

Primer

Who We Are

The Millennium Challenge Corporation, or MCC, is an innovative, independent U.S. Government agency designed to work with some of the poorest countries in the world. With strong bipartisan support, Congress established the MCC in January 2004 to reduce global poverty through sustainable economic growth. MCC administers the Millennium Challenge Account, or MCA, which is funded exclusively by Congress. MCC is based on the principle that aid is most effective when it reinforces good governance, economic freedom and investments in people.

MCC provides an incentive for policy reforms by rewarding good performing countries with grants that complement other U.S. development programs and the efforts of other donors. Before a country can become eligible to receive assistance, MCC examines its performance on 17 independent and transparent policy indicators such as investing in education, control of corruption and natural resource management. If the country satisfies these criteria, the MCC Board of Directors may ask it to present a proposal for Compact assistance.

This concept for a new type of development assistance grew out of the United States' commitment at the 2002 Monterrey Summit on Financing for Development where President Bush called for a "new compact for global development," linking greater contributions from developed nations to greater responsibility from developing nations.

As a government corporation MCC is managed by a Chief Executive Officer who also sits on its nine-member Board of Directors. The Board, composed of five Members from the public-sector, includes by statute the Secretary of State, who acts as Chair, the Secretary of the Treasury, the U.S. Trade Representative and the USAID Administrator, and four representatives from the private-sector appointed by the President with the advice and consent of the Senate. MCC's diverse staff is drawn from other government agencies, the private sector, universities, international development agencies and non-governmental organizations.

What We Do

Each year the MCC Board of Directors meets to select countries eligible to develop a proposal for MCA assistance. The Board looks at how the poorest countries of the world have performed on independent and transparent policy

indicators. These indicators measure how well countries perform in three broad policy categories: ruling justly, investing in people, and encouraging economic freedom.

The Board selects MCA eligible countries that are above the median on at least half of the indicators in each of the three categories and that are above the median on the corruption indicator. The Board may consider additional information and take into account factors such as data gaps or lags in eligibility criteria to select the countries that will be eligible for MCA assistance.

Recognizing that development is best achieved by a country's own efforts, policies, and people, MCC requires that selected countries identify their own priorities for achieving sustainable economic growth and poverty reduction. Countries develop their MCC proposals in broad consultation within their society. MCC teams then work in partnership to help countries refine a program which will reduce poverty and sustain economic growth. This program is reflected in a compact that defines responsibilities and includes measurable objectives and targets to assess progress. The MCA Compact also describes how the country will manage and implement its program, including how it will ensure financial accountability, transparency, and fair and open procurement.

What We've Achieved

Since its creation in 2004, MCC has approved nearly \$6.7 billion in Compact and Threshold assistance. Of that amount, over \$6.2 billion represents eighteen compacts that are in various stages of implementation with Armenia, Benin, Burkina Faso, Cape Verde, El Salvador, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Tanzania and Vanuatu.

Eight additional countries eligible to submit proposals for MCA compact assistance in FY 2008 include Bolivia, Timor Leste, Jordan, Malawi, Moldova, Philippines, Senegal and Ukraine.

To provide further incentive for policy reform, MCC's legislation established a Threshold Program for countries that demonstrate a significant commitment to meeting the eligibility criteria but fall short on one or more indicators. Threshold assistance helps countries address specific areas of policy weakness identified in the MCA selection indicators. Since its inception, MCC has signed eighteen Threshold Agreements totaling nearly \$400 million with the following countries: Burkina Faso, Malawi, Tanzania, Albania, Paraguay, Zambia, Philippines, Ukraine, Jordan, Indonesia, Moldova, Kenya, Uganda, Guyana, Saõ Tomé and Príncipe, Kyrgyz Republic, Niger and Peru.

In addition, Threshold and Threshold eligible countries include Albania, Guyana, Indonesia, Kenya, Kyrgyz Republic, Mauritania, Moldova, Niger, Paraguay, Peru, Rwanda, Saõ Tomé and Príncipe, Uganda, Yemen and Zambia.

Summary of Compacts Signed to Date

Recognizing that sustainable development is best achieved by fostering country ownership, good policies, and investment in people, the Millennium Challenge Corporation (MCC) gives selected countries the opportunity to identify their own priorities for achieving economic growth and poverty reduction. These priorities are reflected in an MCC Compact that defines responsibilities and includes measurable objectives and targets to assess progress. The Compact also describes how the country will manage and implement its program, including how it will ensure financial accountability, transparency, and fair and open procurement. To date, MCC has signed 18 development assistance Compacts totaling over \$6.2 billion. Below are summaries of these Compacts:

Armenia



The five-year \$235 million MCC Compact with Armenia is focused on increasing economic performance in the agricultural sector. The Compact consists of a five-year program of strategic investments in rural roads and irrigated agriculture. Specifically the investments will upgrade 943 km of road, providing communities and rural residents with reduced transport costs and better access to jobs, markets and social services; and increase the productivity of 250,000 farmer households through improved water supply, higher yields, higher-value crops and a more competitive agricultural sector.

Benin



The five-year \$307 million MCC Compact with Benin aims to increase investment and private sector activity in Benin. The Compact is comprised of four projects: increasing access to land through more secure and useful land tenure, expanding access to financial services through grants given to micro, small, and medium enterprises; providing access to justice by bringing courts closer to rural populations; and improving access to markets by eliminating physical and procedural constraints currently hindering the flow of goods through the Port of Cotonou.

