



# Changing Lives

2007 Annual Report





# Changing Lives

2007 Annual Report  
October 1, 2006–September 30, 2007



An acacia tree stands in a field in Tanzania.

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Total Number  
of Compacts  
signed through  
fiscal year 2007:

14

Total Number of Compacts  
signed during fiscal year 2007  
(Oct. 1, 2006–Sept. 30, 2007):

5

Total Approximate Value of Compacts  
signed through fiscal year 2007:

Total Approximate Value of Compacts signed  
during fiscal year 2007 (Oct. 1, 2006–Sept. 30, 2007):

\$2.49 billion

\$4.55  
billion

# Executive Summary

The measure of the Millennium Challenge Corporation's success is our positive impact on the lives of the poor in our partner countries—countries that are committed to their own development and to building prosperity. This Annual Report chronicles our progress, specifically developments during fiscal year 2007 (*October 1, 2006 through September 30, 2007*), to reduce poverty through economic growth and, as a result, positively change those lives in tangible, meaningful, and sustainable ways.

The 2007 Annual Report is structured around three main themes—who we are, what we do, and why we do what we do—to guide American taxpayers, members of Congress, partner countries, nongovernmental organizations, and other U.S. government agencies in fully understanding how we go about our work to reduce poverty through economic growth.

- ★ The *first section* highlights MCC's mission, milestones in terms of signed compacts and threshold programs, partnerships around the world, board members, senior management, staff, and brand.
- ★ The *second section* discusses MCC's process: how good policies drive country selection, how country ownership drives compact development, and how tangible outcomes and measurable results drive implementation. Details are provided on MCC's threshold program, the consultative process, working with other donors, and monitoring and evaluation.
- ★ The *third section* concentrates on the early results of implementation, demonstrating our purpose to better lives by reducing poverty

and stimulating economic growth. MCC is creating new conditions for the effective use of development assistance—including engaging women and building trade capacity. We can point to how the lives of beneficiaries are beginning to improve in partner countries implementing threshold programs and compacts.

For an organization as young as ours, MCC has made enormous progress. We have successfully maneuvered through our start-up phase. We have demonstrated that we know how to partner with willing countries to reach sound antipoverty development plans, *signing 14 compacts* and **14 threshold programs** by the end of fiscal year 2007. Now, we are in our most crucial stage as we work to ensure that those agreements are successfully implemented to reach predetermined benchmarks and expected outcomes. That is the surest way we can continue delivering results where they matter most—in the lives of the poor.



Total Number of  
Threshold Programs  
signed through  
fiscal year 2007:

14

Total Number of Threshold Programs  
signed during fiscal year 2007  
(Oct. 1, 2006–Sept. 30, 2007):

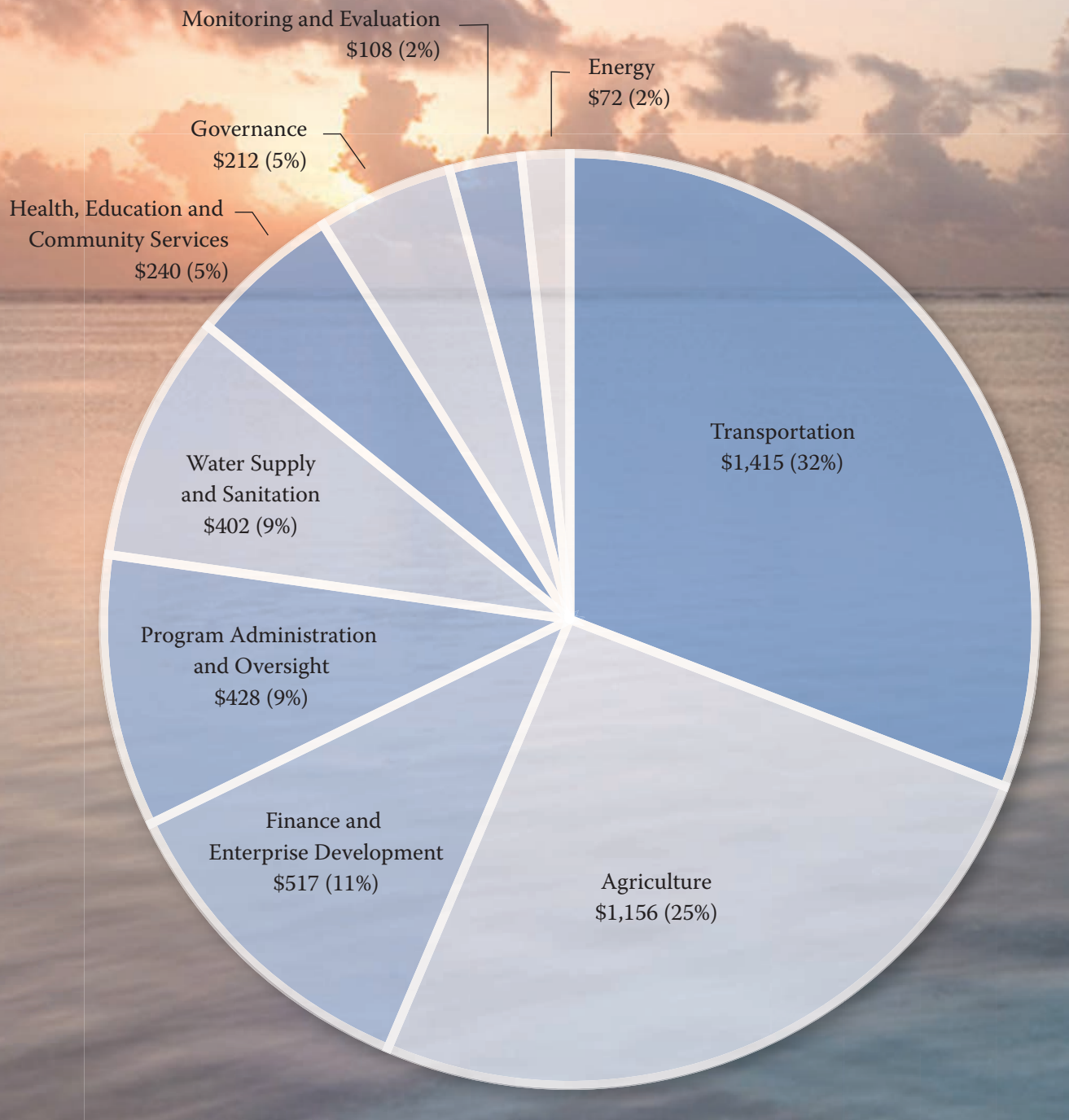
7

Total Approximate Value of  
Threshold Programs  
signed through fiscal year 2007:

\$316

Total Approximate Value of Threshold Programs  
signed during fiscal year 2007 (Oct. 1, 2006–Sept. 30, 2007):

\$180 million  
million



Sunrise in Zanzibar, Tanzania.  
Photo by MCC staff member Marc Tkach.

## Looking Ahead:

# Compacts

While the chart summarizes signed compacts through the end of FY 2007 totaling \$4.55 billion, note that two compacts have already been approved for FY 2008.



MCC's compact with **Mongolia** was signed on October 22, 2007 for nearly \$285 million.



MCC's compact with **Tanzania** was approved on September 18, 2007 for \$698 million, with an anticipated signing date in early 2008.

Taking these compacts into account, MCC has a portfolio of 16 approved compacts totaling \$5.5 billion. We anticipate compact signings with **Burkina Faso** and **Namibia** during the late spring or summer of 2008, pending approvals from the Board of Directors. This would bring total MCC compact commitments to more than \$6.4 billion.

**Chart (opposite page):** MCC Compacts Signed Through Fiscal Year 2007. Amounts are in millions of U.S. dollars.

Looking Ahead:

# Threshold Programs

While the chart summarizes signed threshold programs through the end of FY 2007 totaling \$316 million, note that additional threshold programs have been approved, signed, or are scheduled to be signed in FY 2008.



MCC's threshold program with **São Tomé and Príncipe** for \$8.66 million was signed on November 9, 2007.



MCC's threshold program with the **Kyrgyz Republic** for \$16 million was approved on August 9, 2007, and signing is pending.



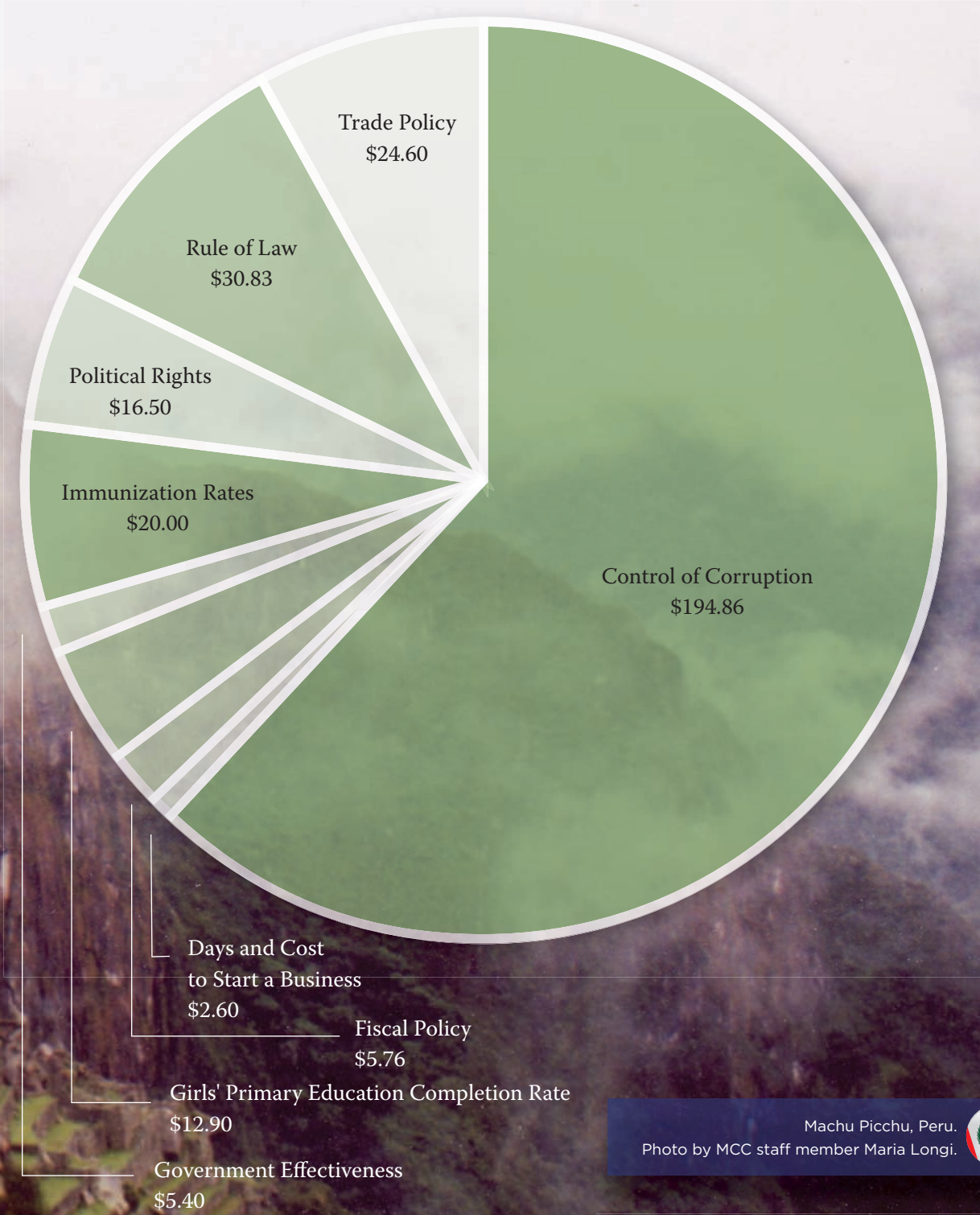
MCC's threshold program with **Yemen** for \$20.6 million was approved on September 12, 2007, and signing is pending.



MCC's \$35 million threshold program with **Peru** was approved on November 30, 2007, and signing is pending.

Taking these threshold programs into account, MCC has a portfolio of 18 approved threshold programs totaling almost \$400 million.

**Chart (opposite page):** MCC Threshold Programs as of September 2007; does not include monitoring and evaluation costs. Amounts are in millions of U.S. dollars.



Machu Picchu, Peru.  
 Photo by MCC staff member Maria Longi.





The Mayor of Al Hassa, Rana Hajaya, pictured upper-left wearing glasses, is one of hundreds of women elected in Jordan.

The  
Millennium Challenge Corporation  
invests in countries committed to

# Ruling Justly

In some partner countries, specific projects advance pluralism, the rule of law, government transparency, and the protection of private property rights.



**Malawi's** threshold program supports ongoing anticorruption efforts, expands the work of civil society groups, and strengthens independent media coverage, including training 45 journalists in investigative journalism. Anti-money laundering legislation has been passed. A Financial Intelligence Unit has been created to investigate financial crimes. These efforts helped Malawi improve its performance on the control of corruption indicator—from the 40th percentile in fiscal year 2005 to the 54th percentile in fiscal year 2008—now making the country compact-eligible.



**Jordan's** threshold program strengthens municipal governance by expanding the participation of its citizens, including women, in local elections and local government. Under the new municipalities law, 20 percent of municipal council seats are reserved for women. In the last elections, female candidates exceeded this quota and won 238 seats.



A woman in Burkina Faso attends school as a result of the MCC Threshold Program. Photo by Liz Bernard.



The  
Millennium Challenge Corporation  
invests in countries committed to

# Investing in the health and education of their citizens

In some partner countries, specific projects focus on investments in health, education, and skills to expand human capabilities.



**El Salvador's** compact contains both formal and non-formal education and training components to increase employment opportunities for the poor.



**Ghana's** compact will complement agriculture and infrastructure investments in rural communities by providing over 100 new and rehabilitated education facilities, 900 additional water points, and electricity to 12 agro-processing facilities.



**Lesotho's** health sector project is designed to mitigate the negative economic impacts of poor maternal health, HIV/AIDS, tuberculosis, and other diseases by strengthening the country's health care system. MCC funding will support the government's efforts to significantly increase access to life-extending antiretroviral therapy by providing a sustainable platform to deliver this and other essential health services.



**Burkina Faso's** threshold program opens 132 new "girl-friendly" school complexes. Over 18,000 children—half of whom are girls—are attending school who would not have been able to otherwise. Over 250 literacy centers are open, and thousands have received literacy training.

The  
Millennium Challenge Corporation  
invests in countries committed to

# Promoting Economic Freedom

In some partner countries, specific projects focus on maximizing business development and investment opportunities, the true engines of economic growth.



**Benin's** access to markets project will increase competitiveness at the Port of Cotonou by reducing transport costs through systems and infrastructure improvements, increasing the volume of merchandise traffic through the port.



**Honduras's** compact has begun training 800 farmers to grow and sell horticultural products and will train more than 8,000 during the life of the program.



**Morocco's** financial services project will increase financial services for micro-enterprises by addressing key constraints to the development of a broader, deeper, and market-based financial sector.



**Paraguay's** threshold program reduced the cost to start a business, from \$750 to \$250, and cut the number of days required to do so in half to 36.



Benin's compact increases the volume of imports and exports at the Port of Cotonou by reducing delays and improving operations and infrastructure, providing greater access to markets for the Beninese.





Section 1

# Who We Are

*Leadership  
for a new approach  
to development*



U.S. Secretary of State Condoleezza Rice

# Message from Secretary of State Condoleezza Rice, Chair of the Board

The Millennium Challenge Corporation (MCC) pioneered a revolution in development strategy, emphasizing that development assistance should be granted to countries that govern justly, invest in their people, and foster economic freedom. Created to reduce poverty through economic growth, the MCC reflects President Bush's vision and Congress's bipartisan support for delivering foreign aid with accountability on our part as well as on the part of countries receiving our help. The MCC awards sizeable grants to countries that practice good governance, seek to take responsibility for their own development, and are committed to achieving results. These countries look for help from the MCC as they seek to help themselves.

In less than four years, as of the end of Fiscal Year 2007, the MCC's approach has resulted in 14 signed Compacts and 14 signed Threshold Programs, which are beginning to make a tangible difference in the lives of the poor. The MCC has entered into a new phase as more and more compacts enter into force, local accountable entities design and oversee major new contracts, and disbursements increase. To meet the challenges of this phase, the MCC has reorganized its staff and resources to shift its focus from Compact development to implementation. The MCC investments are supporting policy reforms, rehabilitating ports and gas pipelines, fixing roads so farmers

can deliver their products to market, combating corruption, and addressing other development needs. With ongoing program implementation, which is the MCC's priority, we expect to see continued progress and success.

I thank Congress, other U.S. government agencies, and the development community for supporting the MCC and commend the dedication and excellence of the MCC's staff and leadership. Such support and commitment are not only serving U.S. interests but also creating a better life for the world's poorest.

