

Chapter 17:

# Elements of a Compact Proposal Assessed by MCC



REDUCING POVERTY THROUGH GROWTH



## Elements of a Compact Proposal Assessed by MCC

### Guidelines used by MCC for Assessing and Approving Compact Proposals

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The Millennium Challenge Corporation (MCC) has, based on its legislation and internal procedures, defined fundamental principles on which the MCC reviews and analyzes a country's MCC proposal (Proposal) to determine whether that Proposal defines a Program well enough to move to negotiation of a Compact. The internal MCC analysis of the proposal serves five broad purposes:

1. Provides assurance to MCC that the Program conforms to the key MCA principle of reducing poverty through sustainable economic growth;
2. Provides assurance to MCC that each project (under the Program) is technically, economically, environmentally and socially justifiable;
3. Establishes to MCC that the Program (and the project components) is sufficiently prepared -- risks are mitigated, implementation procedures are understood and proper safeguards are being established -- for MCC to enter into a Compact with the country;
4. Informs MCC on all major aspects of the proposed Program, including both the benefits and risks of funding the Program; and
5. Provides a basis for MCC staff to recommend a proposed course of action to MCC senior management with respect to a country's Proposal.

Based on MCC's review of the Program and after considering the recommendations of the transaction team and senior management, MCC's CEO will make one of the following decisions:

1. Authorize the transaction team to finalize negotiations of a mutually agreeable Compact based on the Program proposed by the country. If this action is undertaken successfully, the CEO would then recommend that MCC's Board of Directors approve the Program;

2. Defer action on the Program and provide guidance to the transaction team for continued discussions and clarification of the Program or elements of the design process;
3. Disapprove the Program.

The MCC transaction team for a country prepares documentation analyzing the Program for review by MCC's senior management. The analysis is designed to inform senior management on all key aspects of the proposed Program. An outline of the Program analysis, which will typically be prepared by the transaction team and presented to senior management, is provided below.

The Program analysis addresses the following principal features:

### **Overview (Section I)**

There should be a description of the economic environment in the country to provide the context for how the Program will reduce poverty through sustainable economic growth. This would include a description of the Country's National Development Plan/Poverty Reduction Strategy and how it relates to the Program. In addition there should be a description of the country's consultative process that produced the Proposal for MCC funding and identify the obstacles to economic growth that the consultative process identified. The country should familiarize itself with the MCC Gender Policy, early on, to ascertain MCC's requirements for gender integration throughout the Program.

The reasons for supporting the Program should be provided based on the country's economic constraints and developmental priorities and results of the consultative process. An explanation as to how the Program relates to developmental priorities should be provided. Finally, the expected benefits as a direct result of the Program should be provided in a factual format and in a quantified manner. Indirect benefits may be stated. See the MCC website (<http://www.mcc.gov/countries/tools/2007/compact/tools-2007-13-guidelinesforconductingaconsultativeprocess.pdf>) for more detail on what MCC will be looking for in terms of the consultative process.

A brief Program description should be provided in the overview, including how and why the Program is expected to have a transformational impact in the country. The Compact Goal should be identified, as well as each objective, the specific project(s)

that will achieve each objective, and the general benefits of the Program. Finally, the overview should provide an estimate of the amount of funding requested of the MCC to carry out the program.

## **Project Assessments (Section II)**

Assessments of each project should be segmented as follows:

- a) a background for the project, describing the economic environment in the country, providing the context for how the project will reduce poverty through sustainable economic growth;
- b) a description of the key activities of the project;
- c) expected benefits and target beneficiaries of the project, disaggregated by income, gender and age, if possible, as well as an explanation of how the project contributes to the objective(s) to which it relates and addresses economic growth;
- d) an estimate of costs per activity within the project;
- e) a technical assessment of the proposed project, depending on the type and nature of the project, and including whether the designs conform to internationally accepted standards, whether there is adequate comfort with the stated inputs and costs, whether there are any time line issues, how gender issues are being considered, whether the project links to another donor's project, and if so, what are the technical issues, if any, and how they are proposed to be addressed, whether there is previous experience with similar projects in the country, and whether there is sufficient technical capacity;
- f) if infrastructure is included, pre-feasibility studies for each sector;
- g) an economic assessment of the project, including a description of the quantified and unquantifiable benefits of the project, describing the methodology adopted and providing an economic rate of return for the project, as well as the results of sensitivity analysis (highlighting any issues that emerged as a result of the analysis, as well as how these issues are proposed to be addressed in the design of the project);