Burkina Faso



The five-year, \$480.94 million MCC Compact will increase investment in rural productivity through improved land tenure security and land management; increase the volume and value of agricultural production through investments in water management and irrigation, technical assistance to farmers, and rural credit; increase opportunities for farmers to sell agricultural goods and livestock by rehabilitating rural and primary roads; and, as an extension of Burkina Faso's successful MCC threshold program, fund the construction of three classrooms each at 132 "girl-friendly" schools for grades 4 through 6.

Cape Verde



The five-year MCC Compact with Cape Verde will help it achieve its national development goal of transforming its economy from aid-dependency to sustainable, private sector-led growth. The \$110 million dollar Compact seeks to increase rural incomes of the poor by increasing agricultural productivity, integrating internal markets, reducing transportation costs, and developing the private sector through greater private sector investment and financial sector reform.

El Salvador



In El Salvador, the five-year, \$461 million Compact will seek to improve the lives of Salvadorans through strategic investments in education, public services, enterprise development, and transportation infrastructure. The Compact is highlighted by a Human Development project designed to increase employment opportunities for the region's poorest inhabitants and provide greater access to safe water and sanitation services.

Georgia



The five-year \$295 million MCC Compact will help Georgians reduce poverty by renovating key regional infrastructure and improving the development of regional enterprises. The Compact's infrastructure projects will improve rural transportation, providing agricultural suppliers the opportunity to connect more easily with consumers and increase regional trade. Furthermore, by providing funding and technical assistance to targeted regional enterprises, the Compact will enhance productivity in farms, agribusinesses and other enterprises that will increase jobs and rural income.

Ghana



The five-year \$547 million MCC Compact aims to reduce poverty by raising farmer incomes through private sector-led, agribusiness development. Specifically, MCC investments are designed to increase the

production and productivity of high-value cash and food staple crops in some of Ghana's poorest regions and to enhance the competitiveness of Ghana's agricultural products in regional and international markets.

Honduras



The five-year Compact with Honduras aims to reduce poverty by alleviating the two key impediments to economic growth: low agricultural productivity and high transportation costs. The \$215 million Compact, will place a high emphasis on increasing the productivity and business skills of farmers who operate small and medium size farms and their employees and reducing transportation costs between targeted production centers and national, regional and global markets

Lesotho



The five-year MCC Compact with Lesotho is expected to have an economy-wide impact affecting the entire population of Lesotho. The \$363 million Compact seeks to increase water supplies for industrial and domestic use, alleviate the devastating affects of poor maternal health, HIV/AIDS, tuberculosis and other diseases by substantially strengthening the country's health care infrastructure and human resources for health capacity, and remove barriers to foreign and local private sector investment.

Madagascar



The key goal of the four-year Compact with Madagascar is to help the island nation move from the subsistence to market-driven economy, particularly in agricultural production. The \$110 million Compact will support a program designed to raise incomes in rural areas by enabling better land use, expansion of the financial sector, and increased investment in farms and other rural businesses.

Mali



The five-year \$461 million Compact with Mali seeks to increase the productivity of the agriculture sector and regional enterprises. The Compact serves as a catalyst for sustainable economic growth and poverty reduction through key infrastructure investments that capitalize on two of Mali's major assets, the Bamako-Sénou International Airport, gateway for regional and international trade, and the Niger River for irrigated agriculture.

Mongolia



The five-year, \$285 million Compact with Mongolia seeks to increase economic activity through substantial improvement in the efficiency and capacity of the rail network. The Compact will also improve the ability

of Mongolians to register and obtain clear title to their land, expand vocational education in core technical skills and focus on the health and well-being of the labor force by reducing non-communicable diseases and injuries.

Morocco



The five-year \$697.5 Millennium Challenge grant seeks to increase productivity and improve employment in high potential sectors including investments in fruit tree productivity, small-scale fisheries, and artisan crafts. Small business creation and growth will be supported also by investments in financial services and support.

Mozambique



The five-year Compact with Mozambique seeks to increase the productive capacity of the population in selected districts with the intended impact of reducing the poverty rate, increasing household income and employment, and reducing chronic malnutrition. The \$507 million program aims to improve water systems, sanitation, access to markets, land tenure services, and agriculture in the targeted districts.

Namibia



The five-year, \$304.5 million compact with Namibia will improve the quality of education and training for underserved populations, and capitalize on Namibia's comparative advantages (e.g., large areas of semi-arid communal land suitable for livestock, and diverse wildlife and unique landscapes ideal for ecotourism) to increase the incomes of poor Namibians in the northern areas of the country.

Nicaragua



In Nicaragua, the five-year Compact will support those living in the Leon and Chinandega region by significantly increasing incomes of rural farmers and entrepreneurs. The Compact will provide \$175 million to reduce transportation costs, improve access to markets, strengthen property rights, increase investment, and raise incomes for farms and rural businesses.

Tanzania



The five-year, \$698 million Compact seeks to rehabilitate roads and help connect road users and communities with markets, schools, health clinics, and promote the expansion of economic opportunities by reducing transport costs. The Compact also funds water infrastructure improvements that will increase access to potable water and will mitigate the incidence of water-related disease, burdensome healthcare costs, and decreased workforce productivity.

Vanuatu



The five-year \$65 million Compact addresses the country's poor transportation infrastructure. Consisting of eleven infrastructure projects, including roads, wharfs, an airstrip and warehouses, the program seeks to benefit poor, rural agricultural producers and providers of tourist related goods and services by reducing transportation costs and improving the reliability of access to transportation services.