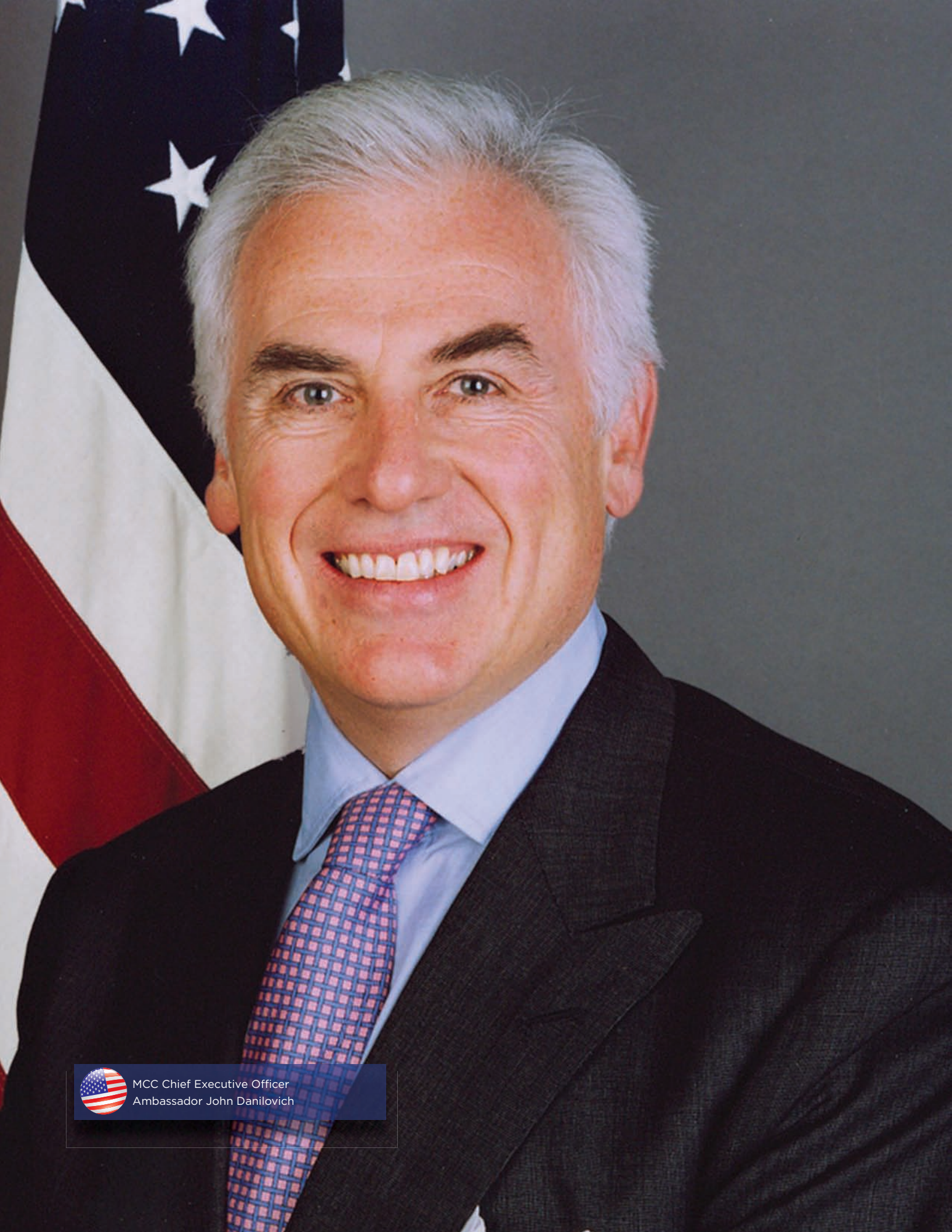
*Condoleezza Rice*

*Chair*



*“The Millennium Challenge program, which I think has been very successful around the world in creating the right incentives for countries to govern wisely, to fight corruption, to invest in the health and education of their own people, has been one of our most important tools in changing the conversation about how development takes place, that there is responsibility on behalf of donor countries but there is also responsibility on behalf of those who would receive our aid.”*

*—U.S. Secretary of State  
Condoleezza Rice,  
March 21, 2007*



MCC Chief Executive Officer  
Ambassador John Danilovich

# Message from Ambassador John J. Danilovich, Chief Executive Officer

The Millennium Challenge Corporation has entered its most exciting chapter. With early results on the ground, MCC is poised for further success as compacts and threshold programs reach full implementation.

Since MCC's creation in 2004, it has dedicated tremendous effort to establishing a first class professional organization that incorporates the best lessons learned in development and delivers on the promise of reducing poverty through economic growth in countries practicing good governance, fighting corruption, investing in their peoples' health and education, and promoting economic freedom.

MCC's efforts are already bearing tangible results.

I am proud to report that as of the end of fiscal year 2007, MCC has signed compacts with 14 countries in Africa, Central America, Eurasia, and the Pacific totaling over \$4.5 billion and entered into threshold programs with 14 countries for more than \$316 million. Because of MCC investments in compact and threshold countries, land titles are being issued, farmer incomes are increasing, infrastructure improvements are underway, and children—including girls—are being educated. Equally impressive is how MCC's approach is changing the conversation about development by

shifting more accountability to the country recipients of MCC assistance. Often referred to as the benefits of the *MCC Effect*, MCC serves as a strong catalyst and powerful incentive in partner countries for sustained policy reforms, campaigns against corruption, building capacity, including all segments of society in development, and for creating conditions where private enterprise can flourish. This year's *Annual Report* chronicles MCC's progress in all these areas and highlights how we are creating a solid foundation for reducing poverty through economic growth.

These early results are the building blocks for the ongoing implementation of compacts and threshold programs. Delivering positive results in the lives of the poor is the impetus behind the dramatic measures MCC has taken to reorient itself from working with partner countries to develop compacts to also working with them to ensure that the compacts are implemented successfully. We have reorganized our talented professionals to utilize their expertise and experience for oversight and support of country-led, full-force implementation of programs. More responsibility and authority have been moved to our resident country directors in all of MCC's partner countries, to give them the latitude to make decisions that will deliver results more expeditiously. As MCC moves forward from this successful beginning, we will increasingly focus on effective compact implementation, and we are realigning priorities, functions, and staff to meet that challenge.

The progress made to date will help the Millennium Challenge Corporation deliver a wide range of significant and sustainable results that will stimulate economic growth, reduce poverty, and make a real difference in the lives of the poor around the world. As MCC continues this journey, we appreciate and rely upon the ongoing support and advice of members of Congress, fellow agencies, nongovernmental organizations, and experts in the development field. MCC's success reflects this group effort along with the uncompromising commitment of partner countries to achieve their own sustainable development and growth.

*John J. Danilovich*  
*Chief Executive Officer*

## MCC's Mission




The Millennium Challenge Account (MCA) is a development assistance program whose mission is to reduce poverty through sustainable economic growth in some of the world's poorest countries that create and maintain sound policy environments. The program supports American security and foreign policy objectives and is true to America's commitment to working toward a safer and more prosperous world. The Millennium Challenge Corporation (MCC) is an independent U.S. government corporation established by an act of Congress in 2004 to administer the MCA.

## Reducing poverty through economic growth

### MCC's Milestones

As of the end of fiscal year 2007, MCC signed 14 compacts, totaling nearly \$4.55 billion. MCC also signed threshold programs with 14 countries, totaling about \$316 million.

### Compacts in Signing Order

Country	Award (in millions)	Signing Date	Entry Into Force
 Madagascar	\$109.8	April 18, 2005	July 27, 2005
 Honduras	\$215.0	June 13, 2005	September 29, 2005
 Cape Verde	\$110.0	July 4, 2005	October 17, 2005
 Nicaragua	\$175.1	July 14, 2005	May 26, 2006

Country	Award (in millions)	Signing Date	Entry Into Force
 Georgia	\$295.3	September 12, 2005	April 7, 2006
 Benin	\$307.3	February 22, 2006	October 6, 2006
 Vanuatu	\$65.7	March 2, 2006	April 28, 2006
 Armenia	\$235.7	March 27, 2006	September 29, 2006
 Ghana	\$547.0	August 1, 2006	February 16, 2007
 Mali	\$460.8	November 13, 2006	September 17, 2007
 El Salvador	\$461.0	November 29, 2006	September 20, 2007
 Mozambique	\$506.9	July 13, 2007	Estimated Entry into Force projected for Autumn 2008
 Lesotho	\$362.6	July 23, 2007	Estimated Entry into Force projected for Autumn 2008
 Morocco	\$697.5	August 31, 2007	Estimated Entry into Force projected for Autumn 2008



## Compact

*A compact is a multi-year agreement between MCC and an eligible country to fund specific programs aimed at reducing poverty and stimulating economic growth. It is a mutual promise between the U.S. government and a partner country, each with specific responsibilities to fulfill.*



## Entry into Force

*After compact signing, entry into force is the point at which funds are obligated and the full implementation of compact programs begins.*

## Threshold Programs in Signing Order

Country	Amount (in millions)	Signing Date
 Burkina Faso	\$12.9	July 22, 2005
 Malawi	\$20.9	September 23, 2005
 Albania	\$13.9	April 3, 2006
 Tanzania	\$11.2	May 3, 2006
 Paraguay	\$34.6	May 8, 2006
 Zambia	\$22.7	May 22, 2006
 The Philippines	\$20.7	July 26, 2006
 Jordan	\$25.0	October 17, 2006
 Indonesia	\$55.0	November 17, 2006
 Ukraine	\$45.0	December 4, 2006
 Moldova	\$24.7	December 15, 2006
 Kenya	\$12.7	March 23, 2007
 Uganda	\$10.4	March 29, 2007
 Guyana	\$6.7	August 23, 2007



# MCC Engagement Around the World

- Compacts Signed
- ▣ Compact-Eligible Countries
- Suspended Compact-Eligible Countries





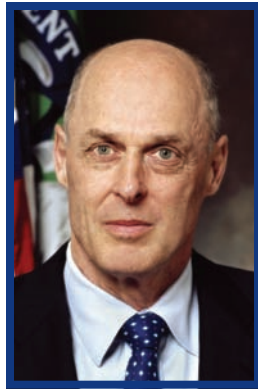
-  Compact Signed and Threshold Agreement Signed
-  Threshold Agreements Signed
-  Compact-Eligible with Threshold Agreement Signed
-  Threshold-Eligible Countries
-  Compact-Eligible and Threshold Eligible
-  Threshold Countries Suspended

# MCC's Board of Directors

MCC is managed by a Chief Executive Officer and is overseen by a public-private Board of Directors comprised of the Secretary of State, the Secretary of the Treasury, the U.S. Trade Representative, the USAID Administrator, the CEO, and four individuals from the private sector appointed by the President with the advice and consent of the U.S. Senate.



Chair  
**Condoleezza Rice**  
Secretary of State



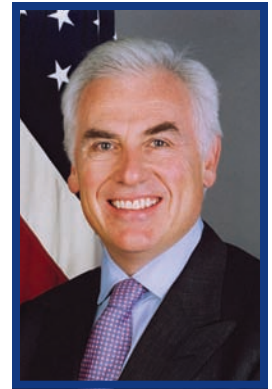
Vice Chair  
**Henry M. Paulson, Jr.**  
Secretary of Treasury



**Susan C. Schwab**  
United States  
Trade Representative



**Henrietta Holsman Fore**  
Administrator,  
U.S. Agency for  
International  
Development



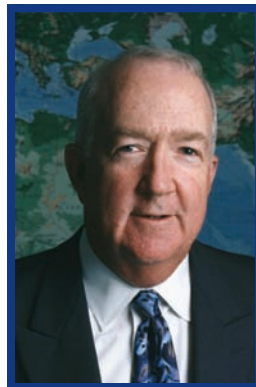
**John J. Danilovich**  
MCC Chief  
Executive Officer



**Lorne W. Craner**  
President,  
International  
Republican Institute



Senator  
**William H. Frist, M.D.**  
Schultz Class of 1951  
Visiting Professor  
of International  
Economic Policy  
Woodrow Wilson  
School of Public and  
International Affairs  
Princeton University



**Kenneth Hackett**  
President,  
Catholic Relief  
Services



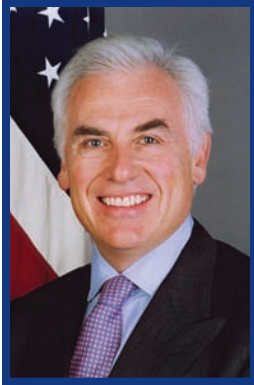
**Alan J. Patricof**  
Founder and  
Managing Director,  
Greycroft, LLC



**Christine Todd  
Whitman**  
Former Governor  
of New Jersey  
*Three-year term  
ended June 27, 2007.*

# MCC's Senior Management

Key leaders in MCC's senior management include:



**John J. Danilovich**  
MCC Chief  
Executive Officer



**Rodney G. Bent**  
Deputy Chief  
Executive Officer



**Matthew L. Bohn**  
Chief of Staff



**William G. Anderson, Jr.**  
Vice President  
and General  
Counsel



**Michael Casella**  
Acting  
Vice President  
Department of  
Administration  
and Finance



**Maureen Harrington**  
Vice President  
Department  
of Policy and  
International  
Relations



**John Hewko**  
Vice President  
Department of  
Compact  
Development



**Darius Mans**  
Vice President  
Department of  
Compact  
Implementation



**Matthew K. McLean**  
Vice President  
Department of  
Congressional  
and Public  
Affairs



**Charles O. Sethness**  
Senior  
Investment  
Counselor

# Senior Staf

Name	Title
Jonathan Bloom	Deputy Vice President, Department of Compact Implementation
Henry C. Pitney	Deputy General Counsel
Frances Reid	Deputy Vice President, Department of Compact Implementation
Darius Teter	Deputy Vice President, Department of Compact Development
Harry "Hap" Carr	Managing Director, Monitoring and Evaluation
Timothy W. Docking	Executive Secretary and Senior Advisor to the CEO
Doug Fehrer	Managing Director, Human Resources
Carol Hessler	Managing Director, Infrastructure, Environment, and Social Assessment
Robert Hindle	Managing Director, Agriculture, Land, Private Sector Development, Financial Accountability, Procurement, and Monitoring and Evaluation
Jeri Jensen	Managing Director, Private Sector Initiatives
Monica V. Kladakis	Managing Director, Threshold Programs
Sherri Kraham	Managing Director, Development Policy
James Mazarella	Managing Director, Congressional Affairs
Richard Morford	Managing Director, Donor & Multilateral Relations
Dennis Nolan	Deputy Chief Financial Officer
Shirley Puchalski	Managing Director, Administrative Services
W. Stacy Rhodes	Managing Director, Compact Development
Aaron H. Sherinian	Managing Director, Public Affairs
Franck Wiebe	Chief Economist
Greg Williams	Managing Director, Contracts and Grants Management

## MCC's Staf

We reached our planned corporate headquarters staffing level of 300 in fiscal year 2007. Our workforce (full-time, direct-hire MCC employees) is a diverse one, composed of 25 percent minorities and 55 percent women. We continue to assess how best to balance workforce availability with workload demands and are determining which activities should remain core competencies within MCC and which should be outsourced.

*MCC employees Karen DeLaBarre Chase and John Polk were honored for their volunteer efforts with the President's Volunteer Service Award.*

## MCC's Reorganization to Focus on Implementation Support

Since 2004, supporting partner countries in *compact development* has been at the core of MCC's efforts. With the negotiations and signings completed for a number of results-oriented compacts to reduce poverty and stimulate growth, we now enter a new phase of our evolution. While continuing *compact development* on a regular basis, over the long-term, MCC's core activity will focus on oversight and support for country-led *compact implementation*. This new focus will also help MCC to implement best practices to build country capacity in procurement, to monitor and accommodate changes in requirements during implementation of infrastructure projects, and to ramp up disbursements while maintaining the highest level of accountability.

In late fiscal year 2007, MCC initiated a major reorganization to position ourselves to meet the long-term demands required to work with partner countries to implement compacts with quality and speed. We have taken concrete measures to reorient from working with partner countries in developing compacts to also working with them to ensure that the compacts are implemented successfully. This means fully utilizing the expertise and experience of MCC professionals to focus on oversight and support of program implementation. It has meant moving more responsibility and authority to resident country directors in all partner countries by giving them the latitude to make decisions that will expedite compact implementation. It has meant combining and restructuring two existing departments—the *Department of Operations* and the *Department of Accountability*—to form

two new departments—the *Department of Compact Development* and the *Department of Compact Implementation*.

We initiated such a comprehensive reorganization at MCC to address the challenges associated with compact implementation. Our new structure bolsters capacity building to empower our partner countries to launch transparent procurement processes, implement their compact projects in a timely manner, and monitor and evaluate the overall results.

The future success of MCC in 2008 and beyond depends on achieving the expected results from our partner countries' compact implementation. As a result, we have realigned priorities, goals, functions, and staff to meet that challenge and are better equipped now to achieve successful compact implementation, without compromising our dedication to financial and procurement accountability, the important role of gender in development, effective monitoring and evaluation, sound economic underpinnings for programs, and international best practice management of social and environmental issues.

## Department Highlights

Through the professionalism of our staff, we are continuously improving operations and exercising best practices to make our mission of reducing poverty through growth a reality for program beneficiaries. This also led to our strategic reorganization. Key process improvements throughout MCC in fiscal year 2007 included:

### Office of the General Counsel

The Office of the General Counsel undertook a review of all compact-related documents, which resulted in reducing both the number of supplemental agreements and the size and complexity of compacts. This effort to streamline documentation has directly contributed to more efficient compact development and implementation. Also, in order to shift more authority from MCC headquarters to staff in the field, the Office of the General Counsel provided guidance and legal documentation that delegated many decisions to resident country directors and their staffs. While headquarters maintains

overall oversight and accountability for the programs, this initiative contributes to ongoing efforts to improve compact implementation.