- h) an environmental and social assessment of the proposed project, including a statement of the “Environmental Category” for the project, a description of what the environmental impacts of the project are, what the environmental management plan is, and a brief description of the country’s environmental management capacity. See the MCC website <http://www.mcc.gov/guidance/index.shtml> for more detail on what MCC will be looking for in terms of MCC’s review of environmental factors related to the program;
- i) a description of the proposed approach to supervision and management of the project, procurement approaches and financial management approaches. See the MCC website <http://www.mcc.gov/countries/tools/fiscalaccountability/> for more detail on what MCC will be looking for in reviewing these aspects of program implementation;
- j) a brief description of other donor activities that relate to the project and how the project relates to and works with these other donor activities;
- k) identification of potential risks inherent in the proposed project as well as risks to successful implementation of the project, and a clear statement of what risk mitigation mechanisms will be built into the project design.

### **Country Commitment and Effectiveness (Section III)**

The analysis should (i) identify major policy, regulatory and institutional reforms that will be instituted, either directly or indirectly, in support of the Program and each project, and qualitatively describe the benefits due to such policy, regulatory or institutional changes; (ii) describe factors that assure institutional sustainability (training, building capacity, support by NGOs, etc.) for each project; (iii) identify factors that assure financial sustainability (e.g., tariff reform, improving collection ratio, commercialization, etc.) for each project; and, (iv) describe factors that assure environmental and ecological sustainability for each project.

### **Implementation (Section IV)**

The review will also assess the proposed management arrangements, contracting and procurement arrangements, accounting and reporting arrangements, and provide a timeline for the duration of the implementation of each project.

**Monitoring and Evaluation (Section V)**

The documentation for the review must provide an explanation of Program results, the indicators that will measure them, and benchmarks to assess the achievement of these results and the success of the Program. In addition, it should identify baseline status against these benchmarks and describe how data will be collected over the course of the Program to assess progress in relation to benchmarks. Interim and final targets for expected results should be specified to the extent practicable, as well as any impact on disbursements planned for shortfalls of performance.

## Program Analysis Template

To be presented by the MCC transaction teams to MCC senior management

### I. OVERVIEW

#### A. Background

This section provides background information that establishes the context for the Program, as well as the context for MCC assistance. The background information could include:

- Country's major poverty reduction issues and strategy
- Principal donor assistance programs
- Relevance of the Program within this context

#### B. National Development Plan/Poverty Reduction Strategy

This section should briefly describe the country's national development plan and/or poverty reduction strategy as it relates to the Program.

#### C. Consultative Process

This section should describe the country's consultative process that produced the Proposal for MCC funding and list the obstacles to economic growth that the consultative process identified. It should provide a description of major steps taken to ensure stakeholder consultation, the process and methodologies adopted, outcomes, issues encountered and how the issues were handled. If additional stakeholder consultations took place during preparation (e.g., for environmental considerations, with labor unions, etc.), they should also be described.

#### D. Program Description

A focused description of the overall Program should be provided. The description should provide a brief background as to why the consultative process has resulted in prioritizing this Program. A description on the overall Program, how and why the Program is expected to have a transformational impact in the country, and where the various projects fit should be given. Project descriptions should not be provided



here; however, the relation and relevance of each project to the Program should be explained within the context of Program goal.

**E. Program Cost**

A summary of costs of each project and sub-components, if relevant, of the Program should be provided. See below.

Description	Timeline					TOTAL (\$US Mil)
	CY1 (\$US Mil)	CY2 (\$US Mil)	CY3 (\$US Mil)	CY4 (\$US Mil)	CY5 (\$US Mil)	
Project #1						
Project #2						
Program Administration & Audits						
Monitoring & Evaluation						
<b>TOTAL</b>						

**II. PROJECT ASSESSMENTS**

**PROJECT #1**

A. Background

There must be a background for the specific component projects in the Program. Each should describe the economic environment in the country to provide the context for how the project will reduce poverty through sustainable economic growth. Each of the following topics must be addressed for each component.

B. Description

There must be a description of the key activities of the project.

C. Benefits

This section should identify the expected benefits and target beneficiaries of the project, disaggregated by income, gender and age should be identified, if possible. It

should explain how the project contributes to the objective(s) to which it relates and addresses economic growth.

Example: Approximately 460,000 rural inhabitants in XX region, whose average income is \$680 per year, will receive clean water supply. This project is expected to eliminate infant deaths due to water borne diseases, which is currently estimated at 6,000 per year. School attendance of girls is targeted to rise from a current 40% enrollment in secondary school to 75%.