For more information about MCC Compacts, please visit the MCC website at www.mcc.gov.

Summary of MCC Threshold Programs

The Millennium Challenge Threshold Program is designed to assist countries that have demonstrated significant commitment to improving performance on MCC selection criteria for MCA Compact funding, but do not yet pass all three selection categories. The Threshold Program helps those countries improve a low score on at least one of MCC's policy indicators. To date, MCC has signed Threshold Program agreements with twenty countries totaling over \$440million. Below are the summaries of MCC's Threshold programs:

Albania



Reducing corruption is the primary focus of the \$13.8 million Albania Threshold Program. Albania is receiving assistance from MCC to fund three programs aimed at reforming tax administration, public procurement and business administration. The program anticipates reducing the bribes and bureaucracy needed to start a business while increasing the national tax base.

Burkina Faso



Burkina Faso's \$12.9 million Threshold Program is a pilot program that seeks to improve performance on girls' primary education completion rates. Specific interventions include: the construction of 'girl-friendly' schools, teacher training, providing take-home dry rations to girls who maintain a 90% school attendance rate, and providing literacy training for mothers.

Guyana



The \$6.7 million Threshold Program with Guyana aims to improve its fiscal policies and create a more business-friendly environment. The grant will help the Government of Guyana implement its new value-added tax system and develop ways to assist and educate taxpayers, while at the same time helping the government better plan and control spending. The grant will also help reduce the number of days and costs to start a business by modernizing and streamlining the process to register businesses.

Indonesia



The \$55 million Threshold Program with Indonesia seeks to immunize at least 80 percent of children under the age of one for diphtheria, tetanus, and pertussis and 90 percent of all children for measles. The Threshold Program also has a component aimed at curbing public corruption by reforming the judiciary.

Jordan



The \$25 million Jordanian Threshold Program aims to strengthen democratic institutions by supporting Jordan's efforts to broaden public participation in the political and electoral process, increasing government transparency and accountability, and enhancing the efficiency and effectiveness of customs administration. The Threshold Program is part of Jordan's reform efforts focused on improvements in public administration, civil liberties, infrastructure and the economy.

Kyrgyz Republic



The \$16 million program seeks to increase the independence and effectiveness of the judicial system, develop a more functional and trusted police force, improve the government's capacity to investigate and prosecute corruption cases, educate the public and media on the dangers of corruption and strengthen the financial disclosure system.

Kenya



Kenya's \$12.7 million Threshold Program aims to reduce opportunities for corruption in public governance. Specifically, the Threshold Program will target corruption in public procurement, the delivery of health care, and the monitoring and evaluation of reforms.

Malawi



Malawi is implementing fifteen specific interventions over the two-year period of its \$20.9 million Threshold Program aimed at preventing corruption, enhancing oversight functions, and building enforcement and deterrence capacity. The interventions intend to create more effective legislative and judicial branches of government, provide support for lead anti-corruption agencies, strengthen independent media coverage, and expand and intensify the work of civil society organizations.

Moldova



The \$24.7 million Moldovan Threshold Program seeks to reduce corruption in the public sector through reforms to the judicial, health, tax, and customs systems. The reforms will complement Moldova's national strategy aimed at reducing corruption.

Niger



The three-year, \$23 million Niger Threshold program will focus on reducing public corruption within the health and education sectors, streamline the process of starting a business by establishing the administrative, legal and regulatory structures required to implement business facilitation reforms, reduce the time and costs associated with land ownership transfer, land valuation, building permitting and notarization and bolster girls' education by building "girl-friendly" schools.

Paraguay



The principal objective of the \$37 million Paraguay Threshold Program is to reduce corruption. MCC funds will be used to strengthen the rule of law by increasing penalties for corruption and build a transparent business environment by confronting informal business transactions. Additionally, the Threshold Program includes a business development component aimed at reducing the number of days necessary to start a business.

Peru



The \$35.6 million Peru Threshold Program seeks to increase immunization rates of rural children against diseases such as measles, diphtheria, pertussis and tetanus in eight targeted regions and assist Peru's Ministry of Health in strengthening information and vaccination management systems. The program will also help Peru combat corruption by working with the judicial branch, law enforcement, the ombudsman and controller's offices and civil society organizations to improve internal controls, as well as analyze and simplify administrative processes to reduce opportunities for corruption.

Philippines



The \$22.1 million Philippines Threshold Program aims at improving revenue administration and anti-corruption efforts in the Philippines. Specifically, the program will reduce corruption by strengthening the Office of the Ombudsman and strengthen enforcement within three departments in the Department of Finance.

Saõ Tomé and Príncipe



The \$8.66 million Saõ Tomé and Príncipe Threshold Program seeks to increase revenue as a result of improved tax and administration and enforcement. The program will also modernize Saõ Tomé and Príncipe's Customs Service to increase efficiency and reduce the time and cost of starting a business.

Rwanda



The two-year, \$24.7 million program with Rwanda will strengthen civic participation and promote civil liberties and rights by providing training, technical support and grants to local and national civil society organizations, offering training on election monitoring and voter education and supporting independent community radio stations to enhance citizen engagement. The program will also reinforce Rwanda's efforts to support judicial capacity building, legislative reforms and improve overall public administration. Finally, the program will provide training and technical assistance to journalists as well as the Rwandan National Police in an effort to increase transparency.