## Department of Accountability

*(With the Department of Operations, this department has been restructured to form two new departments—the Department of Compact Development and the Department of Compact Implementation—as of fiscal year 2008.)*

The Department of Accountability developed improved tools and increased transparency for economic analysis, including joint efforts with newly eligible countries to conduct a growth constraints analysis as a framework for consultation on program development, enhanced beneficiary analysis, and improved sensitivity analysis of expected returns. Three different *MCC Colleges* for partner countries were held on procurement policies and best practices, monitoring and evaluation methodologies and approaches, and actualizing environmental and social assessment guidelines. Significant guidance documents were produced in several areas, such as interim financial accountability plans, best practices in resettlement, codification of what we have learned about monitoring and impact evaluation, and multiple procurement topics. Accountability participated in a cross-departmental team tasked with installing a common payment system designed to create efficiencies and minimize idle cash balances in countries entering implementation. It worked closely with Administration and Finance to develop terms of reference for an MCC-wide business intelligence, reporting, and data management system. Accountability also entered into an *Inter-Agency Agreement* with USAID in cooperation with the World Bank, the Inter-American Development Bank, and the United Nations Development Program to develop a *Capacity Assessment Tool* to measure the strengths and weaknesses of partner countries as a contribution to the *Development Assistance Committee of the Organization for Economic Co-operation and Development Joint Venture on Managing for Development Results*.

## Department of Administration and Finance

The Department of Administration and Finance (A&F) developed an enterprise architecture model that provides a framework to align MCC's future business vision with technology planning and procurement efforts. To further MCC's commitment to implementing a fully integrated financial system compliant with the requirements of the *Federal Financial Manage-*

*MCC was named one of the 2007 Best Places to Work within the U.S. government, ranking fifth out of 31 small federal agencies.*

*ment Improvement Act*, the department completed an assessment of MCC's financial systems needs and developed options for moving to a fully integrated system in the next two years. It piloted a *Common Payment System* in Mali, which centralizes the payment of compact expenses with MCC's financial services provider and eliminates the need to "advance" funds to partner countries. A&F also began developing a *Business Intelligence and Data Storage* tool that will automate report-

ing from partner countries and merge performance and financial data to support managerial cost accounting, budget/performance integration, and reporting to internal and external stakeholders. MCC's workforce diversity profile significantly improved, and A&F conducted an employee engagement survey and installed a new system to manage MCC's staffing and personnel management needs. The Office of Personnel Management, in conjunction with a study conducted by the American University, recognized MCC as one of the best small agencies to work for in the federal government.

## Department of Congressional and Public Affairs

The Department of Congressional and Public Affairs continued critical legislative, stakeholder, and media outreach to inform interested constituencies about MCC's progress. One-on-one meetings and briefings with members of Congress continue through ongoing engagement. A well-visited website, which was viewed by a growing number of unique visitors throughout the year, and a thriving Speakers Bureau that matched MCC experts with various speaking requests, remained part of MCC's strategic communications. Routine meetings with the NGO community and a full calendar of



outreach events, where attendance typically exceeded capacity, informed the public about MCC's progress and increased organizational transparency. To coincide with compact signings, Congressional and Public Affairs also launched investment workshops to discuss private sector opportunities for doing business in partner countries. It also conducted specific briefings on procurement opportunities directly with MCC. Domestic media coverage on MCC increased, including articles and editorials in *The Washington Post*, *The Wall Street Journal*, and *The New York Times*. In addition, the department's public diplomacy efforts increased through continued coordination with the public affairs offices at U.S. embassies in partner countries worldwide, which resulted in strong, positive international press coverage about MCC. Efforts by Congressional and Public Affairs considerably strengthened the MCC brand moving forward.

## Department of Operations

*(With the Department of Accountability, this department has been restructured to form two new departments—the Department of Compact Development and the Department of Compact Implementation—as of fiscal year 2008.)*

The Department of Operations continued to learn and apply lessons from early compact country experience to strengthen compact development and implementation. One key lesson has been to work with new compact countries to establish key program structures, staff, and systems prior to entry into force. For example, in El Salvador the accountable entity and board of directors were established, key implementing entity agreements were signed, and several major contracts (including for the procurement agent) were prepared for negotiation prior to entry into force. These steps will allow El Salvador to more fully dedicate compact time to program implementation. Operations hosted a conference for all resident and deputy resident country directors to share experiences and to make recommendations to MCC headquarters about ways to improve compact implementation oversight. These recommendations directly informed MCC's institutional reorganization and efforts to streamline implementation.

## Department of Policy and International Relations

The Department of Policy and International Relations made advances throughout its four divisions. The *Threshold Division* hired a program officer dedicated solely to monitoring and evaluation to assess the impact of the threshold program and to determine “lessons learned” for future program development. A new managing director for *Private Sector Initiatives* is strengthening efforts to integrate private sector activities into MCC compacts, leverage MCC compacts with the private sector, align corporate social responsibility efforts with compacts, and stimulate follow-on investments in MCC countries. *Donor and Multilateral Relations* conducted a survey of other donors’ regular reporting requirements, identifying ways for MCC to streamline its own quarterly reporting. It developed guidance on the Paris Declaration, sector-wide approaches, common donor terms, and MCC donor coordination. In joint meetings with donor partners, it identified opportunities to improve field-level donor coordination and further leverage MCC investments. *Development Policy* dramatically improved the guidance documents that are provided to compact eligible countries for proposal development, including guidance on the consultative process. A working paper—*Building Public Integrity through Positive Incentives*—was published to address how MCC’s role in the fight against corruption incorporates best practices. A database was established to track and report examples of the *MCC effect*.

# MCC's Brand

As part of our communications strategy, MCC unveiled a state-of-the-art and user-tested website during fiscal year 2007, reflecting best industry practices. Its easy navigation and constantly updated content drew an ever-increasing number of visitors, making the website one of our most effective tools in showcasing progress to date. In fact, in the year since the launch of the redesigned website, visits skyrocketed an average of 294 percent from the previous year.

Another tool in communicating MCC's mission is the tremendous public relations work undertaken by partner countries themselves. As accountable entities are established in each partner country to implement compacts, they are writing newsletters, maintaining their own websites, engaging the press, organizing events, communicating with stakeholders, and interacting with nongovernmental organizations to explain and highlight how MCC investments are fighting poverty, stimulating growth, and improving the lives of the poor. MCC's visibility in each partner country plays an instrumental role in advancing U.S. public diplomacy efforts.

## MCA Accountable Entities

Each partner country establishes a government entity to be responsible for compact implementation and to oversee its Millennium Challenge Account (MCA). Some existing MCA accountable entities in partner countries include:

Armenia	<a href="http://www.mca.am/new/enversion/index.php">http://www.mca.am/new/enversion/index.php</a>
Benin	<a href="http://www.mcabenin.bj/">http://www.mcabenin.bj/</a>
Cape Verde	<a href="http://www.mca.cv/">http://www.mca.cv/</a>
El Salvador	<a href="http://www.mca.gob.sv/fomilenio/index.php">http://www.mca.gob.sv/fomilenio/index.php</a>
Georgia	<a href="http://www.mcg.ge/">http://www.mcg.ge/</a>
Ghana	<a href="http://www.mida.gov.gh/">http://www.mida.gov.gh/</a>
Honduras	<a href="http://www.mcahonduras.hn/">http://www.mcahonduras.hn/</a>
Madagascar	<a href="http://www.mcamadagascar.org/">http://www.mcamadagascar.org/</a>
Mali	<a href="http://www.mcamali.org/">http://www.mcamali.org/</a>
Nicaragua	<a href="http://www.cuentadelmilenio.org.ni/">http://www.cuentadelmilenio.org.ni/</a>
Vanuatu	<a href="http://www.governmentofvanuatu.gov.vu/mca-vanuatu/Home/tabid/54/Default.aspx">http://www.governmentofvanuatu.gov.vu/mca-vanuatu/Home/tabid/54/Default.aspx</a>





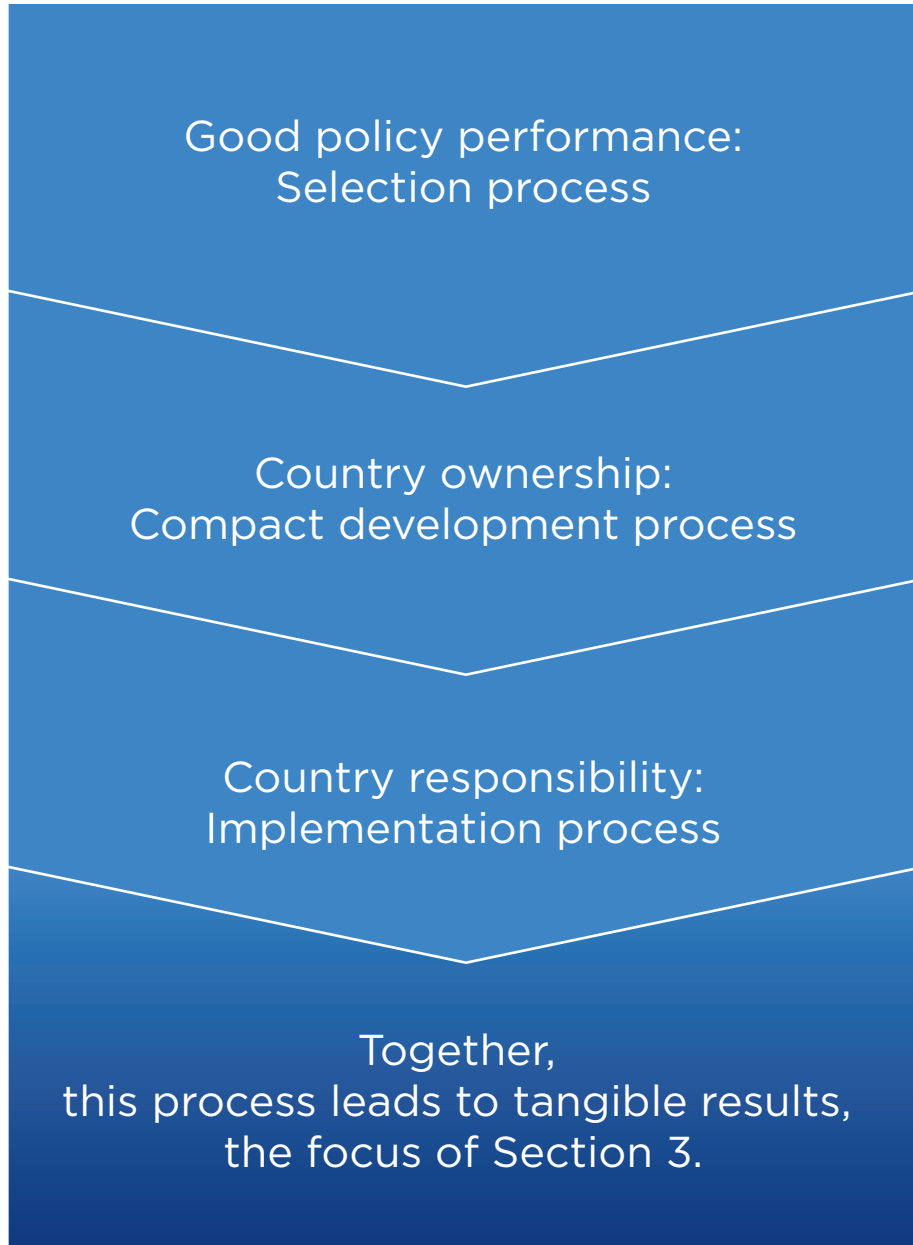
Colin Buckley, MCC Resident Country Director in Georgia, shakes hands with Leri Mikaberidze, Construction Manager for the Georgian company responsible for repairs to the North-South Gas Pipeline. The pipeline is a major component of the compact with Georgia.

Section 2

# What We Do

*Innovation  
in awarding  
development assistance*

## The MCC Process



The Millennium Challenge Corporation awards grants—not loans—to partner countries through an innovative and competitive process built upon four fundamental principles that are essential for the effective and efficient use of development assistance—good policy performance, country ownership, country responsibility, and tangible results.



# Good Policy Performance: Selection Process

We work with countries that are committed to ruling justly, investing in their people, and promoting economic freedom. We assess a government's performance in these three areas by using objective, transparent, and third-party indicators taken from non-U.S. government sources. We use these indicators to create a scorecard measuring a country's policy performance among its own peer group in the same per capita income range. Our Board of Directors then uses these scorecards to determine and select annually which countries are eligible to receive our aid based on policy performance.

## Fiscal Year 2007 Country Selection: The Competition to Participate

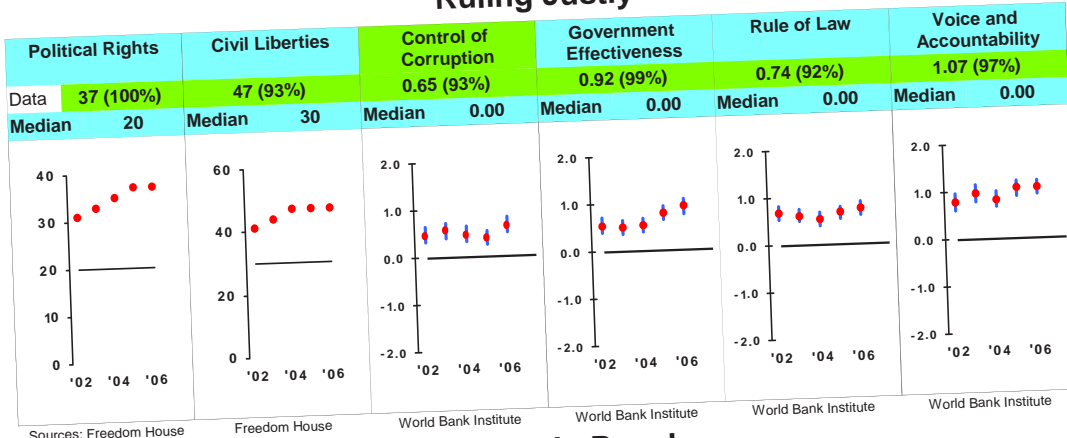
The Millennium Challenge Act of 2003, 22 U.S.C.A. 7701, 7707 (b) (the "Act") requires that MCC carry out a series of steps to determine countries eligible for MCA assistance during the fiscal year based on their commitment to just and democratic governance, investing in their people, and economic freedom. There must also be strong opportunities for poverty reduction and economic growth.

In fiscal year 2007, we completed our fourth cycle of selecting countries eligible to apply for assistance. Required reports were transmitted to the

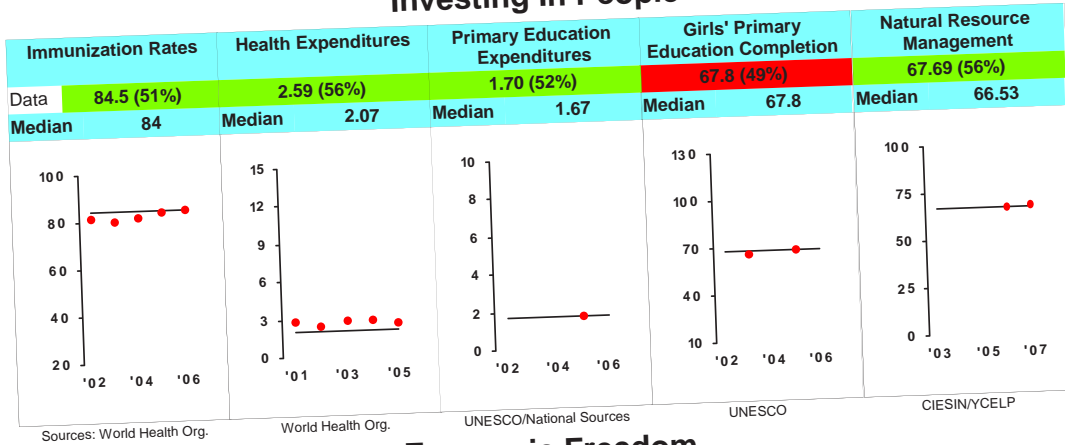
Population: 22,112,800  
 GNI/Cap: \$520 LIC

# Ghana FY08

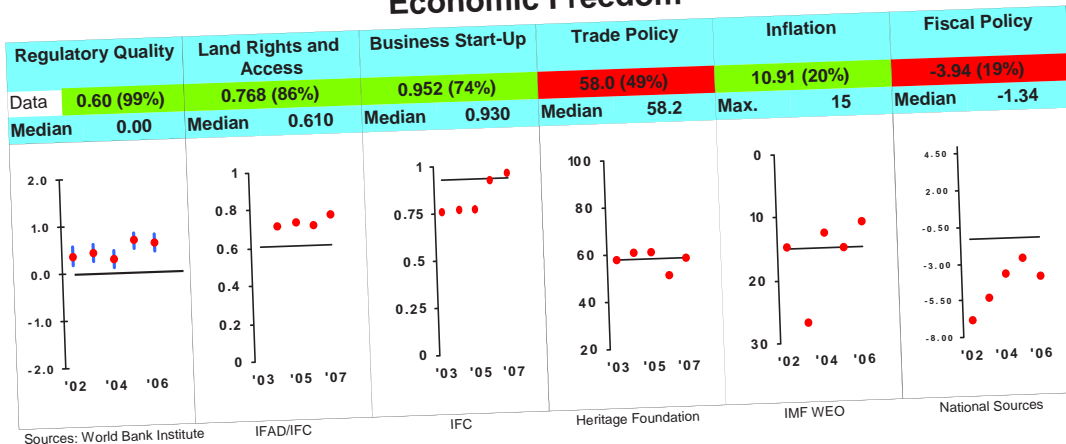
## Ruling Justly



## Investing In People



## Economic Freedom



How to Read this Scorecard: Each MCC Candidate Country receives an annual scorecard assessing its performance in 3 policy categories: Ruling Justly, Investing in People, and Economic Freedom. Under the name of each indicator is the country's score and percentile ranking in its income peer group (0% is worst; 50% is the median; 100% is best). Under each country's percentile ranking is the peer group median. Country performance is evaluated relative to the peer group median and passing scores, or scores above the median, are represented with green. Failing scores, or scores at or below the median, are represented with red. The black line that runs along the horizontal axis represents the peer group median. Each World Bank Institute indicator is accompanied by a margin of error, which is represented by the vertical blue bar.

