

Millennium Challenge Corporation Equity Action Plan

January 20, 2022

(1) Executive summary

Created in 2004, Millennium Challenge Corporation (MCC) works with well-governed low and lower-middle income countries to reduce poverty through sustainable and inclusive economic growth. MCC provides high-quality grants that are predictable, multi-year and flexible, that support critical infrastructure investments together with robust policy and institutional reform. MCC grants are designed to complement other U.S. and international development programs, as well as create an enabling environment for private sector investment. These investments not only support stability and prosperity in partner countries but also enhance American interests. Data and evidence guide MCC's decisions on where and how to help countries address their most binding constraints to economic growth. From country selection through program design, implementation and evaluation, MCC seeks to promote equity as part of the agency's mission.

To help MCC country partners rebuild an inclusive and resilient post COVID-19 economy, the agency must make sure that MCC programs do not leave vulnerable communities behind. This is particularly important given research from the World Bank and others indicating that COVID-19 has disproportionately impacted women and other marginalized groups in developing countries. Further, the world is now experiencing the first increase in extreme poverty in two decades.

To meet this challenge, MCC is carefully and methodically looking at how to incorporate equity in both its internal and programmatic operations. This spans MCC's human capital and procurement practices to the agency's analytical tools and program investments. For example, MCC is developing a new agency-wide Inclusion and Gender Strategy that will articulate the link between gender, inclusion, and the agency's mission of poverty reduction through economic growth. MCC is also updating its analytical tools, including its approach to cost-benefit analysis (CBA) to consider intergenerational equity issues. Finally, MCC's strategic planning work in the lead up to the agency's 20th anniversary in 2024, MCC@20, includes an exploration of how the nature, location, and sources of vulnerability to poverty have evolved.

Work is underway in each of these areas, recognizing that several paths and actions MCC could pursue would require additional consultations with MCC's Board of Directors and external stakeholders.

(2) Summary of early accomplishments

MCC continues to take action to advance racial equity and promote diversity, equity, inclusion, and accessibility consistent with Executive Order 13985. This approach includes a combination of immediate and short-term actions to build capacity and promote a culture of inclusion as well as opportunities in the medium-term that result from identifying inclusion and gender as one of the agency's key cross-cutting strategic priorities. MCC recognizes how the agency's strategic

initiatives to advance DEIA internally reinforce its work with country partners and programs abroad. Further, as part of the long-term strategic planning for MCC@20, the agency continues to ask how it can expand its ways of reaching those in need to fully deliver on its mission to reduce poverty through sustainable and inclusive economic growth.

Early actions include:

- Building Capacity and Establishing Leadership:
 - Appointed a member of the leadership team as the senior champion for diversity, equity, inclusion, and accessibility (DEIA).
 - Established a Diversity and Equal Employment Opportunity division within the Office of the Chief Executive Officer and hired MCC’s first Chief Diversity Officer (CDO) reporting directly to the CEO. The CDO will work collaboratively on cross-functional strategies to advance equity.
 - Formalized a new Executive Inclusion and Diversity Council for MCC employees.
- Creating a Culture of Inclusion:
 - Launched a new collection of DEIA resources for agency employees and increased access to training opportunities.
 - Developed a conversation series facilitated by MCC leadership to foster open dialogue around topics related to diversity, equity, inclusion, and accessibility.
 - Announced a new “signature block challenge” to reaffirm MCC’s core values and add options for pronouns to promote inclusivity.
 - Increased internal communication around key events and issues affecting the country, helping to create an environment where open dialogue, tolerance and empathy is prioritized.
- Delivering on MCC’s Mission into the Future:
 - Launched a listening tour with internal and external stakeholders to ascertain how MCC can meet the challenges and opportunities of this moment, while building on what makes the agency’s model distinct. MCC subsequently identified challenges and opportunities across multiple dimensions including culture and human capital, operational efficiency, programs and tools, and areas for future growth. These extensive conversations have led MCC to identify inclusion and gender as a key cross-cutting agency priority.

(3) Equity action plan

New Inclusion and Gender Strategy - Project Selection, Design, and Implementation

MCC recognizes that economic growth alone will not always deliver on its poverty reduction mandate if the agency’s grant investments are not also inclusive and sustainable. Research shows that the benefits from economic growth are not shared equally within societies. Growth—even robust growth—can leave some populations and communities behind. Certain disadvantaged groups—often women, the poor, or those from disadvantaged ethnic groups or regions—lack

access to the economic opportunities available to others and are prevented from reaching their full productive potential. Further, a high level of exclusion or inequality may itself act to constrain economic growth.