Tanzania



The \$11.1 million Tanzania Threshold Program is focused on four specific anti-corruption initiatives that include: building the nongovernmental sectors monitoring capacity; strengthening the rule of law for good governance; establishing a Financial Intelligence Unit; and curbing corruption in public procurement.

Uganda



In Uganda, the \$10.4 million Threshold Program aims to reduce corruption by improving public procurement and financial management practices, strengthening the role of civil society, and building capacity to facilitate more effective follow-up of reported malpractices.

Ukraine



The \$48.1 million Ukraine Threshold Program that focuses on reducing corruption by strengthening their civil society's ability to monitor and expose corruption. The program will also enable the Ukrainian government to increase the monitoring and enforcement of ethical and administrative standards.

Zambia



The \$24.3 million Zambia Threshold Program focuses on reducing corruption and improving government effectiveness. The Program is funding three components aimed at increasing control of corruption within the public sector, improving public service delivery to the private sector and strengthening border management of trade.

For more information about MCC Threshold Programs, please visit the MCC website at www.mcc.gov.

MCA Compact-Eligible Countries

Low Income Countries

(\$1735.00 gross national income per capita for fiscal year (FY) 2008)

Africa		Eurasia		Latin America
Benin	Mali	Armenia	Philippines ¹	Bolivia
Burkina Faso ¹	Morocco	Georgia	Timor-Leste ²	Honduras
Ghana	Mozambique	Moldova ¹	Ukraine ¹	Nicaragua
Lesotho	Senegal	Mongolia	Vanuatu	
Madagascar	Tanzania ¹			
Malawi ¹				

Lower-Middle Income Countries

(\$1735.00–\$3465.00 gross national income per capita for fiscal year (FY) 2008)

Africa	Eurasia	Latin America
Cape Verde ³	Jordan ¹	El Salvador
Namibia		

Threshold and Threshold-Eligible Countries

Africa		Eurasia		Latin America
Kenya	São Tomé and Príncipe	Albania	Kyrgyz Republic	Guyana
Mauritania		Indonesia	Yemen	Paraguay
Niger	Uganda			Peru
Rwanda	Zambia			

¹ Previously selected as a Threshold Program Country and has an approved and/or ongoing Threshold Program.

² Previously selected as a Threshold Program Country.

³ Cape Verde was selected as Compact-eligible for FY 2004-2007.



The Fiscal Year 2009 Selection Process for MCA Eligible Countries

To select countries as eligible for Millennium Challenge Account Compact funding, MCC assesses the degree to which the political, social and economic conditions in a country promote broad-based sustainable economic growth. In making its determinations, MCC's Board of Directors considers three factors: performance on the policy criteria, the opportunity to reduce poverty and generate economic growth in the country, and the funds available to MCC. To assess policy performance, MCC uses third-party indicators to identify countries with policy environments that will allow Millennium Challenge Account funding to be effective in reducing poverty and promoting economic growth. MCC evaluates performance in three areas—Ruling Justly, Investing in People, and Encouraging Economic Freedom. The Selection Process has four major steps:

1. Identification of Candidate Countries
2. Publication of MCC's Selection Criteria and Methodology
3. Publication of MCC Scorecard
4. Selection of Compact-Eligible and Threshold-Eligible Countries

Identification of Candidate Countries

Candidate countries for the fiscal year are identified based on their per capita income. MCC submits a Report to Congress with a list of candidate countries prior to the selection of countries eligible for MCA assistance. For Fiscal Year 2009 (FY09), a "candidate country" must meet at least one of the following criteria and cannot be statutorily prohibited from receiving U.S. economic assistance:

- ★ *Low Income Category*: countries with a per capita income less than or equal to \$1,785; or
- ★ *Lower Middle Income Category*: countries with a per capita income greater than \$1,785 but less than or equal to \$3,705;

Publication of MCC's Selection Criteria & Methodology

MCC submits a Report to Congress describing the criteria and the methodology—including the indicators—which MCC's Board of Directors will use to select new countries as eligible for MCA assistance. MCC holds a 30-day formal public comment period following publication of the Report.

Methodology

The Board considers whether countries perform above the median in their income peer group (Low Income and Lower Middle Income) on at least half of the indicators in each of the three policy categories and above the median on the Control of Corruption indicator. A country may be determined ineligible if it performs substantially below average on any indicator (i.e. the bottom 25th percentile) and has not taken appropriate measures to address the shortcoming.

Indicators

To evaluate policy performance, MCC uses, to the maximum extent possible, objective and quantifiable policy indicators in three broad policy categories: Ruling Justly, Investing in People, and Encouraging Economic Freedom. MCC favors policy indicators developed by independent third party institutions that rely on objective, publicly available data and an analytically rigorous methodology. MCC seeks indicators that have broad country coverage, cross-country comparability, and broad consistency in results from year to year. MCC also seeks indicators that are linked to economic growth, poverty reduction, and government policies. The 17 indicators that will be used in Fiscal Year 2009 are:

- ★ Ruling Justly
 - * Civil Liberties (Freedom House)
 - * Political Rights (Freedom House)
 - * Voice and Accountability (World Bank Institute)
 - * Government Effectiveness (World Bank Institute)
 - * Rule of Law (World Bank Institute)
 - * Control of Corruption (World Bank Institute)
- ★ Investing in People
 - * Immunization Rates (World Health Organization)
 - * Public Expenditure on Health (World Health Organization)

- * Girls' Primary Education Completion Rate (UNESCO)
- * Public Expenditure on Primary Education (UNESCO and national sources)
- * Natural Resource Management (CIESIN and YCELP)
- ★ Encouraging Economic Freedom
 - * Business Start-Up (IFC)
 - * Land Rights and Access (IFAD and IFC)
 - * Trade Policy (Heritage Foundation)
 - * Regulatory Quality (World Bank Institute)
 - * Inflation (IMF WEO)
 - * Fiscal Policy (IMF country reports and national sources, cross-checked with IMF WEO)

Supplemental Information

The Board may also consider information to address gaps, time lags, measurement error, or other weaknesses in the indicators to assist in assessing whether MCC funds might reduce poverty and promote economic growth in a country. For FY 2009, this will include: the disabilities component of the U.S. Department of State's Human Rights Report, Transparency International's Corruption Perceptions Index, and the Global Integrity Index, among other sources.

