MILLENNIUM CHALLENGE CORPORATION

UNITED STATES OF AMERICA

Congressional Budget Justification
Fiscal Year 2010

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

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"To the people of poor nations, we pledge to work alongside you to make your farms flourish and let clean waters flow; to nourish starved bodies and feed hungry minds."

President Barack H. Obama
January 20, 2009

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Reducing Poverty Through Growth

Executive Summary

President Barack Obama has identified global poverty reduction as one of the Administration's over-arching foreign policy goals. Systemic poverty adversely affects the lives of billions of people around the globe, and it also hinders the work underway to bolster the economic recovery of the United States. By some estimates, the ongoing economic crisis will force an additional 90 million people worldwide into poverty in 2009.

Addressing this global challenge with smart, innovative, long-term bi-lateral assistance through programs like the Millennium Challenge Corporation (MCC) enhances America's standing and helps stimulate a healthy world economy in which our country can prosper.

MCC programs are designed to maximize sustainable poverty reduction by fostering broad-based economic growth. Grants are made to countries striving to practice sound political, economic, and social policies. Solutions must be homegrown by the countries themselves, so they "own" them from design through implementation. MCC works with a wide array of stakeholders within each partner country to ensure that projects reflect the priorities of a country's citizens and that they consider the role of gender and the impact on the environment. Projects are designed to measure results, reach benchmarks, and obtain lasting outcomes.

The President has requested $1.42 billion from Congress to fund the agency in Fiscal Year 2010. This figure represents an increase of almost 63 percent in funding for MCC from the amount provided by Congress in FY 2009.

(in $ millions)	FY2008 Appropriated	FY2009 Enacted	FY2010 Request
Compacts	**1,320**	**700**	**1,193**
Threshold	**19**	**40**	**40**
Due Diligence/Compact Development (609g)	**57**	**32**	**90**
Administrative Expenses*	**87**	**95**	**97**
Inspector General/Audits	**3**	**5**	**5**
Total appropriations/request	**1,486**	**875**	**1,425**

***** The FY 2010 request for admin expenses is $98 million, of which up to $1 million will come from unobligated prior-year carryover.

Countries in Compact Development: Including the two countries slated for signing in FY2009, Senegal and Moldova, MCC has a strong pipeline of eligible partners with three countries, Jordan, Malawi, and the Philippines, expected to sign compacts in FY2010. In December 2009, MCC initiated new partnerships with three countries that hope to receive funding in FY2011, Colombia, Indonesia, and Zambia.

These eight countries represent real opportunities to provide tangible assistance for poverty reduction through economic growth in Asia, Latin America, the Middle East, Africa, and Central Europe. They include some of the most populous, and poorest, countries in the world. In addition to these eight countries developing compacts, this December the MCC Board will determine which new countries have passed the eligibility criteria to join the competition for MCC funds.

The MCC approach requires committing long-term funding upfront, in contrast to other aid programs that spend their appropriated funds each year. This unprecedented flexibility provided by Congress allows predictability of aid, better planning and budgeting by partner countries, and the ability to fund the long-term projects proven to reduce poverty effectively and provide for increased food security. Although the policy of up-front funding lowers costs and increases America's credibility, this approach also makes it appear that MCC has large, undisbursed balances even though the funds are in fact already in use to reduce poverty.

MCC technical assistance for the development of compacts, 609(g) funding, is increasing due to the new compact development process outlined in the next section. These funds help eligible countries fully develop compacts that will be ready for implementation at signing.

Program Progress and Results: Currently, MCC has Compact programs in 18 countries, and each program is different, reflecting the specific priorities identified by our partners. Countries are using their Millennium Challenge grants to train farmers, register property rights, build roads and bridges to better access markets, immunize children, open schools, irrigate land, and install water and sanitation systems. Because MCC programs focus on *growth*, we expect the actual benefits gained by our partner countries to exceed the amount that is invested. In total, we estimate MCC's signed commitments of $6.4 billion will raise the incomes of individuals in our partner countries by nearly $12 billion over the life of the investments. These gains will benefit more than 22 million people, as the improved infrastructure, agricultural systems and practices, and other public services spur investment and raise local incomes. MCC tends to funds three kinds of activities:

- **National infrastructure,** such as major improvements at the national ports in Benin and Cape Verde and in the national gas pipeline in Georgia. These investments totaling nearly $600 million are expected to generate nearly $1.8 billion in income gains to many people in these nations over the working lifetime of the infrastructure, generating higher incomes for more than 8.5 million people.

