



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General  
for the Millennium Challenge Corporation*

September 30, 2005

**MEMORANDUM**

**TO:** Acting Vice President for Administration and Finance, Millennium Challenge Corporation, Jonathan O. Bloom

**FROM:** Assistant Inspector General for the Millennium Challenge Corporation, Henry L. Barrett /s/

**SUBJECT:** Survey of the Millennium Challenge Corporation's Coordination with Other Donors to Implement its Assistance Program (Report No. M-000-05-002-S)

This memorandum transmits our final report on the subject survey. We did not audit the activities or the data provided within this memorandum. As a result, this is not an audit report.

This memorandum includes one recommendation to formally establish an organization-wide policy and guidance concerning donor coordination. In response to the issues we raised during our survey fieldwork, the Millennium Challenge Corporation (MCC) issued an organization-wide policy and guidance on August 17, 2005 which sets forth the policy and procedures by which MCC will comply with the provisions of the Millennium Challenge Act relating to donor coordination. In finalizing our report, we considered the recently-issued policy and your comments to our draft report (which are included in its entirety in Appendix I). We found that the policy complied with our recommended actions and therefore consider the recommendation to be closed upon issuance of this report.

I appreciate the cooperation and courtesy extended to my staff throughout the survey.

# BACKGROUND

In recent years, international donors have given a renewed emphasis to the importance of their relationships with partner governments and, in particular, to placing nationally designed country strategies at the heart of the development process. This trend has been strengthened by the development of nationally owned poverty reduction strategies and similar approaches which are intended to emphasize the responsibility of donors to harmonize their practices for effective delivery of aid. Coordination involves regular sharing of knowledge and ideas, fostering a culture of consultation and developing a solid framework of informal and formal relationships. The United States is a member, along with several other countries, of key development groups which periodically review both the amount and nature of their contributions to bilateral and multilateral aid programs and consults with each other on all other relevant aspects of their development assistance policies.

The Millennium Challenge Corporation<sup>1</sup> (MCC), established in January 2004 to further global development by promoting economic growth, eliminating extreme poverty, and strengthening good governance is a new development agency which aims to provide assistance primarily by promoting country ownership. The vehicle for this assistance is through signed country compact agreements with eligible countries. In fiscal year 2004, Congress provided nearly \$1 billion in initial funding and \$1.5 billion for fiscal year 2005. MCC's assistance is intended to supplement existing development assistance provided by the United States and other donors.

MCC's enabling legislation, the Millennium Challenge Act, requires MCC to coordinate its assistance activities with the assistance activities of other donors and other U.S. Government Agencies, such as USAID. Being new to the international donor arena, MCC's success will depend, in large part, on how it and its partner countries build partnerships with other donors to ensure that foreign assistance is delivered in the most effective way and that its goals of reducing extreme poverty and promoting good governance, economic freedom and investment in its people are achieved.

## SURVEY OBJECTIVE

The Assistant Inspector General for the Millennium Challenge Corporation (AIG/MCC) conducted this survey as part of its fiscal year 2005 audit plan. The objective of the survey was to answer the following question:

**What progress has the Millennium Challenge Corporation made in complying with and reporting on the Millennium Challenge Act requirements for other donor coordination?**

---

<sup>1</sup> The Millennium Challenge Act of 2003 (PL 108-199, Division D, Title VI), established the Millennium Challenge Corporation in the Executive Branch of the Federal Government as the corporation responsible for carrying out the Millennium Challenge Act of 2003.

## DISCUSSION

The Millennium Challenge Corporation (MCC) has made progress in complying with and reporting on the Millennium Challenge Act of 2003 (Act) requirements for other donor coordination. However, our survey identified some areas that could be improved upon. MCC’s donor coordination efforts would be greatly enhanced by formally establishing an organization-wide policy and related guidance that describes: the roles and responsibilities of the MCC staff in reference to donor coordination; the manner in which donor coordination will be monitored and evaluated; and the manner in which the results will be reported in MCC’s annual report.