For more information regarding the Millennium Challenge Account Selection Process and these indicators, please consult MCC's website: [www.mcc.gov](http://www.mcc.gov)



Sample MCC Scorecard showing how a country performs on the indicators.

appropriate Congressional committees at each of the following three stages of the selection process and are available on MCC's website.

## Stage 1: Identification of Fiscal Year 2007 Candidate Countries

In accordance with the Act, MCC submitted a *Report to Congress* on August 11, 2006, listing the countries that were candidates for MCA assistance during fiscal year 2007 based on their per capita income levels and their eligibility to receive assistance under U.S. law. This report identified 69 candidate countries in the "low income" category and 30 candidate countries in the "lower middle income" category for fiscal year 2007. "Low income" candidate countries have a per capita income equal to or less than \$1,675. "Lower middle income" candidate countries have a per capita income between \$1,676 and \$3,465.

## Stage 2: Selection Criteria and Methodology Report

In accordance with the Act, MCC submitted a *Report to Congress* on September 8, 2006, indicating the criteria and methodology to be used to measure and evaluate the candidate countries in order for our Board of Directors to select eligible countries from among them. Following the submission of this report and its posting to MCC's website and the *Federal Register*, we solicited and considered public comments for a period of 30 days.

At that time, candidate countries competed against their income peer group on 16 policy indicators that assess the degree to which the political, social, and economic conditions in these countries promote—and can sustain—poverty reduction and economic growth. These independently developed indicators are selected based on a number of factors, including their theoretical or empirical link to economic growth and poverty reduction; analytical rigor, quality, and objectivity; public availability; broad country-coverage; comparability across countries; and broad consistency in results from year

to year. The 16 indicators used for fiscal year 2007 are listed in the chart below.

To become eligible, candidate countries are expected to score above the median on half of the indicators in each of these three criteria areas *and* above the median specifically on the *Control of Corruption* indicator. One exception to this methodology is that to pass the *Inflation* indicator, a country's inflation rate needs to be under a fixed ceiling of 15 percent. A performance scorecard was created for each candidate country, which was published on MCC's website. MCC staff met with representatives from many of these countries to discuss policy performance on the indicators and to highlight areas where reforms might increase future chances of qualifying for assistance.

As a general practice, we continually review the indicators used to ensure they are the best possible measures of country performance, consulting with experts across the U.S. government, the development community, public and private sector practitioners, researchers at think tanks, donors, and academia. From time to time, we recommend changes or refinements

## The 16 Indicators Used for FY 2007

### *Ruling Justly*

1. Civil Liberties
2. Political Rights
3. Voice and Accountability
4. Government Effectiveness
5. Rule of Law
6. Control of Corruption

### *Encouraging Economic Freedom*

1. Cost of Starting a Business
2. Inflation
3. Fiscal Policy
4. Trade Policy
5. Regulatory Quality
6. Days to Start a Business

### *Investing in People*

1. Public Expenditure on Health
2. Public Expenditure on Primary Education
3. Immunization Rates (DPT3 and Measles)
4. Girls' Primary Education Completion

## New Indicator: Natural Resource Management Index

### Source

Created by Columbia University's Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy

### Components

1. **Protection of Eco-Regions:** assesses whether countries are protecting at least 10 percent of all their biomes (e.g., deserts, tropical rainforests, grasslands, savannas, tundra)
2. **Access to Improved Water:** measures the percentage of the population with access to at least 20 liters of water per person per day from an "improved" source (household connections, public standpipes, boreholes, protected dug wells, protected springs, rainwater collection) within one kilometer of the user's dwelling.
3. **Access to Improved Sanitation:** measures the percentage of the population with access to facilities that hygienically separate human excreta from human, animal, and insect contact
4. **Child Mortality (Ages 1-4):** measures the probability of a child dying between the ages of 1 and 4, which is determined largely by efforts to reduce indoor air pollution and expand access to potable water and sanitation services

### Why It Matters

The Natural Resources Management Index measures whether governments are investing their resources in ways that will enable poor people, particularly poor women and children, to live healthy and productive lives. Eco-region protection is important for sustainable economic growth and poverty reduction because eco-systems provide essential clean water, fresh air, healthy soils, livable climates, and wild foods that underpin human welfare. The Access to Improved Water, Access to Improved Sanitation, and Child Mortality subcomponents of this index measure a government's commitment to providing basic environmental services.

## New Indicator: Land Rights and Access Index

### Source

Created by combining the International Fund for Agricultural Development's Access to Land indicator with the International Finance Corporation's Time and Cost of Property Registration indicators

### Components

1. **Access to Land:** assesses the extent to which the institutional, legal, and market framework provides secure land tenure and equitable access to land in rural areas, including (a) the extent to which the law guarantees secure tenure for land rights of the poor; (b) the extent to which the law guarantees secure land rights for women and other vulnerable groups; (c) the extent to which land is titled and registered; (d) the functioning of land markets; and (e) the extent to which government policies contribute to the sustainable management of common property resources
2. **Days to Register Property:** measures how long it takes to register property in the capital city
3. **Cost of Registering Property:** measures the cost to register property as a percentage of the value of the property in the capital city

### Why It Matters

Land is a crucial asset and a social safety net that poor people rely on to improve their well-being. Access to land often determines whether or not the poor can earn enough income to survive and invest in their own futures. It also addresses gender equality and assesses a government's commitment to investing in women. Secure land tenure is also a critical component of sustainable natural resource management because those who lack clear ownership or use rights to their land are less likely to make long-term investments in land productivity and more likely to make short-term decisions with negative environmental impacts, such as deforestation. By measuring whether governments are improving their laws, policies and administrative practices to make land access more secure, MCC can better identify countries committed to investing in the entrepreneurship of their people and empowering them to more fully harness their skills and talents to improve their own livelihoods.

if better indicators or improved sources of data are identified. For instance, due to improvements in data quality and availability, we made several source changes to the fiscal year 2007 selection criteria. Rather than relying on multiple sources for the *Inflation* indicator, we relied exclusively on annual data reported in the International Monetary Fund's World Economic Outlook database. For *Public Expenditure on Health*, we substituted World Health Organization data for data previously collected through national governments. Finally, for the *Public Expenditure on Primary Education* indicator, we established the United Nations Educational, Scientific and Cultural Organization (UNESCO) as the primary source and self-reported data from national governments as a secondary source.

For the first time in fiscal year 2007, MCC measured each candidate country's sustainable management of natural resources using two new indicators: a *Natural Resources Management Index* and a *Land Rights and Access Index*. The two new indicators measure how well candidate countries provide clean drinking water, expand sanitation services, streamline the property registration process, and make land rights accessible and secure for poor and vulnerable populations. They were developed over the course of more than a year and resulted from a public process led by former MCC Board member Christine Todd Whitman. They involved extensive consultations with Congress, executive agencies, nongovernmental organizations, think tanks, and academics.

The *Natural Resources Management Index* and a *Land Rights and Access Index* provided non-binding, supplemental information in fiscal year 2007 and were formally adopted by the Board in September 2007 for use as selection indicators for fiscal year 2008 and beyond. The *Natural Resources Management Index* has been placed in the investing in people category, and the *Land Rights and Access Index* has been placed in the economic freedom category. The gradual and transparent integration of the two new indicators into MCC's selection framework provided candidate countries with an



*“The Millennium Challenge Corporation has already made a big contribution to development in a different way: by tying its money to a set of quantifiable and publicly-available indicators of reform progress. This allows an open discussion of what it takes to qualify for the Corporation's money and cuts down on favoritism.”*

*—Simeon Djankov,  
December 9, 2007,  
World Bank Institute blog*

opportunity to understand how the new benchmarks would be used in the eligibility selection process.

With the Board's formal adoption of these two natural resources management indicators and the decision it took to consolidate into one index the two indicators we use from the International Finance Corporation to assess the number of days and cost to start a business, the total number of performance indicators moving forward increased from 16 to 17.

### Stage 3: MCC's Board Names Fiscal Year 2007 Eligible and Threshold Countries

The third and final step in the country selection process was the Board's determination of fiscal year 2007 compact eligible and threshold eligible countries. MCC submitted this list in its *Report to Congress* on November 13, 2006 (Section 608(d) of the Act). In making its decision, the Board of Directors evaluated each candidate country's performance scorecard and exercised its discretion in considering additional information, including adjustments for data gaps, lags, or other weaknesses. The Board also considered whether MCA assistance would have an impact on poverty reduction and economic growth in a particular country as well as the extent of available MCC funds.

The re-selected countries from the "low income" category were: **Armenia, Benin, Bolivia, Burkina Faso, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, Tanzania, Timor-Leste, and Vanuatu.**

The re-selected countries from the "lower middle income" category included: **Cape Verde, El Salvador, and Namibia.**

These 21 countries in the "low income" and "lower middle income" categories had each been selected in at least one previous cycle, and the Board reselected them for fiscal year 2007 based on their continued policy performance since their prior selection. However, six of these countries—Benin,



Cape Verde, Ghana, Madagascar, Senegal, and Sri Lanka—did not perform above the median in relation to their peers on at least half of the indicators in each of the three policy categories. Yet, we did not believe that a serious erosion of policy performance had occurred in any of these countries and they were, consequently, reselected. Each of their governments committed to specific courses of actions to address indicator performance weaknesses and to improve performance overall.

Three additional countries were selected for the first time in fiscal year 2007: **Moldova** and **Ukraine** in the “low income” category and **Jordan** in the “lower middle income” category. While now eligible for compact assistance, all three of these countries are also currently participating in the threshold program. The governments of Moldova, Ukraine, and Jordan are required to successfully implement their respective threshold programs—and corresponding reforms—even during the compact development process. Proceeding with a compact depends on successful performance in each country’s threshold program.

As a result of the fiscal year 2007 selection process, **Niger**, **Peru**, and **Rwanda** were selected for the threshold program, joining 17 countries chosen during previous MCC threshold program selection rounds in 2004 through 2006. (Read “MCC’s Threshold Program” on page 58 for more details.)

*MCC as Smart Power:*

*MCC is a strategic, “soft power” asset in America’s foreign policy toolbox, an important complement to other economic and political tools that support a more prosperous and secure world in a foundational and sustainable way. In a report issued in November 2007, the CSIS Commission on Smart Power cites MCC as addressing critics’ concerns about corrupt governance in developing nations. The report states that MCC has “created incentives by which continued aid is tied to good performance.”*

## MCC's Threshold Program

To provide further incentive for policy reform and to assist countries to become compact eligible, MCC's legislation established a threshold program for countries that demonstrate a significant commitment to meeting the eligibility criteria but fall short on several indicators. Threshold assistance helps countries address specific areas of policy weakness identified in the MCA selection indicators. Up to ten percent of MCC's appropriation may be spent on the threshold program.

### **Threshold countries**

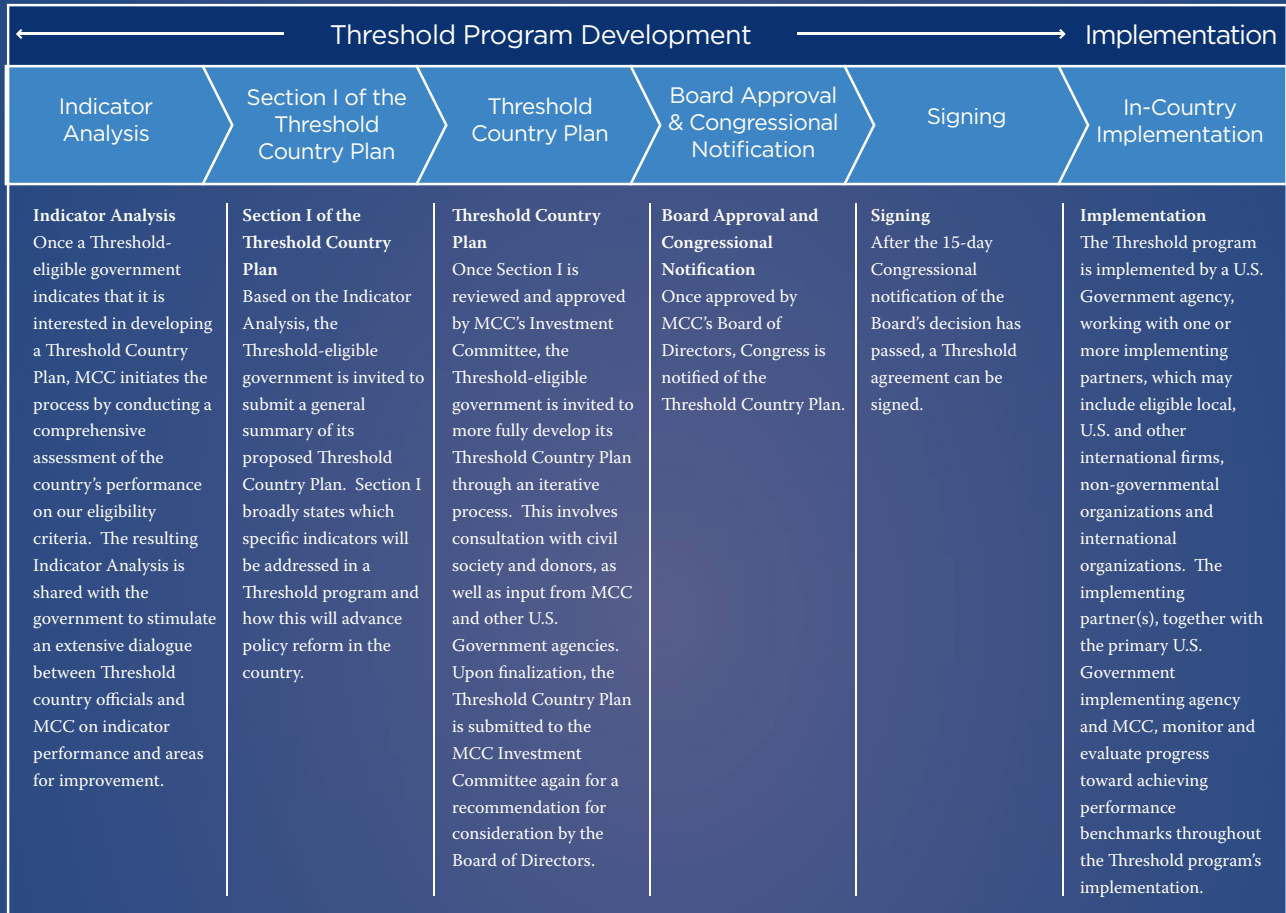
The following countries were eligible for threshold program assistance in fiscal year 2007: Albania, Burkina Faso, Guyana, Indonesia, Kenya, Kyrgyz Republic, Jordan, Malawi, Moldova, Niger, Paraguay, Peru, Philippines, Rwanda, Saõ Tomé and Príncipe, Tanzania, Uganda, Ukraine, Yemen, and Zambia. Of these, Niger, Peru, and Rwanda were selected in fiscal year 2007 to participate in the threshold program.

Certain threshold countries have subsequently been selected as compact-eligible, and performance on any ongoing threshold program will be considered by MCC's Board of Directors in approving a possible future compact.

### **Countries with approved threshold programs**

As of the end of fiscal year 2007, MCC has approved and signed 14 threshold programs totaling about \$316 million with Burkina Faso, Malawi, Tanzania, Albania, Paraguay, Zambia, Philippines, Ukraine, Jordan, Indonesia, Moldova, Kenya, Uganda, and Guyana.

# The Making of a Threshold Program



## MCC as a Major Donor

At the 2005 Gleneagles summit, President Bush and other G8 leaders agreed to double aid to Africa by 2010. Later that year at the WTO meetings in Hong Kong, the U.S. committed to more than double aid-for-trade from \$1.3 billion in 2005 to \$2.7 billion by 2010, provided development partners prioritize trade in their development plans. MCC plays an important role in helping the United States work toward these commitments. Over 60 percent of the \$5.5 billion MCC has approved in compacts through the first quarter of fiscal year 2008 benefits sub-Saharan Africa, and MCC has become the largest U.S. contributor to aid-for-trade, with nearly \$778 million in obligated aid-for-trade activities in FY 2007.

MCC is among the largest donors in each of our partner countries. After the initial compacts, which were smaller in size, MCC is now among the top three donors in most partner countries and has helped raise the overall profile of the United States as a donor.