With the development of a new Inclusion and Gender Strategy, MCC aims to deepen its commitment to equity so that poor people, women, youth and other structurally excluded groups are better able to access, participate in, or derive benefits from MCC's investments. For this to happen, MCC's program development processes must explicitly consider the barriers facing these groups. Further, investments targeting these groups must be well-integrated, contribute to a project's theory of change, and achievement of its overarching objective. While inclusion and sustainable economic growth should be complementary, there may be trade-offs in the short-term, particularly when it comes to the design of specific projects such as reaching more rural communities or geographic pockets with greater levels of poverty. MCC's approach will identify such tradeoffs to facilitate fully informed and transparent decision-making.

Opportunities for action in this area include, but are not limited to:

- Fully integrate gender and inclusion into all stages of program development and implementation.
 - Assess systematically the needs of and/or barriers facing structurally excluded groups during project design to determine if specific measures are needed to increase access, economic opportunity, and sustained results for these groups;
 - Design programs that alleviate the barriers that poor people and other excluded groups face in benefitting from MCC investments, including expanding the use of digital finance or digital solutions to deliver more cost-effective services;
 - Proactively identify and address risks and programming opportunities related to gender-based violence in the context of MCC programs;
 - Increase support for women's economic security, with an emphasis on quality, well-paying jobs and female entrepreneurship in MCC projects as well as dismantling systemic gender barriers in the policy and legal environment;
 - Address barriers for women's employment and entrepreneurship, including those related to childcare, other care burdens, and mobility constraints;
 - Update procurement guidance to increase women's participation in non-traditional jobs; and
 - Comprehensively integrate social, gender and poverty impacts into climate activities, and proactively support economic opportunities for vulnerable groups to increase resilience in the face of negative economic impacts of climate change.
- Support policy and institutional reforms to enhance gender, poverty and inclusion impacts of MCC investments.
 - Identify critical policy, legal, administrative, and regulatory constraints to equity, equality and inclusion, and support partner countries to dismantle systemic barriers that limit the ability of women and excluded groups to be equal economic actors and would inhibit equitable participation in MCC-funded programs;

- Support institutional strengthening and capacity building on gender and inclusion to facilitate the achievement of MCC project objectives; and
- Support improved capacity for data collection and analysis so that government counterpart agencies more systematically incorporate gender and inclusion into their planning and policy.
- Catalyze private capital for investments that promote inclusion and gender to help achieve MCC project objectives.
- Leverage partnership opportunities to support inclusion and gender objectives.

As noted above, MCC is in the process of developing an Inclusion and Gender Strategy. Further consultations with MCC staff and external experts are underway and the strategy will be finalized in the third quarter of 2022. As one of MCC’s cross-cutting strategic priorities, efforts to promote inclusion and gender are being embedded into the agency’s corporate goals, department/divisions objectives, and individual staff performance plans. The final Inclusion and Gender Strategy will be posted on the agency’s website. While MCC works to finalize the overarching strategy, the agency will seek to embed inclusion and gender into its programs under development such that they contribute meaningfully to a project’s theory of change and achievement of program objectives.

Before each grant agreement is negotiated with a partner country government, programs are presented to the agency’s internal Investment Management Committee (IMC). The IMC ensures that each program addresses the binding constraints to the partner country’s economic growth and promotes inclusive and sustainable growth. Once the program is negotiated with the partner government, it is presented to MCC’s Board of Directors for approval. MCC’s Board of Directors includes public and private sector members who provide strategic direction to the agency.

MCC will develop a robust set of monitoring indicators for these investments to measure progress toward meeting program targets. In addition, MCC conducts independent evaluations on every project in which it invests. These evaluations will offer critical learning on MCC’s inclusion and gender efforts while keeping MCC accountable to its stakeholders.

Analytic and Economic Tools

MCC’s mandate to reduce poverty through sustainable and inclusive economic growth is based on long-established evidence that economic growth is a necessary condition for poverty reduction. Economic growth, however, does not automatically produce uniform gains for poor people and other systematically excluded segments of the population across or within countries. MCC recognizes that growth alone will not meet its poverty reduction mandate if its investments are not also inclusive and sustainable.

As the first step in MCC’s evidence-based decision-making process, MCC is updating its analytical tools to integrate current economic approaches for growth diagnostics, economic rates of return, and cost-benefit analysis. An overarching goal of this work is to meaningfully value interventions expected to deliver long-term benefits, including those related to intergenerational equity.

MCC is actively engaging with economists and other experts within the United States and internationally in this regard. For example, the agency organized a series of workshops to analyze the underlying barriers to equity and inclusion and approaches to achieve inclusive growth. In June, MCC convened experts from the University of Oxford, Brookings Institution, UN-Women, and the Gender and Jobs units at the World Bank for a workshop entitled “Strategic Directions for Growth and Inclusion through Productive Work.” Specifically, colleagues helped MCC consider whether there are trade-offs between highly inclusive, poverty-reducing but lower-growth investments in informal work and high-growth formal sector investments—and how these trade-offs might be reduced.

