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How has the MCC responded to the challenges of COVID-19?
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DAVID DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast Dollar and Sense. Today, I'm pleased to have as a guest Alexia Latortue. She's the deputy chief executive officer of the Millennium Challenge Corporation (MCC), and that's a part of the U.S. government that gives grants to poor countries to assist with their development. Alexia, in the interest of good governance, I should mention that MCC and Brookings have a relationship. MCC funds some research in our Global Development wing, and I myself am a member of MCC's Economic Advisory Council which is an unpaid group of outside advisors. So, just want to make that clear to our listeners. Welcome to the show, Alexia.

ALEXIA LATORTUE: Thank you so much. I'm so glad to be here.

DOLLAR: Let's start with some basic information about MCC, the Millennium Challenge Corporation. It's a relatively young part of the U.S. foreign aid regime. So, what's the basic idea behind MCC and its approach?

LATORTUE: David, first can I just say, in addition to those good governance disclaimers you made, I dare say that we at MCC consider you in some ways to be an intellectual godfather of sorts of MCC given the important work that you have done with others on the link between growth and poverty reduction. That brings me to answer your question, which is around what MCC is fundamentally.

As one of the three U.S. bilateral agencies, and indeed a relatively young one—we are now a teenager; we are 17 years old—our mandate is quite specific, David, and it really is about reducing poverty through economic growth. We were really established to strike at the heart of what holds a country back from growing its economies. So, following rigorous constraints to growth analysis, MCC tackles the most stubborn constraints to growth. They often happen to be in the areas of energy, transportation, water sanitation, hygiene, through a mix of infrastructure, social, and institutional investment. And everything we do is based on a model that is underpinned by rigorous analytics and accountability.

Now, how do we fulfill this mandate of reducing poverty through economic growth? Well, our financing instrument is what I like to call high-quality money, David. That means that we have grants—often quite large grants up to \$600, \$700 million over five years to one country. These grants are predictable, and they are multi-year, and they do not add, obviously, to a country's debt burden. But beyond the financing, we also focus sharply on policy and institutional reforms, right? So, we work hand in hand with countries to make tough, often tough trade-off, policy choices that allow not only to have an enabling environment that attracts private capital, but also that ensures sustainability of investments.

Then also, David, very important to the MCC is the fact that country ownership is one of our principles. Partner countries generally make financial and or in-kind contributions, which is a real signal in their commitment and ownership of the programs. We have MCC accountable entities—we call them MCAs—in the countries that we work in that are staffed by nationals of

those countries and have boards of directors that include a cross section of society, including civil society and the private sector.

And we work, finally, in low and low-middle-income countries that prioritize good governance, transparency, and accountability. We have investments all over the world. Since our inception in 2004, we have invested about \$13 billion in over 38 compacts, which is what we call our programs, and 29 countries. And about two-thirds of our portfolio is in Africa. So that's MCC in a nutshell.

DOLLAR: So obviously one of the big developments at the moment is the COVID-19 pandemic having a devastating effect in developing countries, the global recession. How is this going to affect your practice? Is this COVID-19 crisis going to permanently change some of the ways in which MCC operates?

LATORTUE: Of course, the impacts, David, have been devastating. And although the health impacts in many of the countries that we work in is, luckily, not what we are seeing right here in the United States, the economic impacts have indeed been devastating. And I think, frankly, the extent to which vaccines are rolled out well or not well will certainly have an impact on the further negative economic consequences. But, you know, MCC's investments, I think, David, have enabled many of our partner countries to better address some of the impacts they are facing now because of COVID and they will remain important in the future. So, I think for us, it's really about sort of remaining steady to what we can do well to support countries.