## Country Ownership: Compact Development Process

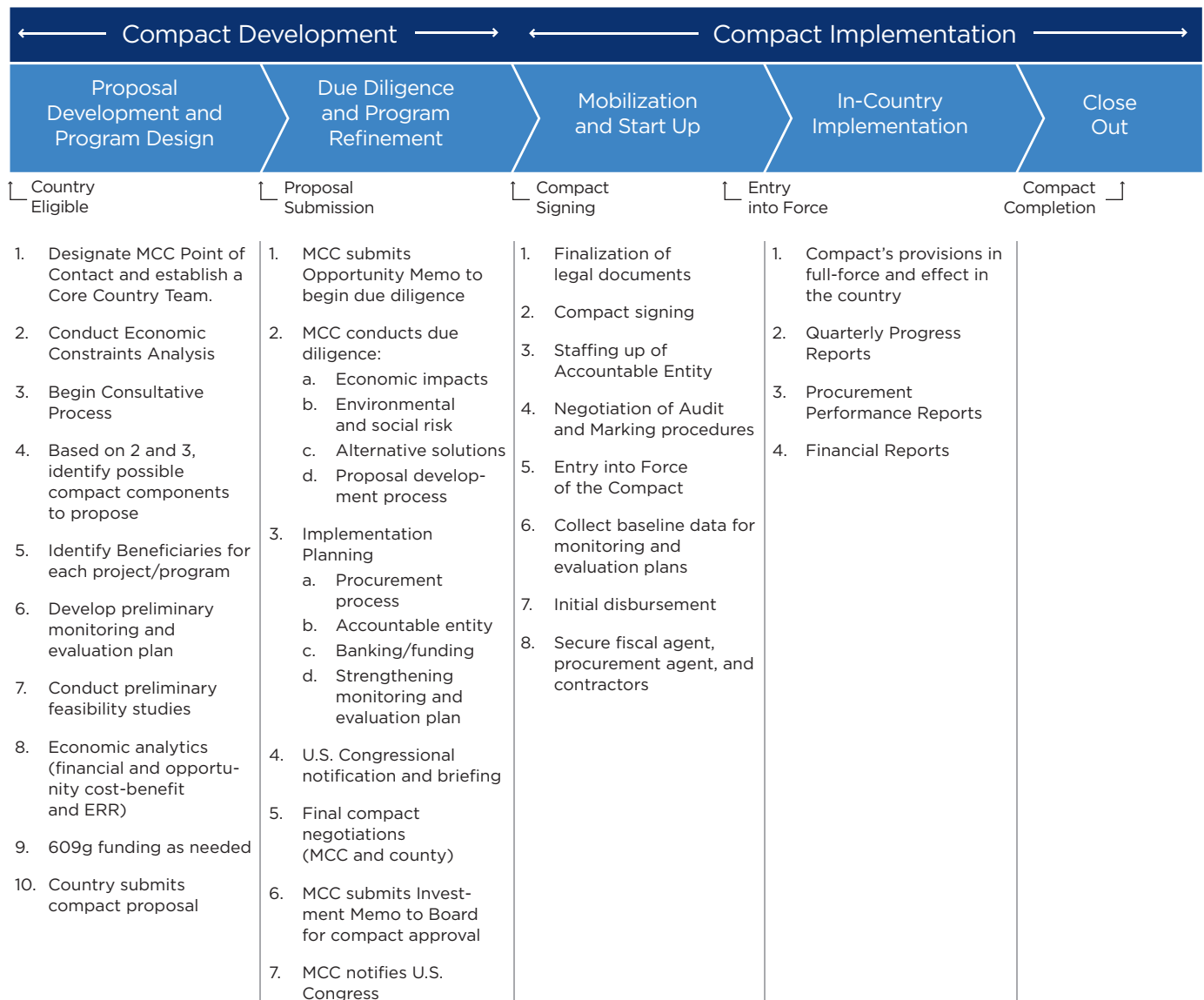
Once countries qualify and are selected for full MCC assistance because of their policy performance, they are invited to develop a proposal for funding—through an agreement we call a compact—to address their constraints to poverty reduction and economic growth. In keeping with MCC's core value of country ownership, we expect countries to inform MCC of what they need to achieve their antipoverty strategies, rather than MCC selecting and designing the programs we think we should be funding. This level of expectation—and responsibility—demanded by country ownership has stretched existing capabilities among our partner countries and developed new capacities. The process is making our partner countries the leaders of their own development.

Eligible countries must first identify their main constraints to poverty reduction and economic growth through a timely and meaningful consultative process with their civil societies, including the private sector, nongovernmental organizations, private voluntary organizations, other donors, women, and the poor themselves who are to benefit from the programs. Eligible countries are expected to design and submit their own proposals for funding addressing their identified constraints. We make it clear that should MCC approve their proposals, we expect them to be responsible for the

implementation. For this reason, we ask partner countries to think through their implementation mechanisms as part of the proposal process.

We evaluate and conduct due diligence on each proposal to determine whether it will lead to poverty reduction and growth. If a country’s proposal is approved for funding—and approval is not automatic—MCC and the country enter into a country-specific compact. This mutual agreement outlines responsibilities for both MCC and the partner country and stipulates progress benchmarks along the way to ensure accountability and outcomes.

### The Making of a Compact



## Working with Other Donors and U.S. Agencies

MCC and MCA teams have coordinated investments with USAID, other U.S. agencies, and donors throughout compact development and implementation. Some current compact activities build upon successful programs of other donors, complement existing donor initiatives, and are helping catalyze new donor investments. For example:



In **Armenia**, MCA-Armenia has accelerated the construction planning on approximately 20 kilometers of rural roads by using detailed design studies made available by the Lincy Foundation. This cooperative effort will result in approximately \$50,000 in savings to the MCA-Armenia program and allow MCA-Armenia to break ground in late 2007.



In **El Salvador**, the Central American Bank for Economic Integration has provided a \$55 million loan to the National Registry Center that is critical to the sustainability of MCC compact results. The loan supports El Salvador's Northern Zone Development Program and will be used to fund the necessary strengthening of land rights and the modernization of the cadastre and property registration systems.



In **Georgia**, MCC's Agribusiness Development Activity joined the USAID-funded activity AgVANTAGE in the publication and distribution of a magazine for farmers that reports on wholesale market prices for agricultural products and raw materials.



In Lesotho, PEPFAR activities supported the Ministry of Health and Social Welfare in developing MCC's first successful health proposal. In turn, projected MCC investments in health systems strengthening and infrastructure helped provide the impetus for PEPFAR to increase its in-country staff from seven in FY 2007 to nine in FY 2008 and enabled PEPFAR to make key FY 2008 budgeting decisions.



In **Mongolia**, the Vocational Education Project builds on complementary investments funded by the Asian Development Bank, the German Agency for Technical Cooperation, the Japan Fund for Poverty Reduction, and the Nordic Development Fund. The prior work of these donors saved MCC time and money during the project design phase and will likely yield further benefits by allowing MCA-Mongolia to incorporate lessons learned into the Vocational Education Project's implementation.



In **Morocco**, the compact's Financial Services Project builds on the strategic priorities articulated by other donors and industry professionals. MCC is partnering with the Agence Française de Développement, Germany's Kreditanstalt für Wiederaufbau, and the International Finance Corporation to invest in the Jaida fund, which provides debt funding to the Moroccan micro-credit sector.



In **Mozambique**, the compact's Water Supply and Sanitation Project builds on pioneering World Bank work started over a decade ago. MCC's approved investments in water and sanitation will benefit from \$40 million in complementary support through the World Bank's Water Services and Institutional Support Project and are attracting other donor investments into the sector as well.

MCC increased efforts to share experiences and learn from others in broader donor and development fora in areas such as evaluation, procurement, gender, and aid effectiveness. MCC donor coordination, both in partner countries and at headquarters, has helped save time and money and leverage MCC investments.

## The Consultative Process

MCC is committed to a participatory, timely, and meaningful consultative process as key to successful compact proposal development and implementation. This process takes into account the local input and perspectives of the rural and urban poor, women, private and voluntary organizations, the business community, and other donors in each partner country. Consultations are tailored to each specific phase of compact evolution.

Phase	Purpose of Consultations at this phase include:	Consultations enable partner countries:
1. Proposal development and program design	<ul style="list-style-type: none"> <li>To explain the compact development process and consultations to the public</li> <li>To gather information on problems and priorities from a wide range of stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>To identify economic obstacles with broad impact</li> <li>To identify solutions and program ideas to propose as compact components</li> <li>To draft and submit a compact proposal</li> </ul>
2. Due diligence and program refinement	<ul style="list-style-type: none"> <li>To explain publicly why the elements included in the compact proposal were selected</li> <li>To gather local-, sector- and stakeholder-specific information needed to refine technical elements of the proposal through consultations with domestic and international technical experts, the donor community, and groups that are likely to benefit from or be affected by the implementation of a proposed program or project</li> </ul>	<ul style="list-style-type: none"> <li>To make technical decisions relating to the proposal to maximize the number of beneficiaries, increase public participation, ensure gender-equal access, alleviate cost burdens on vulnerable groups, and fine-tune an impact monitoring and evaluation plan</li> </ul>



Phase	Purpose of Consultations at this phase include:	Consultations enable partner countries:
3. Mobilization and start up	To promote realistic public understanding of the compact, including outlining and managing public expectations about its implementation	To establish transparent communication channels that can be used throughout implementation to continue interacting with the beneficiaries of the proposed programs or projects, civic and private sector groups that seek information—including procurement opportunities—during implementation, and the media
4. In country implementation	<p>To provide beneficiaries with the information needed to encourage and enable them to participate in compact programs</p> <p>To gather information from beneficiaries and stakeholders about the impact and effectiveness of compact programs</p> <p>To provide interested stakeholders and the general public with information about the progress and impact of the compact</p>	To continue an ongoing exchange of information with the public throughout implementation, with an eye to correcting problems and scaling up positive outcomes

## Country Responsibility: Implementation Process

Once a partner country has successfully gone through the selection process and has developed its own feasible and approved compact, it is responsible for implementing its own compact programs and is accountable for maintaining policy performance and achieving program results. This responsibility reinforces MCC's commitment to country ownership. Tangible results in the lives of the poor are an outgrowth of successful, country-led implementation, which requires a partner country's willingness to mobilize its own resources and talented professionals for implementation. Such mobilization entails

- ★ establishing an independent, in-country accountable entity, the organization formed by the country to manage and implement compact activities,
- ★ developing systems for financial control and oversight,
- ★ finalizing the legal documentation requirements, and
- ★ concluding detailed project planning.

## Establishing the accountable entity

Each country's accountable entity—not MCC—is responsible for the daily management, operation, coordination, implementation, as well as monitoring and evaluation of the compact. The accountable entity becomes the central point of contact for MCC, other donors, contractors, consultants, and the country's citizens overall. The country decides what type of entity would best advance the goals of government accountability, transparency, efficiency, and operational capability, as well as the inclusion of stakeholders during compact implementation. The accountable entity develops and carries out all plans for the implementation of compact activities, including financial plans, procurement plans, the monitoring and evaluation plan, the fiscal accountability plan, work plans, as well as any audit plan.

## Mobilization of fiscal and procurement agents

Along with establishing an accountable entity, each MCC partner country also selects fiscal and procurement agents. These agents are responsible for establishing the financial and reporting systems, developing standard bidding documents, and beginning work on any procurement activities required prior to the compact's entry into force. In some countries, MCC uses government systems and ministries for these functions.

## Finalizing legal documentation

MCC's legal team and the country's legal counsel cooperate in finalizing all legal documentation to provide for the compact's entry into force. These documents give full legal effect to the compact, describe in detail how the

*Eighty-six percent of country partner respondents feel MCC fits in well with their country's overall development strategy, and 81 percent believe MCC's approach to country ownership will help their country achieve its development objectives.*

*Moreover, partner countries report that the MCC model of engagement provides significant oversight, helps them move toward sustainability, and supports the building of country capacity.*

*—November 2007  
Gallup Survey*

accountable entity will be structured and managed, and are required to lay the foundations for how procurements and finances are to be managed.

## Detailed project planning

With assistance from MCC staff, the accountable entities create work plans to guide compact activities. Along with such plans, the accountable entities develop feasibility studies, environmental impact assessments, and strategic environmental assessments. Procurement plans and disbursement requests are also devised to map out the steps and timelines required for procurement actions.

To ensure transparency and accountability, our assistance is disbursed according to such timelines only as performance benchmarks are achieved.

## Monitoring and Evaluation

Extensive monitoring and evaluation (M&E) plans are integrated into each MCC program to benchmark progress and measure impact. In fact, we work with eligible countries to develop instruments and procedures to enable them to carry out comprehensive and rigorous program performance monitoring and impact evaluation. M&E spans the entire life cycle of a program from concept through implementation and beyond, generally covering three main stages:

### First

We ask that countries analyze their constraints to growth and opportunities for investment before constructing a proposal. MCC conducts an **economic analysis** of every proposal submitted to identify potential economic impacts. Assessing the economic growth and poverty reduction rationale for each project also helps to identify key indicators of progress in implementation.

### Second

A set of indicators for **monitoring** performance during implementation is developed, with annual targets for each. This helps eligible countries identify problems early-on and make mid-course corrections during implementation in order to ensure that the program is on track to achieve the ultimate outcomes and impact.

### Third

While good program monitoring is essential, it is often not sufficient to measure the long term impact of a program on the well-being and incomes of beneficiaries as well as on national economic growth and poverty reduction. Thus, MCC incorporates **impact evaluations** into compact implementation as well. We are also working on ways to measure and evaluate program impacts beyond the typical five year compact duration.

Taken alone these are not new ideas, but the combination and unique implementation of these three steps, in addition to the central role the countries play, achieve the intended outcomes.



The girl in this photo lives in the village of Gomo Coura, Mali, a region where MCC is funding a road project to bring, among other things, more economic growth to the region. The village will directly benefit from the project. Photo by MCC staff member Marc Tkach.

Section 3

**Why  
We  
Do  
What  
We  
Do**

*Meaningful,  
tangible results in the  
lives of the poor*

*“...I couldn’t help but be struck with how often [HELP] Commissioners and panelists raised the MCA as an example of a model of good development assistance. It was used as an example of an innovative ambitious program that gets caught in the crosshairs of our annual budget cycle. It was used as an example of results-based assistance. It meets the Commission’s recommendations for country-led development, economic growth focus, enhanced monitoring and evaluation of aid, and support for democratic principles. And [MCC] certainly is a program that is providing much needed resources to infrastructure, an oft-cited challenge to real development by the panelists.”*

*—Sheila Herrling  
on the Center for Global  
Development blog of  
December 12, 2007,  
commenting on the  
Helping to Enhance the Livelihood of  
People around the Globe  
(HELP) Commission Report*



# Changing the Conversation About Development

While delivering country-specific results through compacts and threshold programs, MCC's approach also offers positive incentives for creating the very conditions that make development sustainable and transformative. This, too, is at the core of our early successes and demonstrates how we are changing the conversation about how development takes place.

## Changing lives through policy reforms

**MCC motivates reforms.** By stressing sound political, economic, and social policies, MCC motivates the hard work of policy changes in countries that want to either maintain their eligibility with us or qualify for it. As a result, these governments are making improvements in governance, increasing investments in health and education, and creating pro-business conditions. Even before a dollar of our assistance is invested, countries begin investing in their own development to qualify for MCC funding, a phenomenon we call the *MCC incentive effect*.

- ★ According to the World Bank's *Doing Business* project, 24 countries specifically cited MCC as the primary motivation for their efforts to improve their business climate. Interministerial committees and

presidential commissions have been set up in at least a dozen countries to devise reform strategies that address our selection criteria.

- ★ Many countries—though not yet eligible for MCC assistance—are undertaking the hard work of policy reform and improving their practices and procedures with the expectation of qualifying for our assistance. For instance, motivated by its interest to qualify for MCC funding, Guatemala has taken significant steps to improve its policy performance on MCC’s indicators. Tough anticorruption reform measures include prosecuting high-ranking officials on charges of corruption, creating a financial crimes unit, hiring a foreign accounting firm to audit congressional spending, initiating online disclosure of government procurements, and implementing a performance-based budgeting process.

Once countries become eligible, they must continue an aggressive reform agenda to keep pace with an increasingly demanding standard for eligibility. Competition is getting tougher, and countries must continue maintaining and improving policy performance.

- ★ Madagascar reduced the minimum capital requirement for new businesses by 80 percent in 2006 and saw a 26 percent increase in new business registrations. Similarly, El Salvador reduced the number of days it takes to start a business from 115 to 26 days.

## Evaluating Progress: The Questions to Ask

When MCC was created as a new model for foreign aid, we also envisioned a new way for evaluating our progress, to get at the very core of what makes development sustainable. Four key questions guide us in our self-evaluation:

- ★ **First**, are MCC candidate and partner countries elevating their focus on maintaining and improving policy performance through necessary reforms?
- ★ **Second**, are countries consulting with their citizens and other stakeholders to present well-designed programs that stimulate growth and transform the lives of the poor?
- ★ **Third**, are partner countries implementing projects in an effective and transparent way?
- ★ **Fourth**, did the projects deliver the desired results during implementation and upon completion?

## The MCC Effect

The **MCC Effect** has been externally validated by NGOs, third-party indicator institutions, other donors, and heads of state of partner countries.

**The World Bank's 2007 Celebrating Reform report hails MCC as a catalyst for reform:** "When the United States' Millennium Challenge Account made eligibility for funding dependent on the ease of business startup, countries from Burkina Faso to El Salvador to Georgia to Malawi started reforms."

**The World Bank Institute** reports that numerous MCC candidate, threshold, and compact countries have contacted them for advice on policy reforms needed to improve performance on their governance indicators. Over the last year and a half, the World Bank Institute met with Dominican Republic, El Salvador, Fiji, Guatemala, Rwanda, Yemen, Ecuador, Honduras, Kyrgyz Republic, Nigeria, Paraguay, Tanzania, Uganda, Cameroon, Malawi, the Philippines, and Indonesia, among many other countries.

**Steve Radelet, of the Center for Global Development**, has identified "a strong MCC Effect in which the requirement to pass specified quantitative indicators has created the incentives for potential recipients to more carefully track the data and introduce the policy changes needed to meet the requirements. There are examples from all around the world of the incentive effect of the MCA selection process." Radelet refers to the MCC Effect as "the major success story of the MCC." **The Millennium Challenge Account in Africa: Testimony before the House Committee on Foreign Affairs Subcommittee on Africa and Global Health, June 28, 2007**

**Michael Gerson, Senior Fellow at the Council on Foreign Relations**, points out that "since the global competition for [MCC] compacts is vigorous, nations are willing to make major changes to receive them.... When I worked at the White House, the finance minister of an African country seeking MCC funds once said to me: 'I keep telling others in my government that we've got to do better fighting corruption. We've got to compete.'" **Washington Post op-ed, August 1, 2007**

To maintain its eligibility, El Salvador also passed a new ethics/ anticorruption law and other reforms, resulting in its inclusion in the World Bank's 2007 *Doing Business* report as a top 10 performer worldwide.