The Act mandates that MCC coordinate, to the extent feasible, with other international donors, USAID, and other U.S. foreign assistance programs. The Act specifies how certain coordination requirements are to be met while in other instances it only states the overall objective of the coordination requirement without specifying how it is to be achieved. For example, Section 609 of the Act is specific in requiring that MCC ensures that the government of an eligible country has held consultations with private and voluntary organizations, the business community, and other donors in the eligible country. Section 613 of the Act requires a description in MCC’s annual report of the coordination of the assistance provided under Section 605 with assistance provided by other donor countries.

Table 1, shown below, outlines the primary coordination and reporting requirements for other donors and other U.S. Government agencies under the Act.

**Table 1:  
Excerpts of provisions from the Millennium Challenge Act of 2003  
related to U.S. Government and other donor coordination and reporting requirements**

<b>Coordination with Other Donors</b>	
<b>Section of the Act</b>	<b>Stated Provision</b>
<b>609</b>	<b>MILLENNIUM CHALLENGE COMPACT.</b> (d) LOCAL INPUT.—In entering into a Compact, the United States shall seek to ensure that the government of an eligible country— (2) consults with private and voluntary organizations, the business community, and other donors in the eligible country.
<b>609</b>	<b>MILLENNIUM CHALLENGE COMPACT.</b> (b) ELEMENTS.— (1) IN GENERAL.—The Compact should take into account the national development strategy of the eligible country and shall contain— (F) where appropriate, a description of the current and potential participation of other donors in the achievement of such objectives. (f) COORDINATION WITH OTHER DONORS.—To the maximum extent feasible, activities undertaken to achieve the objectives of the Compact shall be undertaken in coordination with the assistance activities of other donors.
<b>613</b>	<b>ANNUAL REPORT.</b> (b) CONTENTS.—The report shall include the following: (4) A description of the coordination of assistance provided under section 605 with assistance provided by other donor countries.
<b>Coordination with Other United States Government Agencies</b>	

<b>605</b>	<b>AUTHORIZATION OF ASSISTANCE.</b> (f) COORDINATION.—The provision of assistance under this section shall be coordinated with other United States foreign assistance programs.
<b>609</b>	<b>MILLENNIUM CHALLENGE COMPACT.</b> (b) ELEMENTS.— (1) IN GENERAL.—The Compact should take into account the national development strategy of the eligible country and shall contain— (K) a description of the role of the United States Agency for International Development in any design, implementation, and monitoring of programs and activities funded under the Compact.
<b>613</b>	<b>ANNUAL REPORT.</b> (b) CONTENTS.—The report shall include the following: (3) A description of the coordination of assistance provided under section 605 with other United States foreign assistance and related trade policies.
<b>615</b>	<b>COORDINATION WITH UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT.</b> (a) REQUIREMENT FOR COORDINATION.—The Chief Executive Officer shall consult with the Administrator of the United States Agency for International Development in order to coordinate the activities of the Corporation with the activities of the Agency.

### **MCC’s Coordination with Other Donors**

Since its establishment, MCC has made donor coordination a major part of its activities in preparing to provide assistance to eligible countries. Foremost, MCC holds the eligible country responsible for ensuring that their proposals take into consideration and identify other donor assistance. All compact proposals are required to identify past and ongoing donor activities in given sectors. MCC considers the mechanisms of donor coordination for any development assistance a core component of its program proposal. To guide the eligible countries in this undertaking, MCC posted guidance on its website to instruct them on the consultative process and the information that is required to be in the donor coordination section of the compact proposals. By making this requirement, MCC has essentially established a procedure to comply with Section 609, Local Input, which requires that the United States seeks to ensure that the government of an eligible country consults with private and voluntary organizations, the business community, and other donors in the eligible country before entering into a compact.