Publication of MCC Scorecard

Following the public comment period on the selection criteria and methodology, MCC will publish country performance "scorecards" on its website (www.mcc.gov) for all candidate countries and countries that would be candidates but for legal prohibitions.

Selection of Compact-Eligible Countries

From the pool of candidate countries, the MCC Board selects new Compact-eligible countries according to the methodology described above and submits a report to Congress no later than 5 days after the determination. These countries are then eligible to begin developing Compact proposals for MCC's consideration.

Selection of Threshold Countries:

The MCC Board may also select countries to participate in the Threshold Program. The Threshold Program is for countries that demonstrate a significant commitment to meeting the eligibility criteria but fall short in only some policy areas. Threshold assistance helps countries address specific areas of policy weakness identified in MCC's selection indicators.

For more information on the MCA selection process, please refer to the Selection Criteria section of the MCC website (www.mcc.gov).

Overview of MCC's Compact Development Process

The Millennium Challenge Account (MCA) is an innovative foreign assistance program designed to “reduce poverty through sustainable economic growth” in some of the poorest countries in the world. On January 23, 2004, the Millennium Challenge Corporation (MCC) was established as an independent United States Government corporation to administer the MCA. The process of developing a proposal for MCA funding is intensive, rigorous, and likely to take months of cooperative, hard work. The following summarizes MCC expectations and requirements during Compact development and implementation

Key MCC Principles

Poverty Reduction through Economic Growth

MCC supports programs that focus specifically on reducing poverty by making investments that simulate sustainable economic growth. MCC believes a country's development is sustainable only if aid is eventually replaced with economic activity and investment led by the private sector. MCC's role is meant to be transformational and transitional as assistance is replaced by private capital flows.

Reward Good Policy

MCC countries are selected to participate based on their performance in governing justly, investing in their citizens, and encouraging economic freedom. MCC believes good policies promote an environment for sustainable economic growth and poverty reduction, and thus for MCC investment.

Partnership and Country Ownership

MCC countries are asked to demonstrate leadership and a high level commitment through full ownership of the MCC Compact process. Working closely with MCC, MCA countries are responsible for identifying the greatest barriers to their own development, ensuring civil society participation, and developing an MCA program.

Focus on Result

MCA assistance goes to those countries that have developed well-designed programs with clear objectives, benchmarks to measure progress, procedures to ensure fiscal accountability for the use of MCA assistance, and a plan for effective monitoring and objective evaluation of results. Programs are designed to enable sustainable progress even after the funding under the MCA Compact has ended.

Phases of Compact Development and Implementation

Each MCA eligible country will develop a Compact with MCC that includes a multi-year plan for achieving development objectives and identifies the responsibilities of each partner in achieving those objectives.

Phase 1: Proposal Development and Program Design

Phase 1 provides guidance to eligible countries to develop a proposal for a Compact. During this phase, countries build a country team, identify the conditions that impede growth and sustain poverty, and initiate a timely and meaningful consultative process with the country's civil society. After the consultative process results in the identification of key constraints to economic growth and poverty reduction, countries develop and submit a proposal to MCC that integrates a range of issues including gender considerations, sustainability, and other donor activities. Countries may require assistance for Compact development activities, and MCC can offer limited financial assistance. The key milestone in Phase I is the submission of an initial proposal to MCC.

Phase 2: Due Diligence and Program Refinement

Once a country has submitted a proposal for MCA funding, MCC will conduct a preliminary assessment of the proposal. It will provide guidance and feedback to the country with respect to MCC objectives, evaluation methods, and requirements. As necessary, MCC will work with the country to refine the proposal. When appropriate, MCC staff will carry out "due diligence", an in-depth review of the country's proposal and the process used to develop it. MCC will also assess the proposal to estimate its distributive impact and measurable increases in incomes of the poor as a result of successful implementation of the proposed program.

When appropriate, MCC will notify the U.S. Congress of its intent to enter into negotiations with the country regarding the terms of the Compact. Negotiation between the eligible country and MCC of an MCA Compact marks the completion of Phase 2.

Phase 3: Mobilization and Start up

The first step in Phase 3 is for a country to establish an Accountable Entity¹ which will be responsible for the implementation of most Compact activities. Then the Compact negotiated in Phase 2 is submitted to MCC's Investment Committee for approval and, if approved, to MCC's Board of Directors. Once approved by the board MCC notifies Congress of the intention to enter into a Compact. Shortly, thereafter MCC and the MCA country sign the negotiated Compact.