- **Regional infrastructure,** such as highways and secondary roads, water, sanitation, and power systems. MCC investments of $3.3 billion in this infrastructure are expected to generate $5.5 billion in additional income for the 10 million people living nearby, equivalent to approximately $550 per person.

- **Targeted investments** are activities that focus on household-level activities by enhancing improvements in agricultural productivity, financial market efficiency, health and education system improvements, and land governance. These targeted investments totaling $2.4 billion are expected to generate approximately $4.7 billion in additional income for 3.7 million program beneficiaries. These beneficiaries will likely experience income gains of nearly $1300 per capita, over the life of the investment, on average. Many of these investments are already improving the lives of beneficiaries in our partner countries. For example, more than 83,000 farmers have been trained in new production technologies, and many of these farmers have applied these techniques to raise their agricultural yields and grow their income.

Investing in food security has become a key U.S. Government policy priority, and MCC is one of America's most important tools to meet this commitment. More than $3.2 billion of MCC's total worldwide commitment of $6.8 billion supports sustainable, market-based solutions to food security. Program activities are tailored to country needs and the political and institutional reforms they have identified, elements that are critical for the success of any strategy. Most programs include investments directed at enhancing agricultural productivity, but they also include investments in rural infrastructure, such as roads and irrigation facilities, and land tenure activities that provide the legal basis for further private investment in the sector.

Threshold Programs**:** To foster good governance, MCC's threshold program has supported 21 programs, investing approximately $470 million. Five of these programs—in Burkina Faso, Malawi, Albania, Tanzania, and Zambia—have reached completion. As one example of success, the threshold program in Burkina Faso, has yielded impressive results, documented by an independent evaluation. Communities with MCC-funded schools saw significantly higher girls' enrollment (20 percent higher) compared to similar communities that did not receive MCC investments, as well as a marked improvement in test scores.

Burkina Faso's new five-year Compact program will literally build on the success of its threshold program by expanding the school facilities to enable attendance through grade six.

Good governance is a keystone of poverty reduction and a primary element of that is a commitment to fighting corruption. Fraud and corruption undermine economic growth, and therefore poverty reduction, and MCC is taking a comprehensive approach to preventing, detecting and remediating incidents of fraud and corruption.

Conclusion: MCC is often called an example of "smart aid," and is a model that should help change expectations about foreign assistance, building development capacity within partner countries to continue their growth strategies beyond the life of an MCC grant, and paving the way for increased private sector engagement.

MCC will move into the next chapters of its history by continuing to improve operations and encouraging countries to shoulder deeper responsibility for their development to enhance to these results. MCC will lead sound development and support aggressive implementation of large-scale poverty reduction programs with tangible results. With the ongoing budget resources from Congress as outlined in this report, MCC will remain a strong and effective model for delivering results-focused development assistance that makes a positive and sustainable difference in the fight against global poverty.

Fiscal Year 2010 Request

"President-Elect Obama supports the MCC, and the principle of greater accountability in our foreign assistance programs. It represents a worthy new approach to poverty reduction and combating corruption…The Obama Administration looks forward to working to build on the promise of the MCC as we move forward with modernizing U.S. foreign assistance programs."

Secretary of State Hillary Clinton

January 13, 2009

Reducing Poverty Through Growth

Compacts in Development

Request for Compacts (in $ millions)	FY2008 Appropriated	FY2009 Enacted	FY2010 Request
	1,320	700	1,193

MCC has a strong pipeline of investments with five countries for FY 2009 and FY 2010, and has initiated new partnerships with three additional countries that hope to receive funding in FY 2011.

These eight countries represent real opportunities to provide tangible assistance for poverty reduction through economic growth in Asia, Latin America, the Middle East, Africa and Central Europe and include some of the most populous (**Indonesia** and the **Philippines**), some of the poorest **(Malawi**, **Senegal,** and **Zambia**), and lower middle income countries with striking pockets of poverty (**Colombia** and **Jordan**).

Together they account for six percent of the world's population (over 400 million people) and nearly eight percent (over 200 million people) of those living under $2 a day. While each country faces a variety of challenges to meet the Millennium Development Goals, they have been selected as MCC partners because their sound policies provide a solid foundation for growth and measurable development results. Additionally, a number of countries currently in compact implementation also may be ready for second compacts in FY 2010 and FY 2011.