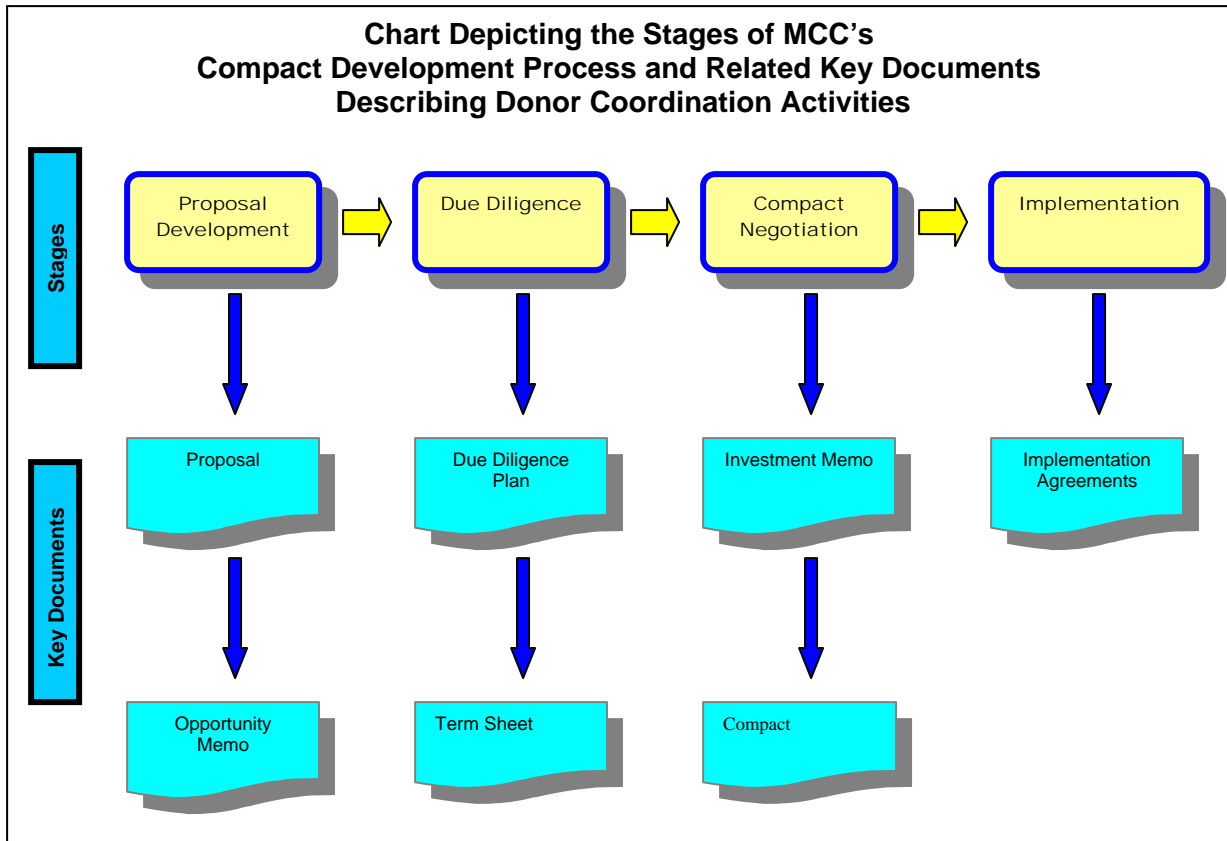
MCC’s Office of International Relations has oversight responsibility for monitoring, evaluating and reporting on donor coordination efforts within MCC. This office works primarily with other U.S.-based donor agencies, such as the International Monetary Fund and World Bank, as well as, international donor agencies. MCC’s work with the multi-lateral donors primarily involves discussions of its projects, and programs, sharing of information such as studies and assessments and participating in international donor meetings to keep MCC abreast of other donors’ intentions.

In-country donor coordination efforts are primarily the responsibility of MCC’s transaction teams though they do have involvement with U.S.-based agencies as well. Because of the differing levels of donor coordination present and needed in each specific eligible country, the transaction teams include staff from MCC’s Country Programs, Market and Sector Assessments (providing sector expertise) and Monitoring and Evaluation offices. The teams

consist of about six to ten members, travel on a regular basis to the eligible countries and are responsible for donor coordination efforts in each country visited. While in country, the teams brief in-country donors on MCC's foreign assistance philosophy and operation and ensure that such coordination is taking place by consulting and coordinating directly with other donors both inside and outside the country. The teams also evaluate proposed projects, government practices, and meet with relevant stakeholders, including other donors.