As you well know, health, health systems, and the economy are tightly linked, right? Some of the programs that MCC does can directly address helping to strengthen a country's health systems, which obviously is a huge priority with COVID, and we have examples of that. For example, in a country like Lesotho where we have helped to construct or rehabilitate 138 health centers, 14 outpatient departments, a national reference lab, blood transfusion services, things like that. So that's critical, but most of what we do, David, I would say has indirect impacts. By that, I mean that we help countries build the underlying systems that are fundamental and complimentary to direct health interventions. These tend to be often in the power sector, but also in the WASH sector, the water sanitation and hygiene sector.

Let me just give you one example of that. So, for example, in Ghana where, frankly, the lack of reliable power is a primary constraint, we help connect hospitals and clinics to reliable power sources. We all know that, of course, if you don't have reliable power that's a huge issue in terms of preserving vaccine inventories. So, I think a lot of these indirect things that we do are also very critical.

DOLLAR: Yeah. I think your Ghana example is very powerful. I mean, one of the reasons development is so complicated in my experience is you have so many different issues. You've got infrastructure, like power. You've got health service delivery, basic government administration. A country like Ghana is importing and exporting a lot. It's complicated to get all

that right. And if you do, then you can really make progress in a lot of different areas. If you don't, then it's hard to make progress in any particular area.

LATORTUE: Right, David. I mean, the other area that often is not first of mind, but I think this issue of water sanitation and hygiene is just so important, right? You take a country like Zambia where if you look at the capital city of the Lusaka that experiences, like many other capitals, seasonal rains that create massive flooding. If you combine massive flooding with poor trash collection and sanitation infrastructure, that creates a host of public health problems. So, the work that we do in a country like Zambia to help improve drainage infrastructure, increase access to the water supply and sanitation, is critical to people's health.

DOLLAR: So you have already mentioned several country examples, but now that you have 17 years of experience, the MCC, can you point to some countries where we should be proud that the compact has worked very well and that there has really been development, progress, growth, and poverty reduction? What are some of the success stories?

LATORTUE: Thanks for that question, because it allows me to sort of uplift the work of our excellent colleagues and partners. An example that comes to mind immediately is Liberia—also because we have just recently in January closed our compact in Liberia. It was about a \$250 million compact where we worked to restore the country's Mount Coffee hydropower plant. I don't know how well you know Liberia, David, but that plant had been destroyed during the devastating civil war in Liberia and its incapacitation left the country in near total darkness where less than 2% of the population had access to the electricity grid. So, we worked closely with the Liberian government to restore the hydropower plant, but also to make those policy and institutional reforms that are so important to changing and improving how the power sector operates. So now, after the restoration of the Mount Coffee hydropower plant, it can produce 88 megawatts of power, which more than doubled the power generation capacity for all of Liberia. So the number of Liberians that are now connected to the electricity grid is three times greater than it was at the beginning of our work in the country. Also, Liberia has seen about a 30% decrease in electricity costs. So, of course, that's hugely important to business owners who then can expand their services and therefore their incomes as well. So that's a really great example.

Another example that's interesting, David, is around Sierra Leone where we had what we call a threshold program. Also really working to improve access to clean water across the capital city of Freetown. We have invested in water management systems, installing new pipes, new water kiosks. And these kiosks really went deep into the communities—and communities that had not had access to water in more than a decade. And we worked, again, not just on the financing, but with the Sierra Leone government to pass key policy reforms in the energy sector. We established a new electricity sector roadmap, for example, to help the long-term planning needs of the country. That plan will also allow other investors, including private sector investors, to come into the sector, which is critical.

DOLLAR: So, the World Bank Spring Meetings have been going on virtually for the last week or so and continuing on. That's one advantage of the virtual world. Instead of everybody just meeting up for a weekend and tying up Washington, the activities have stretched out a bit, which I think is good. One of the hot-button issues is the growing debt problem in the developing world. Obviously you have not contributed to that because MCC gives grants, so that's something that we Americans who fund this can be proud of, but that debt problem is going to affect the environment in which you operate. It's going to affect a lot of the countries with which you have compacts. So how do you see the prospects for debt rescheduling or debt relief and what we are doing for poor countries beyond specifically what MCC is doing?

