part of a continued dialogue with your agency, we would like to share some of our thoughts with you.

First, there are significant questions about the role and purpose of MCC assistance. As many acknowledge, there are fewer countries with policy indicators that would qualify for MCC assistance. Most eligible countries already have compacts or are in the process of developing compacts. As a result, MCC has begun to award subsequent compacts to countries such as Cape Verde and is considering developing compacts for middle income countries like Colombia. We are concerned that at times the MCC Board seems to be making these decisions in an ad hoc manner, without considering broader institutional or strategic implications related to its mandate. For example, given the scarcity of development resources, to what degree should MCC assistance go to middle income countries like Albania or Colombia? Instead, should MCC consider establishing a transition fund for low income countries, focused on improving policy performance, to help these countries become compact eligible over an extended period of time? We believe it is important for MCC to remember its mandate: helping the poor and fighting *poverty* through economic development.

Second, as the Administration continues to deliberate reforming its development institutions and foreign assistance programs, we believe it is important to maintain the integrity of the MCC model. We believe that MCC is a good example of a U.S. development program that works

effectively, channels innovation and achieves results. This is partially due to the fact that MCC has been given appropriate institutional space to develop its own systems, concepts and policies, separate from other U.S. development agencies. We believe U.S. foreign assistance would benefit from improved coordination between MCC, USAID, State and other agencies undertaking development activities, but we are not in favor of merger or consolidation. While we also feel strongly that MCC should complement U.S. foreign policy, MCC is first and foremost a development agency. MCC should continue to adhere to an indicator-based approach when selecting countries for compacts.

Third, we understand an initial review of the role, purpose and scope of the threshold program is nearing completion. We believe that the threshold program, as it stands, requires significant overhaul and substantial rethinking. We are not convinced that the program is achieving the goals and objectives it was originally created to accomplish, and we think the mandate of the program has become increasingly muddled. Is the program meant to graduate countries which are at the “tipping point” of eligibility? Or is it supposed to be a longer-term program that will over time improve policy performance? The selection of countries such as Yemen, The Gambia, and Niger for the threshold program – all of which have been subsequently suspended – raises significant concerns about reasons for inclusion in the first place. We believe a comprehensive review of the goal, purpose and utility of the threshold program is in order, and we are open to fairly wide changes that would modify the threshold program’s mandate and implementation.

Fourth, in the last several years, MCC has requested that the Congress provide additional authorities and flexibility to allow the agency to undertake “concurrent” compacts, and to extend, where warranted, the length of existing compacts beyond a strict five-year timeframe. We are amenable to these requests. Another longstanding request from MCC is the authority to develop regional compacts. There are serious concerns about whether MCC has the capacity to develop and implement regional compacts that would arguably be larger and more complex than any of the country compacts currently in the agency’s portfolio. We encourage MCC to give more thought to integrating regional approaches and aspects into compacts, particularly in regions that feature adjacent compact countries.

Fifth, MCC should consider and incorporate new and innovative models for the compact program and how it delivers assistance. Many compacts feature similar projects and identical models of delivery that rely excessively on government institutions to solicit project ideas, develop programs and implement compacts. We believe a greater emphasis on civil society and the private sector to generate project ideas and undertake implementation, as well as a greater receptivity to considering bold and creative project ideas, would be in keeping with MCC’s mandate. But we would also like to emphasize that we believe MCC enjoys a comparative advantage in U.S. foreign assistance when it comes to implementing economic growth programs and large-scale infrastructure related projects. MCC should build from this strength, not move away from it.

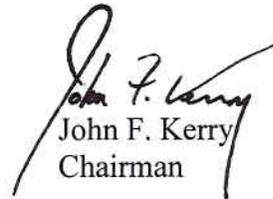
Thank you for your consideration of the ideas and points above. We are committed to working closely with you to ensure MCC retains the support of the Congress and remains an innovative and development leader. We appreciate the ongoing cooperation of your legislative affairs team.

Should you have any questions, please feel free to contact Steven Feldstein at (202) 224-4934 or Nilmini Rubin at (202) 224-0275.

Sincerely,

A handwritten signature in cursive script that reads "Richard G. Lugar".

Richard G. Lugar  
Ranking Member

A handwritten signature in cursive script that reads "John F. Kerry".  
John F. Kerry  
Chairman