- ★ Madagascar, Mali, and Benin are undertaking land reform measures, which are necessary to promote secure land rights, access to credit, investments, and increased productivity. MCC is the leading donor for land reform in Madagascar, where only seven percent of land is officially titled, and the backlog of registration requests could take over 100 years to process without these key reforms.
- ★ Nicaragua and Honduras implemented reforms to secure unprecedented levels of funding for road maintenance. These funds improve the sustainability of the road investments MCC and others are making. In a country where road maintenance funds were insufficient to maintain the road network in sustainable ways, Nicaragua, specifically, collected \$10 million for road maintenance in the first year. In Honduras, not only has funding for road maintenance dramatically increased, but also the reporting requirements for the country's road maintenance plan have improved transparency in planning and execution.

## Changing lives by rejecting corruption

**MCC demands transparency.** MCC is the only donor that currently ties eligibility for assistance to performance on a transparent and public *Control of Corruption* indicator. This creates a powerful incentive for countries to adopt tough anticorruption laws, strengthen oversight institutions, open up the public policymaking process to greater scrutiny, and step up corruption-related investigations and prosecutions.

- ★ To promote transparency and good governance, each compact adheres to strict fiscal and procurement standards. This not only protects MCC investments in partner countries from waste and

fraud, but also helps countries learn the importance of adopting and applying sound budget, fiscal, and procurement management.

- ★ Benin produced an action plan to ensure compliance with the MCC corruption indicator. On its own, it initiated sweeping reform of several government offices and ministries to reduce corruption and establish a “no tolerance for corruption” campaign. Several high-level government personnel have been dismissed or indicted on charges of embezzlement or misuse of public funds.
- ★ Georgia adopted dramatic anticorruption reforms leading to a significant improvement in its control of corruption indicator from the 36th percentile of low income candidate countries in 2004 to the 78th in 2005. The percentage of firms in Georgia reporting that bribes are necessary to get things done plummeted from 37 to seven percent. Georgia has arrested scores of corrupt public officials, made legislative changes that facilitate the prosecution of corruption cases, and increased the salaries of 10,000 public servants to counter the lure of petty corruption. In September 2007, Transparency International released its *2007 Corruption Perception Index*, and other than the Baltic countries, Georgia outperformed all other countries in the former Soviet Union. The World Bank’s 2006 and 2007 *Doing Business* reports identified Georgia as one of the world’s most aggressive reformers.
- ★ The majority of MCC’s threshold programs are designed to fight corruption.

## Changing lives through capacity building

**MCC helps countries build institutional capacity.** By insisting that partner countries design and implement their own development plans, we are strengthening institutions and jumpstarting critical thinking about the policies necessary to ensure sustainability. Country ownership encourages civil participation and accountability and helps sustain high environmental

and social impact standards. It reinforces the good policies we demand in the first place. And, good practices are spreading beyond just MCC-funded programs in partner countries.

- ★ In Ghana, one of the obstacles to successful development has been the lack of adequately trained procurement specialists. MCC is funding a *procurement capacity-building initiative* within the Ghanaian government designed to strengthen the effectiveness of various procurement entities to help Ghana *help itself* overcome this barrier to its own development. Ghana also plans to use the consultative and rigorous project evaluation process MCC requires for compact development to evaluate non-MCC funded activities within the country. Moreover, to share experiences and lessons learned in developing and implementing compacts, Ghana hosted a conference for representatives of other African countries with compacts.
- ★ In Georgia, extensive collaborative efforts are strengthening the Georgia Department of Statistics to ensure that *Millennium Challenge Georgia*—which is responsible for compact implementation, monitoring, and evaluation—has the best possible data to evaluate its program in particular and to generate stronger impact evaluation and data gathering capacity within the Georgian government overall. Asking countries to develop their own compacts—including the monitoring and evaluation plans for them—enhances their abilities and skills to evaluate other government programs. MCC partner countries are responsible for establishing baselines and demonstrating and measuring results to focus on outcomes and impacts rather than project inputs and outputs.
- ★ In Nicaragua, extensive public participation in designing and implementing the compact program has generated unwavering support from local officials, civil society groups, and program beneficiaries. This support serves to buoy the program during elections and political transitions, allowing it to progress uninterrupted.

- ★ Mali conducted an *MCA Press Corps* training workshop. Journalists from various media were briefed on both MCC and the components of the Mali's compact in a focus-group format. This has led to more in-depth investigative reporting of the program, increased reporting volume, widening coverage to radio and multiple language formats, and has inspired improved reporting on the MCA program and its synergies with other donor organizations.
- ★ In Honduras, representatives from 200 municipalities attended workshops to identify roads to be improved under the *Farm to Market Roads* activity, resulting in applications for improvements to 6,645 kilometers of road, about 10 times what can be funded with the \$21.5 million budget for this activity. Civil engineers are now using publicly available criteria to conduct field assessments of the applications to make selections. The wide participation of municipalities and the use of transparent and objective criteria to select the roads are making this a model process in Honduras.
- ★ Georgia's program raised the bar on environmental protection as well as health and safety by improving standards applied to gas pipeline repairs. Georgian corporations have embarked on a program to raise project construction and supervision to international environmental, safety, and health standards for the first time.
- ★ Farmers in the MCC-funded *Farmer Training and Development Activity* in Honduras have sharply reduced their pesticide and fertilizer use and improved their handling of these products, directly improving their health and that of other users, while minimizing damage to the watershed and improving crop yields. In addition, the MCA-Honduras program is implementing a resettlement process that is fairer and more transparent than anything previously done in Honduras.

# Changing lives by giving voice to women

**MCC engages women in development.** In keeping with our gender policy, we demand that women, alongside men, be involved throughout every stage of our assistance, including country selection, compact development and implementation, and program monitoring and evaluation. The participation of women in the process and helping them realize their political and economic rights are central to any discussion of development.

- ★ In Benin, over 100 local civil society organizations elected representatives to the working group to design that country's compact; and representatives of Benin's leading NGO promoting women's rights played an instrumental role in expressing the views of rural women and addressing the interrelated issues of land ownership and agricultural production.
- ★ Lesotho's parliament enacted a law to confer equal legal status on married women so as to engage them fully in that country's economic life. MCC welcomed this groundbreaking policy reform as critical to the success of the Lesotho compact. MCC is partially funding the government of Lesotho's commitment to identifying existing laws that conflict with the *Legal Capacity of Married Person's Bill* and introducing legislation to harmonize certain laws prior to the compact's initial disbursement after entry into force.
- ★ In Ghana, the Agriculture Productivity Project and the Land Regularization Activity address the constraints to women's participation along the productive value chain for rural agriculture and in land access, ownership, and management. For both activities, MiDA (MCA-Ghana) has taken the lead in developing gender assessments to ensure that female beneficiaries are able to both participate and benefit.
- ★ Both MCA-Mozambique and MCA-Tanzania, through their respective gender officers, are developing gender integration strategies to



ensure that both sexes are represented in the planning, implementation, and evaluation of compact activities.

## Changing lives through entrepreneurship and trade

**MCC paves the way for greater private enterprise and trade.**

Fundamental to MCC programs is the belief that aid alone can not end poverty and that MCC compacts should lay the foundation for self-sustaining economic growth. The most significant development benefit we can bring to a country is to serve as a catalyst for private sector-led investment over the long-term. The private sector brings the jobs, technology, and training necessary to encourage further policy reform and economic growth to end, ultimately, the trap of poverty.

MCC can play a unique role within the U.S. government to foster and leverage mainline international investment and help scale up viable private sector activity. We do this by coordinating efforts with other U. S. government agencies and international programs to maximize private sector incentives for investment in MCC economies. We are integrating private sector activities into MCC compacts and working to stimulate follow-on investments in MCC countries. We also address critical constraints to private sector development, such as inadequate infrastructure, by investing in partner countries' infrastructure priorities.

As the Finance Minister of Indonesia asserts, the real draw of MCC's eligibility and selection process is not necessarily the development assistance but the "good housekeeping seal of approval," which sends a powerful signal to private investors that conditions are right in MCC countries for investing and doing business.

- ★ *Grupo Beta*, a textile manufacturing firm, made a \$6 million investment in Nicaragua, attracted by the favor-

*"It was through the work of the Millennium Challenge Corporation that we were able to encourage the best instincts of Lesotho's political leadership to make these changes to the law. It is instructive to pay attention to how the MCC's leadership convinced Lesotho to make these changes. They did not demand the change as a quid pro quo for MCC assistance. Instead, they appealed to the Lesotho government's sense of reason, by convincing them that any assistance provided by the United States for economic development would be only half as effective if half of Lesotho's population was excluded from the formal economy."*

*—Statement by Congresswoman Diane Watson of California, noting the role MCC played in supporting gender equality in Lesotho  
July 24, 2007*

able business conditions MCC helped create. The investment is projected to create 1,200 new jobs.

- ★ Honduras, Nicaragua, and El Salvador, which are not only partners with MCC but also partners in trade through CAFTA-DR, are accelerating the pace of domestic market-led growth, while building greater trading capacity to maximize regional free trade arrangements already in place. MCC-sponsored workshops held in Honduras and Miami with Nicaraguan farmers have stimulated over \$3 million in new private sector commitments in agricultural exports.
- ★ In connection with its MCC compact, the Port of Cotonou in Benin has enacted dramatic changes that have allowed it to comply with the *International Ship and Port Security* code nearly two years earlier than expected. \$169 million is being used to improve the port's operations and infrastructure, resulting in fewer delays, lower operational costs, and a significant increase in the volume of merchandise traffic.
- ★ MCA-Honduras is training farmers in small business skills and production practices needed to compete under CAFTA-DR. For example, MCA is providing training on *EurepGAP* standards for good agricultural practice. *EurepGAP* training involves actions not only to ensure good agricultural product quality during production, processing, and transportation, but also to guarantee food safety as well as the protection of the environment and field workers. *EurepGAP* will allow Honduran farmers to meet global export standards.
- ★ Ghana has identified farmer and enterprise training to accelerate the development of commercial skills and post-harvest handling facilities for fruits and vegetables as a priority for trade, which is expected to significantly expand Ghana's pineapple trade.

# Changing Lives: Threshold Programs

At the end of FY 2007, highlights of threshold program progress include:



In **Burkina Faso**, construction of 132 new school complexes has been completed. A recent analysis of MCC-funded schools reported an attendance rate of over 95 percent and a drop-out rate of less than two percent.



In **Malawi**, 45 journalists were trained on investigative reporting techniques. As a result, a journalist from Capital Radio broke a story on officials diverting fertilizer subsidies, another exposed waste in the salaries of the Privatization Commission, and others reported dwindling medicines and school closures because of corruption and mismanagement. All 13 standing committees of Malawi's National Assembly convened for the first time in its history to exert the effective parliamentary oversight that is critical to executive branch accountability and the sustainability of anticorruption efforts.



In **Zambia**, the business registration process at the Patents and Companies Registration Office has been reduced from 10 days to one, effectively reducing the number of days required to start a business from 35 to less than 10. The projected benefit from the savings in business personnel time and earlier initiation of business activity is estimated at more than \$12 million per year.



In **Jordan**, legislation to reform municipal governments passed, allowing for the election of municipal mayors and council members, the reduction of the voter eligibility age from 19 to 18, and the establishment of a 20 percent quota for women in municipal councils. MCC support is now assisting nine municipalities—including one with a female mayor—to respond better to the priority needs of their citizenry through targeted trainings, grants, and public discussion programs.



In **Tanzania**, MCC support for training in investigative journalism has resulted in Tanzanian newspapers publishing over 800 stories exposing corruption.

# Early Results in Countries with Threshold Programs

## Changing Lives in Africa

### Burkina Faso

Signed: July 22, 2005

#### *Program Description*

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

USAID is administering this program on MCC's behalf.

#### *Notable Results*

- ★ Construction of 132 planned new "girl-friendly" school complexes has been completed.
- ★ Just under 5,000 students were enrolled in the 2005-2006 school year, over 40 percent more than projected. Over half of these students were girls. In the 2006-2007 school year, over 12,400 students were enrolled, 30 percent more than projected. Again, more than half were girls.
- ★ A recent analysis of MCC funded schools reported an attendance rate of over 95 percent and a drop-out rate of less than two percent.



# Early Results in Countries with Threshold Programs

## Changing Lives in Africa



### Kenya

Signed: March 23, 2007

#### *Program Description*

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

USAID is administering this program on MCC's behalf.

#### *Highlights of Expected Results*

- ★ Improve transparency and accountability, and decrease corruption in the public sector.
- ★ Reduce undocumented extra payments or bribes connected with the awarding of public contracts.
- ★ Reduce the extent to which the health sector is affected by corruption.

# Early Results in Countries with Threshold Programs

## Changing Lives in Africa

### Malawi

Signed: September 23, 2005

#### *Program Description*

Malawi is implementing 15 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.

USAID is administering this program on MCC's behalf. In addition, portions of the program are being implemented by the U.S. Department of Treasury and the U.S. Department of Justice.

#### *Notable Results*

- ★ The prosecutorial abilities of Malawi's Department of Public Prosecutions, the Anticorruption Bureau, and the police force have been strengthened.
- ★ Police training has been standardized to include practical skills for handling both crime victims and suspects.
- ★ A Financial Intelligence Unit was created in August 2007, pursuant to an anti-money laundering bill passed in August 2006 defining penalties for engaging in the activity.
- ★ The government of Malawi put into operation an Integrated Financial Management Information System (IFMIS) during the first half of 2007. This new system of financial controls contributes to greater transparency and accountability.



# Early Results in Countries with Threshold Programs

## Changing Lives in Africa



- ★ All 13 standing committees of Malawi's National Assembly convened for the first time in its history to exert the effective parliamentary oversight that is critical to executive branch accountability and the sustainability of anticorruption efforts.
- ★ Forty-five journalists were trained on investigative reporting techniques. As a result, a journalist from Capital Radio broke a story on officials diverting fertilizer subsidies, another exposed waste in the salaries of the Privatization Commission, and others reported dwindling medicines and school closures because of corruption and mismanagement.
- ★ With the support of threshold program activities, Malawi's sovereign credit rating was upgraded from CCC+ to B-. A higher sovereign credit rating indicates improved financial transparency and practices, which increases a country's prospects for foreign direct investment.



# Early Results in Countries with Threshold Programs

## Changing Lives in Africa

### Tanzania

Signed: May 3, 2006

#### *Program Description*

The \$11.2 million Tanzania threshold program is focused on four specific anti-corruption initiatives: 1) building the monitoring capacity of the non-governmental sector; 2) strengthening the rule of law for good governance; 3) establishing a Financial Intelligence Unit; and 4) curbing corruption in public procurement.

USAID is administering this program on MCC's behalf. In addition, portions of the program are being implemented by the U.S. Department of Treasury and the U.S. Department of Justice.

#### *Notable Results*

- ★ The government set up a Financial Intelligence Unit in July 2007, tasked with analyzing suspicious financial transactions in order to combat corruption.
- ★ The government approved the Prevention of Corruption Act of 2007, effective July 1, 2007. This act created 20 new corruption-related offenses, including in procurement, and gave the Prevention and Combating of Corruption Bureau greater powers, including the right to seize assets.
- ★ With MCC support for training in investigative journalism, Tanzanian newspapers published over 800 stories exposing corruption, exceeding the program's target.
- ★ Five districts initiated public expenditure tracking systems (PETS) activities in the third quarter of FY 2007, bringing the total number of districts using PETS in Tanzania to 31. Improved financial systems reduce opportunities for corruption.



# Early Results in Countries with Threshold Programs

## Changing Lives in Africa



### Uganda

Signed: March 29, 2007

#### *Program Description*

The \$10.4 million threshold program in Uganda 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.

USAID is administering this program on MCC's behalf.

#### *Highlights of Expected Results*

- ★ Reduce losses due to procurement-related corruption by \$10 million from a baseline estimate of between \$64 and \$85 million.
- ★ Decrease by 33 percent the amount of unaccounted-for central government expenditures.
- ★ Increase the number of procurement audit findings that lead to investigations, legal or administrative actions or referrals to other agencies, from three to 10 per year.
- ★ Increase the number of convictions as a percentage of all corruption cases investigated from 30 to 50 percent.
- ★ Through the work of civil society organizations, expose at least 10 corruption cases, with three public institutions, five private companies, and two high-profile individuals subject to in-depth inquiry.

# Early Results in Countries with Threshold Programs

## Changing Lives in Africa

### Zambia

Signed: May 22, 2006

#### *Program Description*

The \$22.7 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.

USAID is administering this program on MCC's behalf.

#### *Notable Results*

- ★ Integrity Committees, or internal watchdog units, have been established, and codes of conduct and ethics for public officials have been developed at key institutions to fight corruption and reduce the incidence of bribery and improper behavior.
- ★ To reduce corruption in the border management of trade, a centralized “single window” process has been launched.
- ★ The Value Added Tax registration process at the Zambia Revenue Authority has been reduced from 21 to three days.
- ★ The business registration process at the Patents and Companies Registration Office has been reduced from 10 days to one, effectively reducing the number of days required to start a business in Zambia from 35 to less than 10. The projected benefit from the savings in business personnel time and earlier initiation of business activity is estimated at more than \$12 million per year.



# Early Results in Countries with Threshold Programs

## Changing Lives in Eurasia



### Albania

Signed: April 3, 2006

#### *Program Description*

Reducing corruption is the primary focus of the \$13.9 million Albania threshold program. Albania is receiving assistance from MCC for three programs aimed at reforming tax administration, public procurement, and business administration. The program is designed to increase the national tax base and combat the corruption and red tape that make it difficult to start a new business.