LATORTUE: From some of my previous work this was very high on our agenda, and anybody who works in a country that's in high debt distress, I think, has to care about the issue irrespective of their funding instrument. I think the issues, David, of transparency, the issues of capacity building for public financial management, but also the issue of really working with countries to help them, when faced with so many demands, make the right and the best possible investment choices. Right? Because they must make choices; the funds are limited. And to really get that right mix of investments and return on these investments as well. So, for all actors that are involved in the development space, I think keeping those principles of transparency, of good public financial management, and strategic thinking about the investment portfolio for that country is critical.

In many ways, David, the way that MCC works really delivers on some of these principles that I just mentioned, particularly the fact that we spend so much time upfront with the country really looking at binding constraints. We do economic rate of return analysis also so that countries understand not just what they're investing in, but what the return will be and on what timeframe, which is critical.

You know, I also think it's important to understand why countries got themselves in the situation that they got themselves into. And I think there's a lot of reflection that's happening across the USG. So not just MCC today, across the USG. But I think in many other countries in terms of how can we be responsive to countries' core needs—infrastructure being not the only one, but are really important one in terms of boosting growth, productivity, creating jobs, frankly, which again, post COVID to your earlier question is critical for many countries.

So, I think the ability for donor countries around the world, including the USG, to really think about their offer to our partner countries, I think is something that we need to talk about more, frankly.

DOLLAR: I want to talk a little bit about the interaction between the kind of activities MCC finances and private investment. One of the hallmarks of the modern world is private capital flows, international private capital flows, really dwarf all the official assistance. This is a relatively new phenomenon but it is very clear. So there's a lot more private investment than there is foreign aid. Is it realistic for the kind of aid that MCC delivers to crowd in private investment rather than crowd out private investment? How do you see the division of labor, we can call it, between the private investors and the kind of assistance you are providing?

LATORTUE: So, David, I think it's a fundamental requirement, which doesn't make it easy. But if you look at us and that high-quality money that I mentioned, that precious, scarce grant funding, however brilliant a job we do David—and we do a very good job—it will not suffice, as we say. If we are not able to make strategic use of this sort of special kind of money we have to mobilize in the private sector, I think we will not be doing our jobs sufficiently well.

So what can we do? So something, again, that there is sometimes less attention to, David, but it's fundamentally important is that piece I talked about earlier in terms of investing to work with countries in building the right enabling environment, the right business investment climate, to attract the right predictability and certainty for the private sector to actually be able to come in. That work is behind the scenes. It doesn't necessarily consume the largest amounts of money. It's hard to measure. It's rarely linear. But that is the fundamental building block, in my view, to be able to then attract the private sector. The private sector likes certainty. It likes to know that its investments will be protected—that if there's trouble, there are clear rules and rule of law to sort of understand how things will be resolved.

The other thing that's critical is around risk mitigation, right? Where markets either don't exist or where markets are very immature [and] where it's hard to price for risk. I think using our kind of money to manage risk and mitigate risks can be powerful. So for example, if you look at the USG development architecture, you look at us and our type of money, you look at now the new DFC, Development Finance Corporation, which has with the Build Act a mandate to really go further into low income countries, into Africa, into tougher places for it. If we can blend our type of money with DFC type of money, that will allow DFC to do deals that otherwise would not be viable for them in a way that's fully consistent with MCC's mission and mandate and with their mission and mandate. That's the elusive one-plus-one might equal 2.5, maybe even three, David, if we do our jobs well.

But figuring out how to get our sources of money to connect is not always easy, so we are trying to innovate and create those platforms to make it work. So we have created, for example, the American Catalyst Facility for Development, which is a mechanism that will allow us to connect better with DFC and partner countries to do precisely what I was describing. We have a similar partnership with Africa 50. I think we can even look at doing things with the IFC and other players as well, not just within the USG.