Following the Compact signing, a small portion of funds are specifically designated for use before Compact's Entry into Force. The Accountable Entity initiates work with fiscal and procurement agents to establish financial and reporting systems, develop standard bidding documents, and begin work on any procurement activities as may be required prior to Entry into Force of the Compact. The Accountable Entity further develops and concludes detailed work plans. During this phase, the MCC legal team and the country legal counsel finalize all legal documents, including post-Compact agreements such as the disbursement agreement, necessary for a Compact to Enter into Force. Entry into Force and the first disbursement mark the end of Phase 3.

Phase 4: Implementation

During Phase 4, the Accountable Entity is responsible for overseeing implementation, tracking progress towards poverty reducing outcomes, submitting regular financial and activities reports to the MCC, and keeping the public informed about Compact progress. Countries are subject to reporting requirements, including Quarterly Progress reports, Procurement Performance reports, and Financial reports, throughout the life of the Compact.

¹ An "Accountable Entity" is a government created board consisting of public sector, private sector and civil society representatives as well as a technical group. The Accountable Entity then makes contracts with project managers who subsequently identify implementing entities.



**MILLENNIUM
CHALLENGE
CORPORATION**
REDUCING POVERTY THROUGH GROWTH

 **Headway**
April 16, 2008 ★ www.mcc.gov

Rural Schools in Ghana Help Children Reach Their Potential

For the children of the Awutu-Effutu-Senya District in Ghana, realizing their basic right to an education is a road paved with obstacles. One of the biggest problems is the lack of adequate school infrastructure. Ghana's compact agreement with the Millennium Challenge Corporation (MCC) is about to offer the students of four schools in this rural district something they have never had: safe classrooms and facilities.

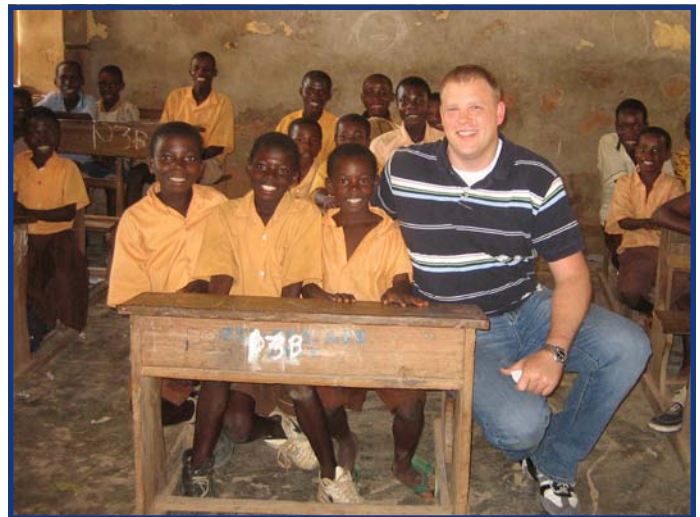
Local Ghanaian communities identified these schools as the most urgently in need of improvement. Troy Wray, Millennium Challenge Corporation's Associate Director of Human Development, describes the schools as "almost unusable, walls are falling down, lighting is poor, there are hardly any desks and chairs, and some classes are held under trees."

Mr. Wray is part of the Millennium Challenge Corporation team dedicated, since 2005, to supporting Ghana in the design, development and implementation of the MCC funded compact agreement providing US assistance to the Ghanaian people. These efforts, together with the Millennium Development Authority (MiDA) -- the Ghanaian organization coordinating MCC-funded projects on-the-ground -- are starting to bear fruit.

In early April 2008, MiDA began renovating the first four of a total of 35 rural schools in seven different rural districts scheduled for rehabilitation under the initial part of phase one of the school project. MiDA's goal is



One of the first four schools to be rehabilitated by MiDA in the Awutu-Effutu-Senya District.



Troy Wray, Associate Director of Human Development, sits in a classroom with the children of one of the schools scheduled for renovation.

to finalize the schools in time for the beginning of the academic year in August.

MiDA has hired local builders to rehabilitate the schools and provide furnishings. This project is a joint effort and is made possible through the collaboration of MiDA, the beneficiary communities themselves, the district-level government and the Ministry of Education.

The project's second phase will focus on the construction of new schools designed specifically to meet community needs. According to Wray, "the school project is crucial because it addresses basic needs and ensures there is a suitable learning environment for the children. There is so much to be done, we decided to start with the basics: a sound infrastructure."



U.S. Charge d'Affaires Sue Brown (center), MiDA CEO Martin Eson-Benjamin (with trowel) and a Ministry of Education District Representative lay the first stones at the ceremony launching the schools project in early April.

This \$2.8 million school rehabilitation project is part of Ghana's \$547 million compact with the Millennium Challenge Corporation. One of the compact's goals is to help transform the agricultural sector in Ghana by providing, among other services, improved access to education, water, electricity and sanitation.



The Millennium Challenge Corporation, a U.S. government agency designed to work with developing countries, is based on the principle that aid is most effective when it reinforces sound political, economic, and social policies that promote poverty reduction through economic growth.

To read more stories related to MCC's work to reduce poverty through economic growth, visit <http://www.mcc.gov/successstories/>.