USAID is administering this program on MCC's behalf.

#### *Notable Results*

- ★ The government of Albania adopted legislation to simplify business registration procedures and remove the courts from this process.
- ★ In September 2007, Albania launched a “National Registration Center” in Tirana to provide citizens with a “one stop shop” for starting a business. Service windows will be launched in 29 municipalities.

# Early Results in Countries with Threshold Programs

## Changing Lives in Eurasia

### Indonesia

Signed: November 17, 2006

#### *Program Description*

The \$55 million threshold program seeks to ensure that Indonesia immunizes at least 80 percent of children under the age of one for diphtheria, tetanus, and pertussis and 90 percent of all children for measles on a sustained basis. The threshold program also is intended to help curb public corruption by reforming the judiciary and anti-corruption institutions and assisting with procurement reform.

USAID is administering this program on MCC's behalf. Portions of the program are being implemented by the U.S. Department of Justice.

#### *Highlights of Expected Results*

- ★ For children under one year of age, increase diphtheria, tetanus, and pertussis immunization rates to 80 percent and measles immunization rates to 90 percent in all 222 districts and 90 percent of villages.
- ★ Improve performance on Transparency International's Corruption Perception Index and World Bank Institute's Control of Corruption Indicator.
- ★ Reduce money laundering through banks and undocumented extra payments or bribes connected with getting favorable judicial results.
- ★ Reduce the pervasiveness of money laundering through banks and non-bank channels.
- ★ Increase the number of high-level government officials prosecuted for corruption.
- ★ Reduce undocumented extra payments, bribes or other favoritism connected with the awarding of public contracts.



# Early Results in Countries with Threshold Programs

## Changing Lives in Eurasia



### Jordan

Signed: October 17, 2006

#### *Program Description*

The \$25 million Jordanian threshold program aims to strengthen democratic institutions by supporting Jordan's homegrown efforts to broaden public participation in the political and electoral process, increasing local government transparency and accountability, and enhancing the efficiency and effectiveness of customs administration.

USAID is administering this program on MCC's behalf.

#### *Notable Results*

- ★ Jordan passed legislation to reform municipal governments. Changes brought about by this law allow for the election of municipal mayors and council members, the reduction of the voter eligibility age from 19 to 18, and the establishment of a 20 percent quota for women in municipal councils. Voter turnout among women was greater than voter turnout among men during the July 2007 municipal elections.
- ★ Jordan has selected the nine provinces to receive threshold program assistance under the *Municipal Governance* component. MCC implementers have held meetings with stakeholders and have begun program activities in the specified municipalities.

# Early Results in Countries with Threshold Programs

## Changing Lives in Eurasia

### Moldova

Signed: December 15, 2006

#### *Program Description*

The \$24.7 million Moldovan threshold program seeks to reduce corruption in the public sector through reforms to the judicial, health, tax, police, customs systems, and the national anti-corruption agency. The reforms will complement Moldova's national strategy aimed at reducing corruption and will help civil society and the media monitor the government's progress.

USAID is administering this program on MCC's behalf. In addition, portions of the program are being implemented by the U.S. Department of Justice.

#### *Highlights of Expected Results*

- ★ Reduce bribes connected with getting favorable judicial decisions.
- ★ Improve public reporting of corruption cases by Moldovan media.
- ★ Reduce the extent to which the health care sector is affected by bribes and other corruption.
- ★ Reduce corruption in the tax administration, customs service, and police, including payment of bribes by business owners.



# Early Results in Countries with Threshold Programs

## Changing Lives in Eurasia



### The Philippines

Signed: July 26, 2006

#### *Program Description*

The \$20.7 million Philippines threshold program aims at improving revenue administration and anticorruption efforts. Specifically, the program is intended to reduce corruption by strengthening the Office of the Ombudsman and strengthening enforcement within specific offices of the Department of Finance.

USAID is administering this program on MCC's behalf.

#### *Notable Results*

- ★ The Philippine government matched MCC's threshold program funding with an additional \$20 million to fight corruption.
- ★ Antismuggling and tax evasion enforcement has increased significantly from pre-program levels with MCC support.
- ★ A U.S. Federal Prosecutor provided training to counterpart agencies, including the justices at the Philippine Anti-Graft Court, on effective investigation and prosecution of fraud and corruption cases.
- ★ The *Run After The Smugglers* program was created within the Bureau of Customs on May 22, 2007 and filed cases against five firms and 17 individuals for smuggling.
- ★ The computerization of seven (of 75 planned) district offices of the Bureau of Internal Revenue was completed.
- ★ The number of anti-tax evasion cases filed was 87 in the third quarter of FY 2007, well above the target of 50.



# Early Results in Countries with Threshold Programs

## Changing Lives in Eurasia

### Ukraine

Signed: December 4, 2006

#### *Program Description*

MCC has signed a \$45 million threshold program with Ukraine that is intended to address corruption in higher education and the judiciary, create internal inspection divisions in government institutions, and help streamline government regulations in customs and other areas. This program also aims to strengthen civil society and the media's ability to monitor and expose corruption.

USAID is administering this program on MCC's behalf. In addition, portions of the program are being implemented by the U.S. Department of Justice.

#### *Notable Results*

- ★ Activities under the Ukraine threshold program received considerable media attention with the May 2007 publication of the results of a national survey on perceptions about corruption.
- ★ Subgrants totaling \$460,000 were given to 39 NGOs throughout Ukraine, in addition to 50 awards to media organizations, to support anticorruption programs.



# Early Results in Countries with Threshold Programs

## Changing Lives in Latin America



### Guyana

Signed: August 23, 2007

#### *Program Description*

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

USAID is administering this program on MCC's behalf.

#### *Highlights of Expected Results*

- ★ Achieve a VAT compliance ratio (actual receipts to potential receipts) of 82 percent.
- ★ Reduce the number days for customs clearance by 50 percent.
- ★ Decrease the average number of days to register a business from 46 to 30.

# Early Results in Countries with Threshold Programs

## Changing Lives in Latin America

### Paraguay

Signed: May 8, 2006

#### *Program Description*

The principal objective of the \$34.6 million Paraguay threshold program is to reduce corruption. The program aims to strengthen the rule of law by increasing penalties for corruption and to build a transparent business environment by confronting informal business transactions. The threshold program also has a business development component aimed at reducing the number of days required to start a business.

USAID is administering this program on MCC's behalf. In addition, portions of the program are being implemented by the U.S. Department of Treasury.

#### *Results Achieved*

- ★ The cost to start a business has been reduced from \$750 to \$250, and the number of days required to start a business has been cut in half from 74 to 36.
- ★ Paraguay's business registration "one stop shop" registered its first companies in January 2007.
- ★ The *Fedatario Program*, which encourages increased tax compliance, opened 280 cases against tax evasion, corruption, and contraband.
- ★ Training is underway for select personnel to carry out confiscations of contraband along the country's borders. During the spring of 2007, DETAVE, a new Customs Agency unit, conducted over 80 antismuggling and contraband operations. The unit has seized contraband and other illegal goods worth approximately \$950,000. (Customs seizures in all of 2006 totaled \$1.4 million.)



# Changing Lives: Compacts

Initial performance results reported by countries in compact implementation demonstrate that MCC is making substantial progress. As of the end of fiscal year 2007, highlights of progress include:



In **Madagascar**, a total of more than 876,000 documents have been inventoried to enable better land use. Six Agricultural Business Centers are now operational in five zones, with over 3,950 visitors to date and 45 field agents as of June 2007 providing services to small and medium enterprises. The agricultural project is providing technical assistance to over 7,500 farmers in five zones.



In **Armenia**, 2,453 participants have been trained in on-farm water management to ultimately increase agricultural production, of which 571—almost 23 percent—are female farmers.



In **Georgia**, the first round of emergency repairs to the *North-South Gas Pipeline* in Georgia have been completed, improving the long term security and diversification of the country's natural gas supply and providing Georgian citizens and businesses with electricity and heating as temperatures drop. In addition, grants totaling \$1.1 million to 34 new or expanding agribusinesses are helping them improve technologies and access markets. These agribusinesses will employ about 400 people and do business with 22,000 customers and suppliers.



In **Nicaragua**, thousands of farmers and rural entrepreneurs have benefited from technical assistance and business development services.

While infrastructure projects in compact countries typically take longer to launch as quarterly and other performance reports suggest, supplemental indicators indicate that MCC is reaching key process milestones on these projects so that longer-term objectives can be achieved. In certain cases, targets have been reached ahead of schedule. One of the targets for road rehabilitation in Cape Verde was exceeded, and a target for the value of regional infrastructure projects in Georgia was surpassed. Georgia also completed 100 percent of its emergency pipeline repairs. The rise in procurements to mobilize key activities indicates that progress on infrastructure and other projects will intensify in fiscal year 2008.

Overall, results reported on various process milestones, initial performance indicators, and annual targets demonstrate that partner countries are achieving substantive progress.

# Early Results in Countries with Compacts

## Changing Lives in Africa



### Benin

#### *Program Description*

The five-year, \$307 million MCC compact with Benin aims to increase investment and private sector activity. 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.

#### *Results Achieved*

- ★ The rural land titling program has begun and is expected to formalize land registries in 300 villages across Benin over the next four years.
- ★ Through MCC support, stricter entrance regulations for the Port of Cotonou have been implemented to improve efficiency and security.
- ★ Studies of the demand for financial services and of technological alternatives for the provision of financial services have been completed and form the basis for a competitive grant facility to begin in 2008.
- ★ A firm has been contracted to examine the land registration system and produce a White Paper recommending the policy foundation for Benin's new land policy, to be enacted in 2008.

# Early Results in Countries with Compacts

## Changing Lives in Africa

### Cape Verde

#### *Program Description*

The five-year, \$110 million MCC compact with Cape Verde is intended to help that country achieve its national development goal of transforming its economy from aid-dependency to sustainable, private sector-led growth.

The 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.

#### *Result Achieved*

- ★ Construction has begun on the first of several roads and bridges on the islands of Santiago and Santo Antao.



# Early Results in Countries with Compacts

## Changing Lives in Africa



### Ghana

#### *Program Description*

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 intended 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.

#### *Results Achieved*

- ★ Ghana entered into force on February 16, 2007.
- ★ The *Millennium Development Authority (MiDA)*, the accountable entity responsible for the compact's implementation, has signed *Implementing Entity Agreements* with the Bank of Ghana to implement the agricultural credit program; the Public Procurement Authority to implement the *Procurement Capacity Building* project; the Ministry of Food and Agriculture to implement an activity within the *Commercial Training of Farmer Based Organizations* project; and the Institute of Social Scientific and Economic Research to conduct preparation work for a major household survey used for compact monitoring and evaluation and the Ghana Statistical Service to carry out such a survey.



# Early Results in Countries with Compacts

## Changing Lives in Africa

### Lesotho

#### *Program Description*

The five-year, \$363 million compact is expected to have an economy-wide impact affecting Lesotho's entire population. It 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

#### *Results Achieved*

This compact has yet to enter into force.





## Compact Helps a Malagasy Family Live Securely



In the district of Faratsiho, the **Land Tenure Project** component of Madagascar's \$110 million compact with the Millennium Challenge Corporation is beginning to pay off. As part of its activities, the project works to secure land rights for smallholder farmers to encourage them to make investments in their land, which will contribute to an increase in household income and land productivity.

Justine Rasoamanahirana, like most of the rural population in Madagascar, inherited her land from her parents. This traditional method of transferring land ownership consists of simply a verbal agreement between family members. Because there is no legal documentation of this transfer of ownership, customary rights to land are not registered at the state-run land administration offices located in the regional capitals. Owners of non-titled land are vulnerable to people encroaching on their property and outsiders purchasing the land through transactions at the regional land administration offices.

For years, Justine has seen her four parcels of land get smaller and smaller as her neighbors slowly stretched the boundaries of their adjacent fields. Even though the parcels total only 0.33 hectares, this land represents her livelihood, which comes from potato and rice farming. After hearing about the project's local land management office operated in partnership with the government's land reform program, Justine decided to obtain land certificates—new land rights documents that local authorities are empowered to issue—to legalize her property claim. In August 2007, she and her family received certificates to all four parcels, securing her legal right to her land.

Having secured her land, Justine went to work leveraging her assets. She used two of her parcels as collateral for a \$500 loan from a microfinance institution, which she used to invest in her potato farm. The tenure security on another plot gave her the confidence to invest in the construction of a small house that she rents. The rental income from this house has been enough to pay for her children's school fees and to purchase oxen which the family uses to transport their crops to market. Justine, her husband, and her four children are now living a more secure life in Madagascar.

Through the **Land Tenure Project**, and its activities to decentralize land management services, formal property rights are being made accessible to rural farmers in Madagascar for the first time. The **Land Tenure Project** has opened 19 local land management offices and plans to open another 236 offices in 2008. The **Land Tenure Project** also supports other pillars of the government's land reform program, including modernizing regional land administration services and making legal and policy changes. In addition, the Madagascar compact increases farmer access to financial credit by supporting microfinance institutions and banks and encourages agricultural investment and profitable enterprises by providing business management and agricultural production training for farmers.

# Early Results in Countries with Compacts

## Changing Lives in Africa

### Madagascar

#### *Program Description*

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



#### *Results Achieved*

- ★ 19 local land offices are now in operation and have issued some 729 land certificates.
- ★ All existing land documents in 29 land administration services—a total of more than 876,000 documents—have been inventoried.
- ★ Sites for four of six new rural branches of the National Savings Bank have been identified and building designs are being completed. Expanded services from these new branches will improve rural access to finance.
- ★ The institutional support fund for microfinance institutions (MFIs) has awarded five grants to MFIs, totaling \$750,000 to enable them to expand their services in rural Madagascar.
- ★ Six Agricultural Business Centers are now operational in five zones, with over 3,950 visitors and 45 field agents as of June 2007 providing services to small and medium enterprises.
- ★ The agricultural project is providing technical assistance to over 7,500 farmers in five zones.

# Early Results in Countries with Compacts

## Changing Lives in Africa



- ★ Over 340 business plans have been developed by newly established or formalized cooperatives, associations, and small enterprises.
- ★ Land certificate acquisitions provided through land offices and complimentary training in business plan development and improved production technology provided by the Agricultural Business Centers have resulted in the mobilization of \$485,000 of credit from microfinance institutions.

# Early Results in Countries with Compacts

## Changing Lives in Africa

### Mali

#### *Program Description*

The five-year, \$461 million compact with Mali seeks to increase the productivity of the agriculture sector and regional enterprises. The compact is intended to serve 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.



#### *Results Achieved*

- ★ The MCA program is applying important lessons from first-round MCA countries by putting key systems in place early. Fiscal and procurement agents are mobilized, the bank agreement has been executed, the compact has been ratified, and feasibility and design work has commenced for major infrastructure, all before entry into force on September 17, 2007.
- ★ The MCA-Mali unit has been transferred from the Prime Minister's office to the Presidency. This reflects the close integration of the MCC program within the President's five year socio-economic development plan and the close oversight the President wishes to exercise. As a result, the MCC program has received very high visibility.
- ★ The recruitment process for nine key MCA-Mali positions is progressing.

# Early Results in Countries with Compacts

## Changing Lives in Africa



### Morocco

#### *Program Description*

The five-year, \$697.5 million compact 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.

#### *Results Achieved*

This compact has yet to enter into force.

# Early Results in Countries with Compacts

## Changing Lives in Africa

### Mozambique

#### *Program Description*

The five-year, \$507 million compact 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 program aims to improve water systems, sanitation, access to markets, land tenure services, and agriculture in the targeted districts.



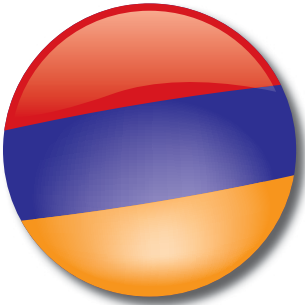
#### *Results Achieved*

This compact has yet to enter into force.

- ★ With strong support from the government's top leadership, including President Guebuza, the private sector, and civil society, several activities have prepared for compact implementation since signing.
- ★ The compact was ratified on August 7, 2007 by the Council of Ministers, which also approved the creation of MCA- Mozambique to manage implementation. The Ministry of Public Works, the Ministry of Agriculture, and the Ministry of Finance continue to prepare and plan for the implementation of their respective projects and activities.
- ★ The Council of Ministers approved the *Water Sector Policy*, including a water resources management strategy as well as a national water policy and water allocation licensing regulation. This is a policy reform essential to the compact's success.
- ★ The MCC office has officially opened for business and the staff is on board.

# Early Results in Countries with Compacts

## Changing Lives in Eurasia



### Armenia

#### *Program Description*

The five-year, \$235 million MCC compact with Armenia is focused on increasing economic performance in the agricultural sector. Investments are planned to upgrade up to 943 kilometers of roads, providing communities and rural residents with reduced transport costs and better access to jobs, markets, and social services, and increase the productivity of as many as 250,000 farmer households through improved water supply, higher yields, higher-value crops, and a more competitive agricultural sector.

#### *Results Achieved*

- ★ Armenia exercised a groundbreaking approach to evaluating the impact of an on-farm water management training that various villages and communities are to receive. A public meeting was held with Armenian stakeholders, non-governmental organizations, press, and government officials to randomly select the order in which communities would receive training. Such rigorous randomization in impact evaluation highlights the ongoing consultative process, demonstrates a commitment to fairness and transparency, and increases accountability.
- ★ 2,453 participants have been trained in on-farm water management to ultimately increase agricultural production, of which 571—almost 23 percent—are female farmers.
- ★ The design phase for initial rural road and irrigation infrastructure is nearing completion, and road construction is anticipated to begin by the end of 2007.