Profile of Current Compact Eligible Countries

Country/ Region	Population (millions)	GNI Per Capita (US$)	Population <$2/day (percent)	Population <$2/day (millions)	Human Develop-ment Index	Adult Literacy (% ages 15 & above)	Infant Mortality (per 1,000 live births)
Senegal	12.4	820	60	7.5	153	39	60
Moldova	3.8	1,260	29	1.1	113	99	16
Jordan*	5.7	2,850	4	0.2	90	91	21
Malawi	13.9	250	90	12.6	162	64	76
Philippines	87.9	1,620	45	39.6	102	93	24
Indonesia	225.6	1,650	54	121.4	109	90	26
Zambia	11.9	800	82	9.7	163	68	102
Colombia*	46.1	3,250	26	12.1	80	93	17

* Lower Middle Income Countries

Subject to Board approval and congressional notification, MCC will sign compacts in FY 2009 with Moldova and Senegal. The FY 2009 appropriations level will force MCC to reduce sharply the scope and impact of these compacts.

FY 2010 Compact Pipeline

For FY 2010, the President's requested funding level of $1.425 billion would enable MCC to sign compacts with **Jordan, Malawi, and the Philippines**. All three have submitted investment proposals and MCC is in the midst of assessment and detailed preparations. These proposals cover a wide range of activities designed to stimulate growth, address direct and indirect costs of doing business, and reduce poverty, as summarized below and detailed in the following tables.

In **Jordan,** MCC is considering investments to increase access to drinking water, improve waste water collection, treatment and reuse for both agriculture and urban consumers, and reduce water losses in Zarqa, Jordan's second largest city. Nearly three in ten households in Zarqa consume less than the minimum amount of water considered essential for personal hygiene and food safety by the World Health Organization. Due to shortages of piped water, most households receive water only one or two times per week, and poor families spend a larger share of their scarce income on water supplied by private tanker trucks and other providers at higher prices. Jordan is classified as a lower middle income country by the World Bank and, as such, MCC assistance to it is capped, by statute, at 25 percent of that fiscal year's appropriation available for compacts.

In the **Philippines**, MCC is evaluating investments to improve tax and customs collection and efficiency while reducing opportunities for corruption, improve access to markets through rural road rehabilitation, and empower local communities to develop and implement infrastructure projects that support economic development. This latter project is designed to reach some 30 percent of the poorest municipalities (roughly 4,000 villages), in the poorest provinces of the country. Rural road rehabilitation yields high returns in the densely populated country, by improving access to markets and services by the rural poor. Improvements in tax and customs administration creates fiscal space for health and education expenditures – two areas that have suffered under fiscal austerity measures – while also reducing the opportunities for corruption.

In **Malawi**, MCC is currently reviewing project concepts aimed at promoting growth and reducing poverty through increasing the competitiveness of the country's agricultural and manufactured products. The proposed program is focused on investments in the power and transport sectors with the objectives of increasing access to reliable supplies of electricity and providing more efficient and affordable land transport services. Additionally, Malawi is requesting continuing MCC support to continue its efforts to reduce corruption and increase the transparency of public financial management.

FY 2011 Compact Pipeline

During FY 2010, MCC also will work on the development of country proposals with three newly selected eligible countries, **Indonesia, Colombia and Zambia**, for which compacts are anticipated in **FY 2011**. MCC has initiated its engagement with each of these countries and has carried out extensive discussion with their diplomatic representatives in the United States. Initial MCC visits for the orientation and guidance of host country teams have been completed for Zambia and Indonesia, and the initial visit to Colombia is planned for late May 2009.

During the initial visits to Zambia and Indonesia, MCC officials met with key government leaders, legislators, cabinet ministers, opposition party leaders, business leaders, civil society representatives, international donors and nongovernmental organizations, as well as local media/press. These visits provide in-depth information on MCC's exacting analytical and compact development requirements, as well as ensure that the compact process is fully consulted with a broad cross-section of the public. MCC's early engagement efforts in these newly eligible countries are focused on providing support in establishing a highly qualified core team, initiating a diagnostic of economic growth (and identifying binding constraints to growth), and consulting broadly with the public on the kinds of investments that could be effective in reducing poverty.