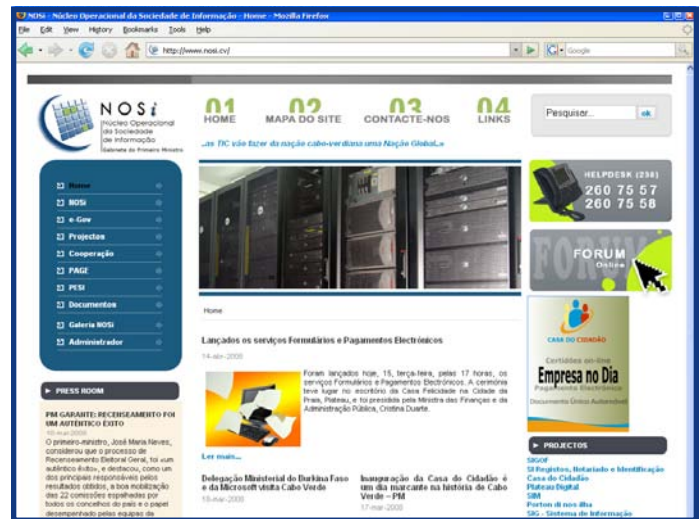
Cape Verde: E-Procurement System a Model of Transparency, Efficiency

Imagine the difficulty of governing a nation of ten islands scattered over 4,033 square kilometers of the Atlantic Ocean. This geographical obstacle has been one of Cape Verde's challenges throughout history. In response, the government smartly developed an e-government system to facilitate public administration of its territory through a computer network. This system includes, among other features, real access to government expenditures and a consolidated public registry database. It was one of the factors behind Cape Verde's solid performance in the areas of transparency and the fight against corruption that made it eligible for a \$110 million compact with the United States' Millennium Challenge Corporation (MCC).

Now, as part of its partnership with MCC, Cape Verde will expand upon its e-government system to elevate efficiency and transparency of its procurement system to world class standards. MCC will support NOSi (Operational Nucleus for the Information Society), the Cape Verdean agency responsible for e-government, by providing equipment, software and technical expertise. Roughly \$1 million in compact funds have been allotted to strengthening Cape Verde's e-government system

The e-procurement system will serve as the backbone of compact procurements in the areas of infrastructure, agriculture support, and private sector development. Eventually, it will be applied to enhance efficiency across all government ministries. The system will standardize purchasing procedures and terms and conditions while at the same time allowing government officials, suppliers, and the public easy access to calls for bids, procurement rules, and a record of all procurement transactions. For the average citizen, this translates into the guarantee of a less corrupt, more transparent and efficient use of government resources.

Not only will MCC's compact change the face of procurements in Cape Verde but it will also improve the government's planning and management system by adding an electronic reporting mechanism. This system will enable ministries to capture, monitor and evaluate performance results. The MCC will fund the integration of these products with the government's online payment system to ensure transparency and efficiency beyond implementation of the compact.



MCC will support NOSi, the Cape Verdean agency responsible for e-government, by providing equipment, software and technical expertise to develop an e-procurement system.

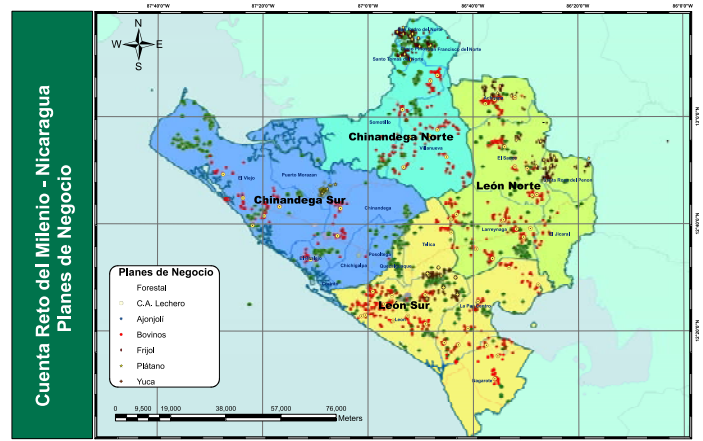


Women's Incomes and Trees Sprout up in Nicaragua

Until recently, the ten members of the Cooperativa Forestal de Múltiples Servicios de Chinandega Norte (CO-FOCHINORTE), a tree nursery cooperative in Chinandega, Nicaragua, were struggling to make ends meet. The women, single mothers for the most part, split their time between the tree nursery and other jobs—the co-op in which they had set their hopes for a better future made barely enough money to cover the tree nursery's overhead expenses but not enough to pay its members' salaries.

All of that changed in 2007 when CO-FOCHINORTE, together with five other local micro-enterprises, won a public bid to supply trees for an innovative forestry development project. Funded by the United States' Millennium Challenge Corporation through a five-year compact with Nicaragua and designed by Nicaraguans themselves, the project will stimulate Northwestern Nicaragua's rural economy by expanding tree plantations for commercial use and developing all components of the value chain – nurseries, timber companies, carpenters, and export activities. The project was designed taking into account environmental best practices and standards -- making it not only good for business and women micro-entrepreneurs, but good for the environment.

According to Danelia Rivera, CO-FOCHINORTE's vice-chairwoman, the contract with MCA-Nicaragua, the organization responsible for implementing the compact, allowed them for the first time to produce trees on a large scale and to pay their members a decent salary. CO-FOCHINORTE produced 100,000 trees in 2007 and the group performed so well that it secured a second, larger



Map of Nicaragua's Northwestern region showing the departments of Leon and Chinandega where the MCA-Nicaragua is concentrating its poverty reduction efforts. (Map courtesy of MCA-Nicaragua.)



"We have increased our business' capital with the support of MCA-Nicaragua. As a result, our tree nursery will yield increased profits and we will bring home higher salaries."

contract with MCA-Nicaragua for 2008. The group has re-invested some of its profits back into the business and has plans for future investments.