#### D. Cost

Description	Timeline					TOTAL (\$US Mil)
	CY1 (\$US Mil)	CY2 (\$US Mil)	CY3 (\$US Mil)	CY4 (\$US Mil)	CY5 (\$US Mil)	
Activity A						
Activity B						
Activity C						
Project Management						
<b>TOTAL</b>						

#### E. Technical Analysis

There should be an assessment of the project from a technical viewpoint. This would vary depending on the type and nature of the project, and may include the following: (i) whether the designs conform to internationally accepted standards; (ii) whether there is adequate comfort with the stated inputs and costs; (iii) whether there are any time line issues; (iv) whether the MCC assisted project link to another's project, and if so, what are the technical issues, if any, and how they are proposed to be addressed; (v) whether there is previous experience with similar projects in the country; and (vi) whether there is sufficient technical capacity. If infrastructure projects are to be considered pre-feasibility studies should be included. General Guidance on infrastructure requirements can be found at [www.mcc.gov](http://www.mcc.gov).

#### F. Economic Assessment

This section should include the results of the country's economic analysis for each project. It should clearly describe quantified benefits and unquantifiable benefits, stating the methodology adopted and provide economic rate of return for each project.

The results of sensitivity analysis for the project should be provided, highlighting any issues that emerged as a result of the analysis, as well as how these issues are proposed to be addressed in the design of the project.

#### G. Environmental and Social Assessment

Information should be provided that clearly states the "Environmental Category" for each relevant project, and describes what the environmental impacts of the project are, what the environmental management plan is, and a brief description of the country's environmental management capacity.

It should also identify the impact of the project on local population or specific communities, resettlement issues, affected groups (including workers to be retrenched), and state remedial approaches, costs, and sources of funds to address each adverse impact. Design considerations related to income, gender, age and urban/rural impacts should be identified.

For each adverse social impact, clearly describe the consultative or participatory steps taken in resolving the issue.

#### H. Donor Coordination

Provide a description of other donor activities that relate to the project and how the project relates to and works with these other donor activities.

#### I. Risks

Identify principal risks inherent in the proposed project as well as risks to successful implementation of the project, and clearly state risk mitigation mechanisms and how they have been built into the project design.

**PROJECT #2**

[Repeat Section II for each additional project.]

**III. COUNTRY COMMITMENT AND EFFECTIVENESS****A. Policy Changes**

Describe major policy, regulatory and institutional reforms that are being supported, either directly or indirectly, by the Program, and qualitatively describe the benefits due to such policy, regulatory or institutional changes.

**B. Institutional Sustainability**

Describe factors that assure institutional sustainability (training, building capacity, support by NGOs, etc.).

**C. Financial Sustainability**

Describe factors that assure financial sustainability (e.g., tariff reform, improving collection ratio, commercialization, etc.) for each project. An example would be the issue of financing recurrent repair and maintenance expenditure in a new roads project.

**D. Environmental and Social Sustainability**

Describe factors that assure environmental and social sustainability.

**IV. IMPLEMENTATION****A. *Management Arrangements***

Describe the proposed supervisory and management structure that will be utilized to implement and oversee the Program.

**B. *Procurement***

Identify the country's policies, procedures, controls, and authorization process proposed for use in the MCA Program. Where appropriate, identify how the fiscal agents and/or procurement agents will be selected.

**C. Financial Management**

This section should describe the fiscal management and funds control arrangements, such as budgeting, cash management, accounting, disbursements, reporting and auditing, to ensure the proper and transparent use of funds under the Program.

**D. Time Table**

An overall time table should be provided for each project.

**V. MONITORING AND EVALUATION**

Describe briefly whether a monitoring and evaluation plan has been sufficiently developed, baseline data are sufficiently and satisfactorily gathered, and an institutional mechanism has been drawn up and agreed with the country for the execution of the plan.

**A. Objective and Outcome Level Indicators**

Project #1						
Objective: _____						
Objective Level Indicators (Metric of Project success observable by end of Compact)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Outcome Level Indicators (early indicators of Project Activities impact on objectives)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5

Project #2						
Objective: _____						
Objective Level Indicators (Metric of Project success observable by end of Compact)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Outcome Level Indicators (early indicators of Project Activities impact on objectives)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5

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**B. Activity Level Indicators**

Project #1						
Activity Level Indicators	Year 1	Year 2	Year 3	Year 4	Year 5	Total

Project #2						
Activity Level Indicators	Year 1	Year 2	Year 3	Year 4	Year 5	Total