Insufficient funds in FY 2010 would result in a reduction in the scope and impact of one or more of the expected compacts, or postponement of a compact to FY 2011. This will have a knock-on effect for **Colombia, Indonesia, and Zambia**, as well as for countries nearing the end of implementation of their first compacts that may qualify for a second compact in coming years.

The cascading effect of underfunding will be a reduction of America's contribution to global poverty reduction and MCC's effectiveness as a key element of America's "smart power" toolkit. Without funding at the President's requested level, MCC's well documented incentive effect that encourages policy reforms will be in jeopardy, compacts large enough to achieve real transformational development will be constrained, and bilateral relations with these countries could suffer.

Compact Development Pipeline

Country/ 1st Year Eligible (FY)	Threshold Program	Prior Years	FY 2008	FY2009	FY2010	FY2011	Potential Compact Size
Moldova (2007)	Ongoing	Consultations	Country proposal, MCC assessment	Feasibility and Design; Signing	Implementation		$300-350m[1]
Senegal (2004)	None	Consultations	Country proposal, MCC assessment	Feasibility and Design; Signing	Implementation		$350-400m[1]
Jordan (2006)	Ongoing	Consultations	Country proposal, MCC assessment	Feasibility and design	Signing	Implementation	$300-350m[2]
Malawi (2008)	Completed		Consultations	Country proposal, MCC assessment	Feasibility and design; Signing	Implementation	$300-400m[3]
Philippines (2008)	Ongoing		Consultations	Country proposal, MCC assessment	Feasibility and design; Signing	Implementation	$500-700m[3]
Colombia (2009)	None			Consultations	Country proposal, MCC assessment	Feasibility and design; Signing	$300-400m[2]
Indonesia (2009)	Ongoing			Consultations	Country proposal, MCC assessment	Feasibility and design; Signing	$600-800m
Zambia (2009)	Ongoing			Consultations	Country proposal, MCC assessment	Feasibility and design; Signing	$300-400m

Details:

Consultations	Country selects team, analyzes constraints to growth and poverty reduction, initiates public consultations, defines priority areas for investments, scopes potential projects
Proposal	Country prepares concept papers for each proposed investment, MCC conducts initial viability assessment
Feasibility & Design	Country and MCC conduct detailed feasibility and design studies, and environmental and social impact assessments, to determine scope and cost of Compact
Signing	Final Compact terms negotiated, Board approval, signing
Implementation	Implementation commences

Footnotes:

[1] Compacts with Moldova and Senegal will need to be scaled down to fit within FY09 budget.

[2] Jordan and Colombia are Lower Middle Income Countries and by law their compacts may not exceed 25% of funds available for Compacts in a fiscal year.

[3] Ranges based on investment proposals already submitted by Malawi, Philippines.

FY 2010 Pipeline
Summary of Compacts under Development

Reducing Poverty Through Growth

Jordan	
Proposed project & objective	*Potential benefits & beneficiaries*
Water Conservation in Zarqa Governorate ($91 million)* **Objective:** To reduce the quantity of non-revenue water, or water lost through the combination of physical leaks and administrative mismanagement, from 54 percent to 25 percent of the total water supplied. **Outputs:** (i) Enhanced operational and energy efficiency of local groundwater wells, (ii) reduced leaks in the transmission and distribution network, (iii) improved household water connections, and (iv) strengthened administration of the water network including the introduction of commercial principles and performance management contracts.	*Benefits:* • 11% Economic Rate of Return** • *Water availability:* Up to 12 million cubic meters of water saved for use by some 90,000 urban households (or about 500,000 people), as well as businesses and industries. • *Cost savings:* Additional water may help poor households save 2-3 percent of their annual income ($215 -$250) by avoiding the need to buy expensive bottled water. • *Health benefits:* Additional water allows poor households to improve their basic sanitation levels; • *Improved service:* Steep reductions in the 10,000 leaks and supply interruptions reported each year, 80 percent at the household level. • *Energy conservation:* From more efficient pumps at supply wells, reduced pressure in the distribution network when retooled for gravity-fed delivery. • *Increased cost recovery* and improved management of infrastructure assets for water supply and delivery. ***Beneficiaries:*** • *Poor households:* Nearly a quarter of the population in Zarqa is below the national poverty line of $3.35 per day (compared to 13 percent on average nationwide). • *Low consumers :* Studies suggest that 3 in 10 households in Zarqa consume 75 liters per capita per day of water, less than the 100 liters considered the minimum for personal hygiene and food safety.
Collection, Treatment and reuse of wastewater. ($223 million)* **Objective:** To increase the quantity of high-quality treated wastewater available for use in agriculture, thereby freeing up limited freshwater supplies for use in populous urban areas. **Outputs:** (i) Expanded and reinforced wastewater collection system in Zarqa Governorate and (ii) increased wastewater treatment capacity at As-Samra Wastewater Treatment Plant under a build-operate-transfer (BOT) scheme with substantial private sector participation.	***Benefits:*** • 16% Economic Rate of Return** • *Improved service:* Expansion of sewer network to connect another 18 percent of the population of Zarqa, mostly in poor neighborhoods. • *Environmental protection:* Reduced over-flow from overloaded sewers into the severely polluted Zarqa River Basin. • *Water availability:* Exchange of treated wastewater will "free up" another 12 million cubic meters of fresh water for households, businesses and industries. Up to 100,000 households potentially will benefit from additional freed up water supplies and/or improved sewerage services. ***Beneficiaries:*** • *Broad reach:* Links in the water network mean that the benefits of additional water could be distributed across a region with a combined service population of more than 3 million people. • *Poor households:* To ensure that the poor benefit, the Government of Jordan will fund a study of water use among poor households.