DOLLAR: Historically, there has been a problem in some poor countries with a dependency where the donors finance everything and it continues in perpetuity. So, one issue we didn't really get into a little bit earlier when we were talking about the mechanics of MCC is that your compacts have a set amount of time—is that right? With the idea being that you help build up the capacity and then countries have to get by on their own?

LATORTUE: That's right. So, the idea is to [inaudible] big, right? So not to tinker on the margins; take big bets after rigorous analysis. So that's the, you know, \$350 million on average can go up as high as \$700 million compacts. It is a five-year timeline and then indeed we're out. And the idea, again, is to work with the local governments of these countries to really work on the

systems. For example, if we are building a road, we're not just building the road, but we're actually really working with the country to stand up the right human resources needed not only to build the road, but to sort of manage the road and think about road maintenance funds, procuring correctly, evaluating whether the project is working well. So really trying to stand up all those systems.

DOLLAR: In my own experience at the World Bank—I was in charge of our China program for a number of years which was a big infrastructure program—I always had a challenge with the staff. We weren't financing roads in the time I was there, but just as an example, if you are financing a road, the output from the World Bank is not the road. It's really the institutions and the policies around it. Are you collecting tolls? Do you have a fund to take care of maintenance? That's the delivery; it's that institutional capacity, not the actual road. We had a lot of great staff, and naturally they thought the output is we're going to build this road.

LATORTUE: I couldn't agree with you more. Actually, you are making me think of something else, David, that I wanted to raise with you in thinking about some of this work around infrastructure. In addition to the whole institutional framework that you just mentioned that's really what we're doing, I think the other piece that we can't ignore at all is how do we think about the sustainability of what we do beyond the institutional framework? What I mean by that is, for example, looking at climate, which really in my view is sort of an existential issue of our times, right? There's such a large infrastructure gap in the countries that MCC works in. A lot of infrastructure will be built, and the question is are we building that infrastructure in a way that's baking in a low carbon trajectory today or not. I think the answer has to be yes. And so for MCC, in addition to catalyzing the private sector in what we do, we really want to embed climate and environmental considerations in everything that we do as far as possible. Starting with our analytical work—so again, the way we look at constraints to growth analysis— as well as the way we built that infrastructure. And I think in many of our countries, the issue of adaptation and resilience is particularly important when we look at some of the infrastructure that we work on.

I think the other piece to this is around that sort of big term, which sometimes is used so often that I'm not sure it means much to people, but around inclusion. Here, I mean that infrastructure is meant to serve the societies and the countries that it's in. So how can you ensure that that infrastructure is facilitating the delivery of basic services, public services, broadly to all the communities and all the segments of the society? I think these are the kinds of issues that we also need to be working on.

DOLLAR: Alexia, I know that you had a long experience in the development banks before you joined MCC. The European Bank for Reconstruction and Development and before that the World Bank. So, I want to ask you how you see these development banks performing because you must interact with them out there in the real world. And I want to put a particular spin on it: it seems that developing countries are turning more and more to China to finance infrastructure. That traditionally was a key role of those development banks. Is this something we should be worried about? Are there ways that you would reform the development banks

toward infrastructure or in some other direction? The U.S. is still the biggest shareholder in the World Bank and co-equal in some of the regional development banks, so this is an important issue for us. What should we be getting out of the development banks that we're not getting out of them?

LATORTUE: Now that I'm working at MCC I should be careful, David, to not opine too much on them, but let me say the following. The first thing is I think we need to focus more on the countries that we are trying to serve as opposed to always with the China lens. We need to actually really focus on the countries we are trying to serve and understand their constraints, understand their priorities, and really see how we can be responsive to them. That would be my first comment. The second one touches on something that you said, David, which is I think if we do that, we are going to hear that infrastructure remains a top priority. Other things, too. I want to be careful to not be sort of overstating here. There are lots of other critical things in the SDGs, you know, that we need to help countries with. But infrastructure in its own right, but also as an enabler of other SDGs as well whether it's health or education or agriculture, is a priority for many of those countries.