# Early Results in Countries with Compacts

## Changing Lives in Eurasia

### Georgia

#### *Program Description*

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



#### *Results Achieved*

- ★ The Agribusiness Development Project has awarded grants worth \$1.1 million to 34 new or expanding agribusinesses. These grants will support agribusiness development projects by improving technologies and facilitating market access. They will employ about 400 people and do business with 22,000 customers and suppliers.
- ★ Phase I repairs on the North-South Gas Pipeline have been completed. These repairs protect the pipeline from corrosion, landslide, and floodwaters. As a result of the rehabilitation, existing technical losses of natural gas from the pipeline will be reduced and the probability of accidents on the pipeline as well as health hazards and environmental risks caused by gas leaks will decrease. The Georgian Oil and Gas Corporation, which is managing the project, is strengthening its capacity to ensure the pipeline's sustainability over the long term. In addition to transmitting commercial and residential gas for the entire country, the pipeline also provides gas to an electric power plant.
- ★ The Georgia Regional Development Fund made its first investment, a combination of debt and equity that will total \$1.7 million.

# Compact Unleashes the Power of a Pipeline



The successful emergency repair to Georgia's North-South Gas Pipeline near the village of Gldani, outside the capital of Tbilisi, could not have been timelier. Some 141 meters of the pipeline lay exposed over the Gldanula River. Every spring, when rains flooded the river, the pipeline took a beating. Its already corroded state would be hammered further by rocks and boulders sliding down from the mountains and high water levels would scour the pipeline. The North-South Gas Pipeline at the Gldanula River crossing was in urgent need of repairs before another spring flooding season. Without repairs, the pipeline's failure would cause severe safety and environmental hazards and disrupt gas supply to Tbilisi and Georgia's one gas-fired electricity power plant.

Repairing the North-South Gas Pipeline became a priority for the Georgian government and was incorporated in the Millennium Challenge Georgia's **Energy Infrastructure Rehabilitation Project**, one component in Georgia's overall \$295.3 million MCC compact. Repairing the pipeline at the Gldanula River crossing is one of six high risk priority sections identified for replacement to protect against corrosion, landslide, and floodwaters.

The solution in Gldani was to safely bury the exposed pipeline under the riverbed before the spring floods. Throughout the winter, a consortium of local Georgian firms tackled the project. **GeoEngineering** raced against time to divert the river deep underground so they could repair the pipeline. The new pipe was lowered into a trench, given a protective concrete coating, and then covered. The day after the new pipe was connected, melting snows and torrential rains flooded the Gldanula River, but the pipe lay securely buried and undisturbed beneath the raging torrent.

True to MCC's commitment to countries owning and implementing their own MCC compacts, the **Georgian Oil and Gas Corporation**, which operates the pipeline on the government's behalf, designed and supervised repairs. In preparing for the project, **BP**, an oil and gas corporation with extensive experience in the region, independently provided the **Georgian Oil and Gas Corporation** with technical assistance and on-the-job training in project, health, safety, and environmental management.

As a result, the **Georgian Oil and Gas Corporation** and the local Georgian contractor managed to complete the pipeline repair in full compliance with international environmental, safety, and health standards for the very first time. The technical skills and expertise gained from working to these standards set a new bar for engineering achievement in Georgia and strengthened local capacity to ensure the pipeline's sustainability well into the future. With such experience in hand, the **Georgian Oil and Gas Corporation** is planning to implement new operating standards and is now supervising additional rehabilitations funded by the Georgian government.

Most important, by repairing priority sections of the North-South Gas Pipeline, the rehabilitation project improves the long term security and diversification of Georgia's natural gas supply, and Georgian citizens and businesses are already benefiting from the power of the repaired pipeline, with access to electricity and heating as temperatures drop.

# Early Results in Countries with Compacts

## Changing Lives in Eurasia

### Vanuatu

#### *Program Description*

The five-year, \$65 million compact addresses the country's poor transportation infrastructure. Consisting of up to 11 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.

#### *Results Achieved*

- ★ The National Budget contains a substantial increase of \$4.5 million for the Public Works Department's budget for road maintenance. The funds are being used for community maintenance contracts and small civil works.



# Early Results in Countries with Compacts

## Changing Lives in Latin America



### El Salvador

#### *Program Description*

In El Salvador, the five-year, \$461 million compact seeks to improve the lives of Salvadorans through strategic investments in education, public services, agricultural production, rural business development, and transportation infrastructure. The largest of the compact's components, the transportation project, intends to physically unify El Salvador's Northern Zone with the rest of the country, enabling new economic opportunities for rural households, lower transportation costs, and decreased travel times to markets.

#### *Results Achieved*

- ★ The MCA program made excellent use of its pre-entry into force (EIF) period to prepare for efficiently implementing the compact. As of the point of EIF on September 20, 2007, El Salvador had accomplished the following: (1) the entity implementing the compact, FOMILENIO, became fully staffed and is operating at full capacity; (2) the Board of Directors has been confirmed and met nearly a dozen times; (3) program implementation plans are well advanced, including key feasibility studies and environmental/ social impact studies which will speed program execution; and (4) FOMILENIO signed banking agreements to manage program funds, signed a \$2.5 million service contract to support the productive development program, and published a number of requests for proposals for program activities.

# Early Results in Countries with Compacts

## Changing Lives in Latin America

### Honduras

#### *Program Description*

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 places an emphasis on increasing the productivity and business skills of farmers who operate small- and medium-sized farms and their employees and reducing transportation costs between targeted production centers and national, regional, and global markets.



#### *Results Achieved*

- ★ Over 800 program farmers are receiving technical assistance for crop production and product commercialization, out of more than 8,000 on track to be trained by the end of the program.
- ★ Relationships with exporters and local markets for the commercialization of products grown by program farmers have been formalized and continue to be strengthened. 325 program farmers have developed business plans following their participation in a business planning workshop.
- ★ More than 1,200 kilometers of rural roads have been traveled in the process of evaluating their overall conditions, location, and compliance with defined qualifying criteria in addition to collecting information required to estimate the economic rate of return. The mayors of the corresponding municipalities continue to actively support MCA-Honduras teams in completing this step in the process of selecting rural roads to be improved under the project.
- ★ 18 proposals for funding under the *Agriculture Public Goods Grant Facility* were received and are in the process of being evaluated.

# Early Results in Countries with Compacts

## Changing Lives in Latin America



- ★ MCA-Honduras contracted with a local firm to develop and implement resettlement action plans for those people affected by road improvements. The firm has completed surveys of some 850 people and will begin the process of clearing the right of way and acquiring land in October 2007.
- ★ Designs for the northern half of the *t* improvement have been finalized and the selection of construction firms has begun. Construction is expected to begin in March 2008.



## Compact Helps Honduran Farmer Increase Income



Andrés Velásquez of Puentecito, a village in Honduras, lives with his wife and five children and grows crops on a small farm. During the last three years he has been producing tomatoes on a .35 hectare plot by using a small drip irrigation system, preparing beds for the crops, and rotating the crops. With this basic level of agricultural knowledge and farming technology, Andrés farm produced enough for the survival of his family

Honduras and MCC signed a \$215 million compact to reduce poverty through increasing the productivity and business skills of farmers that operate small- and medium-sized farms and reducing their transportation costs to major production centers. In August 2006, as part of the **Farmer Training and Development Integrated Crop Management** program, a component in MCC's compact with Honduras, a field agronomist provided personalized training to Andrés.

With training, technical assistance, and farm investment inputs, Andrés was able to quickly modify the drip irrigation design. He learned how to use and maintain the drip irrigation system by controlling the pressure, repairing leaks, irrigating daily, and fertilizing. Through the program, he learned other production techniques, such as improving soil preparation and using starter solutions and weed control.

As a result, Andrés has noticed a marked improvement in his harvest including reduced labor and fertilization costs and superior quality and volume of his produce. As is the tradition in his village, Andrés sold his "ready to harvest" crop to a local intermediary buyer. In comparison with prior harvests, his income from this harvest was significantly higher than previous incomes.

Andrés attributed his success and increased income to technologies learned from the **Farmer Training and Development** program. With his success, Andrés is sharing his knowledge with his neighbors who have sought out his advice. Andrés said that **"the project is very good...it has an excellent approach. The personalized assistance makes the difference and will have a great impact in the community."**

## Compact Helps Red Bean Farmers See Higher Incomes



The **Rural Business Development** component of Nicaragua's \$175 million Millennium Challenge Corporation compact provides \$33.7 million to help poor farmers transition to higher-profit agriculture. One of the most important crops is red beans, currently a subsistence-farming commodity that supports a majority of the population in Nicaragua's Leon and Chinandega areas.

Through this project, MCA-Nicaragua is helping Edelmiro Espinales, a red bean farmer, sell his beans at a better price this year through improved seeds, irrigation, and drying that will yield higher production levels and uniformity in the red bean.

MCA-Nicaragua is providing technical assistance to 600 red bean producers, with the goal of helping them achieve an additional income of \$125 per farmer for this harvest year. With this increase in income, the future seems more optimistic for Edelmiro, who says, **"We grow very little but the additional earnings from what was exported was very good because it is money we did not expect. With the money I earned exporting beans, I bought food and some clothes for my seven children."**

MCA-Nicaragua also helped launch two marketing campaigns for the northern Nicaraguan red bean producers to attract potential buyers from El Salvador and Honduras. This effort resulted in the sale of 1.5 million pounds of red beans. Of this total, 800,000 pounds were exported to El Salvador and Honduras, creating an additional profit of \$5 per 100 pounds of red beans. This translates into \$75,000 in additional income for the Nicaraguan producers, including additional income for Edelmiro and his family.



# Early Results in Countries with Compacts

## Changing Lives in Latin America

### Nicaragua

#### *Program Description*

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



#### *Results Achieved*

- ★ Early titling efforts are underway, and 26 beneficiaries have received titles and 500 more beneficiaries are in the process of receiving titles.
- ★ Approximately 1,070 bean, cassava, and sesame seed producers have received technical assistance to commercialize their products, helping them sell their crops above market prices in the region during one crop cycle. During another crop cycle, some 1,072 beneficiaries producing agricultural and livestock products received technical assistance and key inputs.
- ★ 374 rural and urban small- and medium-sized enterprises benefited from business development services.
- ★ Some 476 business plans for forestry producers are being implemented.
- ★ In total, 4,568 men and women have benefited from the rural business development project.
- ★ 425 new jobs have been created through new businesses attracted through investment promotion activities.

# Early Results in Countries with Compacts

## Changing Lives in Latin America



- ★ MCA-Nicaragua is cooperating with local communities on two management plans for environmentally sensitive areas. These plans, when implemented with MCA funding, will help communities find productive and economic activities in those areas.
- ★ MCA-Nicaragua has assisted local municipal governments in elaborating environmental policies and regulation through technical assistance.
- ★ MCA-Nicaragua has developed and implemented a gender policy which secures equal access for women to the program's benefits.
- ★ MCA-Nicaragua has developed technical capacity that has resulted in signing \$21.7 million in 299 contracts through an open and transparent procurement process.

# Management Summary

# Message from the Acting Vice President of the Department of Administration and Finance

The 2007 Annual Report of the Millennium Challenge Corporation reflects our commitment to the highest standards of federal management as embodied in the *President's Management Agenda*. Since inception, MCC has received an unqualified or “clean” audit opinion from the Office of the Inspector General (OIG) on our financial statements, including the latest unqualified opinion for fiscal year 2007. Full financial statements and the opinion of the Inspector General were published in November 2007 in our *2007 Performance and Accountability Report*, which is publicly available on our website at [www.mcc.gov](http://www.mcc.gov).

We have worked aggressively to resolve outstanding OIG issues from our fiscal year 2006 financial audit, and I am pleased to report that the number of audit findings decreased from nine in fiscal year 2006 to four in fiscal year 2007. We have accepted responsibility to resolve these findings and plans are already underway to address each finding:

- ★ MCC will more rigorously review outstanding cash balances in compact countries before making additional disbursements to these

countries in order to minimize the extent of outstanding cash balances. In addition, MCC is undertaking an aggressive roll-out of the *Common Payments System (CPS)*, which centralizes the payment of compact expenses with MCC's financial services provider and eliminates the need to "advance" most funds to partner countries. CPS was successfully piloted in Mali in September 2007, and a CPS operating manual was completed in February 2008. MCC plans to deploy the CPS in all new and existing compact countries by the summer of 2008.

- ★ MCC is developing a *Business Intelligence and Data Storage (BIDS)* tool that will automate reporting from our partner countries, provide a workflow component for the efficient approval and storage of documents, and merge performance and financial data to support managerial cost accounting, budget/performance integration, and reporting to internal and external stakeholders. The BIDS system will help ensure that the roles and responsibilities for ensuring receipt of required reports from partner countries are clearly documented and understood. We plan to have the tool deployed in three pilot countries—Benin, Georgia, and Honduras—by April 2008, and plan to deploy it in all compact countries by the end of 2008.
- ★ To further our commitment to implement a fully integrated financial system compliant with the requirements of the *Federal Financial Management Improvement Act*, we have completed an assessment of our financial systems needs and developed options for moving to a fully integrated system. We are assessing potential public and private financial management service providers and plan to hold a public/private competition during 2008 to select a cost-effective service provider that meets all federal requirements, with the transition to a new system to be completed by the end of 2010.
- ★ In our fiscal year 2007 *Federal Information Security Management Act (FISMA)* audit, the number of open findings was reduced to three, from 13 in the previous year's report. We plan to have at least two of these remaining findings closed by the time of the next OIG

FISMA engagement with MCC in February 2008, with the goal of fully addressing FISMA requirements in 2008.

We have also worked to resolve other audit issues dealing with management accountability. For example, a recent follow-up audit by the OIG of MCC's *Contracts and Grants Management Division* resulted in no new findings, and an acknowledgement that all previous recommendations had been resolved. This is a significant achievement in an area vital to the success of the MCC model.

As MCC focuses its efforts on compact development and implementation, it is our goal to provide the financial, contracting, personnel, and technology support to ensure our future continued success. This focus will provide the necessary tools to demonstrate accountability, results, and the effective utilization of U.S. taxpayer resources.

*Michael Casella*  
*Acting Vice President*  
*Administration and Finance*

## For Detailed Performance, Financial, and Audit Information

In compliance with OMB Circular A-136, MCC published audited financial statements on November 15, 2007 in our *2007 Performance and Accountability Report*.

For detailed performance, financial, and audit information regarding the Millennium Challenge Corporation, please review the *2007 Performance and Accountability Report* available through MCC's website at <http://www.mcc.gov/about/reports/other/index.php>.

## Compact Obligations and Disbursements

According to Section 613 of the *Millennium Challenge Act of 2003*, MCC is required to present to the President and Congress an Annual Report on the assistance provided to compact and compact eligible countries, including the amount of obligations and expenditures for assistance to each eligible country during the prior fiscal year.

*Millennium Challenge Corporation  
Compact and 609(g)\* Obligations and Disbursements, Data through FY2007*

Country	Fund	Entry Into Force	FY07		Cumulative	
			Obligations	Disbursements	Obligations	Disbursements
Armenia	Compact	FY06		7,929,263	235,650,000	7,933,089
Benin	Compact	FY07	305,781,626	13,125,384	307,298,040	13,427,670
Cape Verde	609g			58,619	246,200	242,081
	Compact	FY06		6,403,753	110,078,488	13,930,617
Georgia	609g			1,645,540	4,761,600	3,542,540
	Compact	FY06		19,924,100	294,693,400	30,037,210
Ghana	609g			2,785,329	3,284,000	2,855,388
	Compact	FY07	536,638,050	9,340,341	547,009,000	9,340,341
Honduras	Compact	FY05		7,956,287	215,000,000	10,972,681
Lesotho	609g		148,097	641,301	1,387,813	978,083
	Compact		15,668,416	0	15,668,416	0
Morocco	Compact		32,400,000	0	32,400,000	0
Madagascar	609g			0	0	0
	Compact	FY05		13,082,170	109,773,000	22,730,265
Mali	609g		4,596,000	4,654,452	9,699,139	5,336,057
	Compact	FY07	460,684,411	2,054,163	460,684,411	2,054,163
Mozambique	609g			6,743,695	13,445,807	7,537,244
	Compact		24,930,702	0	25,346,200	0
Nicaragua	Compact	FY06		7,512,402	175,000,000	9,685,116
Senegal	609g			2,951,713	6,535,699	4,605,175
El Salvador	Compact	FY07	460,939,996	2,224,217	460,939,996	2,224,217
Tanzania	609g		9,800,000	0	9,800,000	0
Vanuatu	Compact	FY06		431,984	65,690,000	2,006,608
<b>Total</b>			<b>1,851,587,298</b>	<b>109,464,712</b>	<b>3,104,391,209</b>	<b>149,438,543</b>

\* Understanding 609(g) funding: MCC has authority to provide funds above and beyond grants for compacts for two purposes: 1) to help countries develop a compact if they have capacity constraints so that they may get to a signed compact and 2) to help countries implement a compact after it is signed. The section that provides this authority in MCC's authorizing legislation is section 609(g), and therefore MCC refers to this funding as "609(g)



funding.” Using the authority provided by section 609(g), MCC makes available up to two percent of a compact’s funding for the period between when a compact is signed and when it enters into force. These Compact Implementation Funds (CIF) are utilized by the partner country for the work required to set up the partner country team, which will be responsible for program implementation and to finalize program details in anticipation of entry into force. Such work may include standing up the accountable entity and funding feasibility studies, among other necessary costs. Therefore, even though some countries have yet to enter into force, MCC shows some compact obligations. Obligation occurs at the point when a compact enters into force.

# Colophon

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