We found that in each of the five countries that we reviewed, MCC had performed donor coordination although the nature of the coordination varied depending on the donors present in the country and the programs proposed. MCC's donor coordination consisted of: learning of the programs conducted by other donors; gathering lessons learned from the more established donors; and planning for potential co-funding or management of future projects. For example, MCC consulted regularly with other donors during the design of the infrastructure project in Cape Verde to ensure that the MCC project activities complemented the efforts of the other donors without replacing, duplicating or hindering what the other donors had already accomplished. In Honduras, MCC met with a variety of multi-lateral and bi-lateral donors while in-country. Such meetings were held with, among others, World Bank, Inter-American Development Bank, International Monetary Fund, USAID, Catholic Relief Services, and the Peace Corps. Additionally, when MCC staff is present in Honduras, they attend the meetings of a coordination group that was formed by the international donor community.

Donor coordination is also embedded in MCC's compact development process. At each stage leading up to implementation, MCC requires a document that includes a description of the donor coordination efforts. For example, during the proposal development stage, the eligible country submits a country proposal which should include a description of other donor activities and how MCC's plans fit with other donor programs. During the same stage, after the transaction teams' initial visits to the eligible country, an opportunity memo (which provides the recommendation to proceed with employing MCC resources to that country) is prepared which includes a preliminary assessment of other donor activity in the country. As the process moves forward into the due diligence stage, MCC prepares a due diligence plan and a term sheet (which describes the donor coordination that MCC contemplates engaging in during the implementation stage). This concept of considering other donors' efforts carries forward into the negotiation and implementation stages as shown in the chart below.



Although we did not assess the extent, accuracy or completeness of the information, a description of donor coordination was included to some degree in most of MCC's key documents that led to compacts with Madagascar, Honduras, Cape Verde, Nicaragua and Georgia, including, as required by the Act, a description in the compact, of the current and potential participation of other donors in the proposed activities that may have an impact on achieving the compact's objectives.

### **MCC's Coordination with Other U.S. Government Agencies**

As required by Sections 605 and 615 of the Act, MCC has coordinated its assistance programs with other U.S. government agencies such as the U.S. Department of State and USAID. For example, the Department of State participated in an agriculture investment study which was done in coordination with MCC, USAID, and the Department of Agriculture. Additionally, MCC has engaged other federal agencies such as the Department of Treasury and Department of Agriculture to provide technical assistance, advice and resources. MCC also shared various documents such as the key compact development documents and studies with these agencies to elicit their comments.

MCC views USAID as a board member agency, another government agency, a donor, and a threshold country implementer. As a result, there have been numerous meetings and discussions held with USAID on a daily and weekly basis. Furthermore, the transaction teams met with various USAID officials, such as the Mission Director and program officers in the eligible countries.

## Annual Coordination Reporting Requirements

Section 613 of the Act, requires MCC to include a description of the coordination of assistance with other United States foreign assistance and related trade policies in its annual report. Although MCC reported such information in its 2004 Annual Report; it did not fully describe the donor coordination efforts undertaken by MCC during its first year of existence. The primary reason given by MCC for partial reporting was that MCC had not disbursed funds to eligible countries at the time of reporting. Section 613 is non-specific and includes no specific instructions on how MCC should report its donor coordination efforts in its annual report. We believe that it would be beneficial and useful to readers if a more thorough and detailed reporting is included in future annual reports. In order to identify what information to collect and how to present the information, MCC should formally establish a specific format for collecting and evaluating donor coordination information to meet its mandatory reporting requirements. MCC officials agree that a format is needed and stated that they are in the process of determining how it should be accomplished.

# CONCLUSION

Although the Millennium Challenge Corporation (MCC) has initiated steps to coordinate its assistance programs with other donors and other U.S. Government Agencies, our survey revealed that the MCC lacks an organization-wide formal policy concerning donor coordination.