In the compact's first year, MCA-Nicaragua has developed 7 nurseries and planted over 1.4 million trees, spurring the creation of direct and indirect jobs in the region—the nurseries, for example, hired approximately 150 people to work in the production and distribution of trees and plants. MCA-Nicaragua expects to increase the number of nurseries to 11 and the number of trees planted to 3 million by the end of 2008. By the fifth year of the compact, MCA-Nicaragua's goal is to forest at least 10,000 hectares with approximately 12 million trees, thereby creating hundreds of new jobs and investing in the future of the region.



Danelia Rivera is vice-chairwoman of CO-FOCHINORTE, a tree nursery co-op that supplies MCA-Nicaragua with trees for its commercial forestry project.

Although still early, the compact with Nicaragua is already changing people's lives. Danelia Rivera and the other nine members of the co-op never imagined they could make a living by doing what they love the most: planting and farming. Now, with their salaries, they can buy food and clothing for their children. As Danelia explains, "We have increased our business' capital with the support of MCA-Nicaragua. As a result, our tree nursery will yield increased profits and we will bring home higher salaries."



The Millennium Challenge Corporation, a U.S. government agency designed to work with developing countries, is based on the principle that aid is most effective when it reinforces sound political, economic, and social policies that promote poverty reduction through economic growth.

To read more stories related to MCC's work to reduce poverty through economic growth, visit <http://www.mcc.gov/successstories/>.



MCC Program Means Higher Incomes for Armenian Farmers

Sevan Jamalyan, a traditional Armenian farmer, has become a celebrity in his native village of Griboyedov. Not only is he among the first farmers in the Armavir region to complete the water management training offered by the Millennium Challenge Account (MCA)-Armenia but his farm has also been selected as a demonstration site for future Water-to-Market program trainings.

The Water-to-Market program is a \$33 million dollar initiative that will improve farmers' and Water Users Associations' water management skills and capabilities. As a result, farmers will increase their productivity and transition into higher value agricultural activities. The trainings started in April 2007 and so far 9037 farmers in 141 communities have participated. The program's goal is to train 60,000 farmers by the end of 2011.

MCA-Armenia provided Mr. Jamalyan's farm with technologies that will increase its production rate and demonstrate to other farmers how useful the new technologies can be. The equipment ranges from new irrigation pipes to sensors and water meters. He will now be able to replace wheat and grain crops with higher-value fruits and vegetables, spices, greens or flowers. His family's income will increase as a result.

According to Mr. Jamalyan, farmers have little access to basic information on how to improve farm production and management or how to integrate to a market economy. "Many farmers have no idea about such elementary things like fertilizing or irrigating, they do it intuitively or just follow what their senior or elder peers do," explains Mr. Jamalyan. "The MCA-Armenia program teaches practical things and it is also investing heavily in rural infrastructure for us to use."

Mr. Jamalyan's farm is a living illustration of how other farmers can develop a better farming business. By the end of the compact, MCA-Armenia expects there will be 220 demonstration sites all over the country -- 120 of them will illustrate water management techniques and the remaining 100 will be devoted to high value agriculture.



"The MCA-Armenia program teaches practical things and it is also investing heavily in rural infrastructure for us to use."

*— Sevan Jamalyan,
Armenian farmer*



With MCC Help, Mediation Program Helps Philippines Use Resources More Efficiently

In late 2007, a private lending company filed a complaint before the Office of the Ombudsman of the Philippines against 50 government employees, including school teachers and employees of the Police and Fire Departments. The company sought to collect outstanding amounts on these employees' delinquent personal loans. The Office of the Ombudsman decided to recommend the case for mediation, an option that was not available prior to June 2007. This new alternative dispute resolution program was developed thanks to the Millennium Challenge Corporation's (MCC) Philippines Threshold Program, which has been working since 2006 to help improve revenue administration and anti-corruption efforts in the country.



Mr. Theodore Banderado (center), Associate Graft Investigation Officer, facilitates discussions of the mediation process.

This decision saved the Office of the Ombudsman considerable time and resources. Through mediation, both parties had an opportunity to present their points of view. As a result of mediation, the lending company agreed to restructure the employees' payment schedules. This outcome benefited all parties involved—the employees and the company were able to reach an agreement, and the Ombudsman had 50 fewer complaints, thereby reducing the number of pending cases and shifting more resources from administrative cases towards the fight against corruption.

The mediation program was developed in conjunction with the Asia Foundation and in close collaboration with the Office of the Ombudsman to determine appropriate dispute resolution approaches and training needs. Staff was carefully selected for mediation training that included a five day course and 40 hours of mediation practice. The process finalized with a review of policies and procedures as well as the drafting of an Ombudsman Rules of Procedure for Mediation that will be adopted soon.

At its inception, the MCC program's goal was to increase the number of cases successfully mediated in the Ombudsman's Public Assistance Office from 0 to 300 per year. Current results exceed those expectations. Between June 2007 and February 2008, 318 cases were successfully mediated. The Office of the Ombudsman expects to

settle through mediation at least half of the 10,000 cases it receives each year. This system will allow the Office of the Ombudsman to reduce its backlog of unresolved cases and face the rapid annual increase in the number of cases filed.

By strengthening the Office of the Ombudsman, the MCC is helping the Philippines reduce corruption and better position itself to start investing in poverty reduction programs. In March 2008, Philippine's efforts under the \$21 million Threshold Program started to pay off when the MCC board of directors declared it eligible to apply for an MCC compact.