Opportunities for action in this area include, but are not limited to:

- More systematically analyzing how structurally excluded groups are affected by the diagnosed binding constraints to growth, and how they are affected by the underlying root causes of the constraints, using quantitative and qualitative evidence;
- Building upon emerging country examples to adopt a more systematic approach towards gender and inclusion in the Root Cause analysis and in decision-making about constraints prioritization;
- Developing technical tools to better identify benefits that can accrue to structurally excluded groups to be able to integrate them into program logic and design;
- Refining Cost Benefit Analysis and Beneficiary Analysis to more consistently account for said benefit streams and costs, including issues of intergenerational equity;
- Refining analytical tools to better assess how youth can access, participate in, and benefit from MCC investments, including through opportunities for training and employment;
- Refining analytical methods to identify potential tradeoffs of growth and inclusion objectives at different stages of the compact process as an input into agency decision-making on investment choice and design; and
- Considering and systematically documenting how gender and inclusion will be addressed in its monitoring and evaluation efforts, and thereby contribute to agency learning.

The actions outlined above represent an opportunity to better identify and prioritize constraints, and the root causes of those constraints, that meaningfully address inclusion. The outcomes of advances in these economic tools will be shared in the published Constraints Analyses for countries in development. These advancements, coupled with further action on better program design, integration, and implementation (as referenced in the Inclusion and Gender Strategy), are expected to yield an increased focus on inclusion and gender in MCC’s investments.

Related to better incorporation of inclusion in its economic tools, MCC has also conducted extensive work in reviewing its approach to discounting in cost-benefit analysis given the agencies’ multiple objectives, including with respect to equity. This work is considering the latest developments in the economics field, the work of other development agencies that are revisiting their discounting practices, and guidance from the White House’s Office of Management and Budget. MCC has also conducted work on how to account for environmental externalities – that often disproportionately affect the most vulnerable – in the agency’s cost-benefit analysis.

Finally, MCC has made reforms to two of its country selection indicators – Access to Credit and Land Rights & Access – in its FY 2021 Scorecard in order to infuse its commitment to equity and inclusion more deeply in this critical tool. The changes will incentivize low and lower-middle income countries to broaden access to financial services to poor and rural communities and strengthen property rights, both in practice and in law.

Delivering on MCC’s Poverty Reduction Mission into the Future

While poverty and within-country inequality were declining prior to the pandemic, both are expected to increase globally for the first time since 1998. The number of extreme poor (living on less than \$1.90 per day) declined from 740 million to 640 million in the last five years but those gains have been erased¹ with the UN projecting 120 million people have been pushed back into poverty and chronic hunger.² The World Bank has also projected that within-country inequality is likely to increase for the next five years.³

The location, nature of, and vulnerability to poverty has changed since 2004 when MCC was established. For example:

- The pandemic has exposed and amplified structural inequalities, for instance women have suffered disproportionately, and vaccine distribution has been unequal;
- Climate change could push an additional 132 million people into poverty by 2030, while nearly half a million people have died in extreme weather events caused by climate change since 2000;
- Worldwide over 82 million people have been forcibly displaced either within their country or as refugees to another country;
- 21 percent of those living below \$5.50 per day live in countries MCC cannot currently consider; and
- By the end of the century, thirteen of the world’s twenty largest urban areas will be in Africa, up from just two today, as will more than a third of the world’s population.

In light of these changes to global poverty, and vulnerability to poverty, part of the long-term strategic planning for MCC@20 is a close look at how the agency can expand the range of ways in which it can reach those in need. To do this requires a broader range of countries in the agency’s candidate pool. MCC takes seriously its track record as a proven, effective part of the U.S. Government foreign assistance toolkit, and looks ahead to an expanded capacity to deliver on its mission of poverty reduction through sustainable and inclusive economic growth.

¹ Lakner et al (January 2021), “Updated estimates of the impact of COVID-19 on global poverty: looking back at 2020 and forecasts for 2021”, World Bank Blogs.

² The United Nations. (2021). The Sustainable Development Goals Report. <https://unstats.un.org/sdgs/report/2021/The-Sustainable-Development-Goals-Report-2021.pdf>

³ Fuceri et al (2020), “COVID-19 will raise inequality if past pandemics are a guide”, VoxEUCEPR, qtd. In Hill and Narayan (2021), “What COVID-19 Can Mean for Long-Term Inequality in Developing Countries”, World Bank Blogs; World Bank (2020), “Poverty and Shared Prosperity Report”; World Bank PovCalNet.