Now that four compacts have already been signed and more are imminent, MCC should move expeditiously in formalizing its draft policy and guidance concerning donor coordination requirements. This should help assure consistency of how the transaction teams perform and report on their donor coordination efforts. Since MCC donor coordination efforts cross departmental areas within MCC and because the Office of International Relations has no direct control over the transaction teams, an organizational-wide policy and guidance concerning donor coordination is needed.

At the time of our survey, MCC was in the process of reviewing and finalizing a policy and guidance on donor coordination. We reviewed the guidance and suggested that the guidance include information that we describe in our recommendation below.

***Recommendation No. 1 - We recommend that the Millennium Challenge Corporation formally establish an organization-wide policy and guidance concerning donor coordination to comply with the Millennium Challenge Act and that the policy and guidance be approved at a sufficient level within the Millennium Challenge Corporation for proper implementation. The guidance should include information that describes: the roles and responsibilities of staff in reference to donor coordination; the manner in which donor coordination will be monitored and evaluated; and the manner in which the results will be reported in their annual report.***

# **EVALUATION OF MILLENNIUM CHALLENGE CORPORATION'S ACTIONS**

In response to the issues we raised during our survey fieldwork, the Millennium Challenge Corporation issued an organization-wide policy and guidance on August 17, 2005 which sets forth the policy and procedures by which they will comply with the provisions of the Millennium Challenge Act relating to donor coordination. The policy complied with our recommended actions. Therefore, we consider the recommendation to be closed upon issuance of this report.

Additionally, in response to our draft report, MCC management provided written comments that are included in their entirety as Appendix I. We incorporated certain minor clarifications into the report that were suggested by MCC.





# Millennium Challenge Corporation

Reducing Poverty Through Growth

---

## MEMORANDUM

September 26, 2005

**TO:** Henry L. Barrett, Assistant Inspector General for the Millennium Challenge Corporation

**FROM:** Jonathan O. Bloom, Acting Vice President for Administration and Finance

**SUBJECT:** Survey of the Millennium Challenge Corporation's Coordination with Other Donors to Implement its Assistance Program (Report No. M-000-05-00X-S)

We have reviewed the draft report on the subject survey sent to us in your memorandum of September 6, 2005. As you note, we issued as recommended an organization-wide "Policy and Procedures for Donor Coordination" on August 17, 2005.

We find the report generally accurate and offer the following suggestions to clarify the draft:

Page 2, paragraph 3: We would add the words "and its partner countries" to reflect the central role they play in donor coordination in the MCA model and suggest "in large part" rather than "largely" since other elements will also be important to the MCC's success. We also suggest stating our ultimate goals from the statute, "reducing extreme poverty and promoting economic growth", rather than referring to policies that help achieve them.

"Being new to the international donor arena, MCC's success will largely depend in large part on how it and its partner countries builds partnerships coordinate with other donors to ensure that foreign assistance is delivered in the most effective way and that its goals of reducing extreme poverty and promoting economic growth good governance, economic freedom and investment in its people are achieved."

On Page 4, last paragraph: To reiterate the above point about the country's role and so we don't imply that the composition of the transaction team is based solely on the need for donor coordination, we would amend as follows:

"While MCA eligible countries have the primary responsibility for donor coordination in their country, In-country donor coordination efforts are primarily the responsibility of MCC's transaction teams though they do have involvement with U.S.-based agencies as well. Because of the differing levels of donor coordination

present and needed in each specific eligible country, are responsible for ensuring that such coordination is taking place by consulting and coordinating directly with other donors both inside and outside the country. The transaction teams include staff from MCC's Country Programs, Market and Sector Assessments (providing sector expertise) and Monitoring and Evaluation offices. The teams consist of about six to ten members and travel on a regular basis to the eligible countries. The transaction teams are also responsible for donor coordination efforts with U.S.-based agencies in each country visited. While in country, the teams are responsible for briefing in-country donors on MCC's foreign assistance philosophy and operation. The teams also evaluate proposed projects, government practices, and meet with relevant stakeholders, including other donors."

I would like to thank you and your staff for the useful comments shared during the survey. These were timely and helpful as we finalized our policies and procedures in this important area.