I think you were alluding to have these development banks walked away or backtracked a little bit from core infrastructure? And I think the evidence is yes for some of them, certainly the one that you used to work in. And I think we need to look at this more carefully.

Now it's not infrastructure of the old days; it's infrastructure the way that we've been talking about with the climate embedded, with the inclusion embedded, with the institutional frameworks embedded. But I think we can and should be more present there. We will never—and you know this—match China dollar for dollar. But what we offer which I think countries do care about—I know countries care about from my conversations with various ministers—is that we offer sustainable and quality infrastructure, and that matters.

Now speed also matters, so we need to figure out—when I say we, I'm not talking about the development banks, MCC. We need to figure out how to maintain the standards, the focus on public service delivery, the focus on inclusion, the focus on climate, all of that quality in an as responsive way possible. And that is something we should challenge ourselves to do because that's an area where, you know, countries sometimes get a little bit impatient with us. I think we have to be frank about that.

David, can I ask you a question?

DOLLAR: Sure.

LATORTUE: So as a big China hand, and I think if we looked we were frankly in a much happier situation five years before the Millennium Development Goals were about to close then I think we are now as we are looking at the SDGs. We actually met the target of having extreme poverty by half early. A lot of that was driven by numbers in two countries, China being one of

the two countries. So, can we learn something from China about its own development trajectory in terms of what it has done for its own people?

DOLLAR: Well, that's a great question, Alexia. I think China and India has a pretty impressive record of poverty reduction as well. I think they are both good examples of this idea that I and others have promoted that growth is good for the poor. That if you start out where everybody is poor, you have to grow the economy in order to generate poverty reduction. But I think that's sometimes misunderstood.

So, if you look at some of the things that the Chinese have done to promote growth, you know, they have had a big program of rural development. I wouldn't endorse every piece of that, but some parts of that are very good. Investing in infrastructure that has a good return. All over China people were trying to grow grain, and China's a water scarce country. In many parts of the country, grain is not really appropriate. Various programs have helped people shift out of grain into more water saving crops, for example.

So there are a lot of different components that have gone in. It's not a simple thing to generate that growth. So just saying poverty reduction through growth, that's a nice slogan, but how you actually bring about growth requires so many different interventions. And I think that, you know, I think that's an important lesson.

If I could pull one other lesson that's extremely relevant to what MCC is doing: I had a chance to take some African policymakers around China to look at some of our World Bank projects but to look more generally what China's doing. And all these African officials had a similar reaction that they just thought the Chinese had more agency in their relationship with the World Bank than their own country. They felt kind of pushed around, lots of conditionality, external advisors come in. The Chinese had really taken control of their development program and then they use the outside resources to supplement that and to bring in ideas. But they really have ownership of their program, and I think that is a great aspect of MCC is that's really a fundamental part of your compacts.

LATORTUE: I agree. It's easy to sort of throw the word country "ownership" easily. The word is easy to say, but it really is so deeply ingrained in how we work. And it's a complex thing to sort of deliver daily. But I'm fairly new to MCC. As you know, I've taken up my role, now I'm sort of in my fifth week. But really, in all my conversations with my colleagues, that relationship with these MCAs, these accountable entities that are fully staffed by people from the countries, I think is a key piece to our success.

I couldn't agree with you more. And I think the fact that we also not only work so closely with the national governments—and this is something that perhaps is more controversial in China in this case—but that we actually do serious work in terms of consulting with the private sector, consulting with the civil society. That they are part of the boards of directors of these local entities I think also really does matter in terms of really identifying the priorities and what will be important in that particular country to make progress on pro-core growth. I know you've

written some interesting things about shared prosperity and is that different from simple prosperity. Is there really a difference? So that's a whole other debate, David, for us to have.

DOLLAR: I'm David Dollar, and I've been talking to Alexia Latortue of the Millennium Challenge Corporation about their work and the larger issues of development. It's been really a pleasure having you, Alexia. Thank you.

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