* Cost estimates are based on concept papers submitted November 2008 and are subject to change as MCC completes its assessment of the proposed projects.

**ERRs and beneficiary estimates are preliminary and subject to further investigation by MCC.

Philippines	
Proposed project & objective	*Potential benefits & beneficiaries*
Comprehensive and Integrated Delivery of Social Services ($250 million)* **Objective*:*** Increased incomes in rural areas through small-scale, community driven investment projects. Strengthened community participation in development and governance activities at the village and municipal level. **Outputs:** Participatory community development organizations and processes working effectively with local government to set priorities and implement investment projects; small-scale infrastructure and other public works.	***Benefits:*** • 16-20% Economic Rate of Return** • *Empowerment of communities:* Project provides participatory planning, implementation, and management of local development activities. • *Improvements to local governance:* Project approach embeds community participation, transparency, and social accountability within project activities to induce formal and informal institutions to become more socially inclusive, accountable and responsive. • *Poverty reduction through grants for community investment*: Project grant resources are geared to secure additional local resource mobilization, develop effective community ownership of investments, and induce behavior change required for long-term sustainability of such investments. ***Beneficiaries:*** • *Poor households:* Initial project scope aims to cover 31 percent of the poorest municipalities in the poorest 42 (out of 79) provinces of the Philippines, equivalent to more than 4,000 villages in 200 municipalities, over five years.
Secondary National Road Development Project ($187 million)* **Objective:** To increase incomes in rural areas by reducing vehicle operation/maintenance costs and travel time, and improving access to markets and social services. **Outputs:** Rehabilitated/ improved secondary national roads in rural areas in selected provinces of Luzon and Visayas. Improved road safety measures.	***Benefits:*** • 15-25% Economic Rate of Return** • *Improved service*: Expansion of road network in selected provinces that will lead to improvements in farm incomes, productivity, and competitiveness by enhancing the effectiveness, adequacy, and efficiency of the sector’s transport and logistical support system for both farm inputs and outputs. • *Environmental protection*: Reduced soil erosion; increased resilience to natural disasters. ***Beneficiaries:*** • *Broad reach*: Links in the road network will improve access for nearly 2 out of 3 people whose incomes depend upon agricultural employment. Poverty incidence is between 17 and 40 percent in targeted areas. • *Poor households*: To ensure that the poor benefit, the GRP will fund a study of road use among poor households, with the results to feed into the design of the other proposed projects.

Philippines - Continued	
Proposed project & objective	***Potential benefits & beneficiaries***
Integrated Revenue Information System (IRIS) for Sustained Fiscal Governance Program ($147 million)* **Objective***:* Increased revenue to create fiscal space for investments in the social and productive sectors, and reduced opportunities for corruption in the tax and customs administrations. **Outputs:** Improved collection and fairness of tax and customs regimes through targeted investments in capacity, processes, and technology.	***Benefits:*** • 13-20% Economic Rate of Return • *Improved access to information:* Improvements to capability will allow economic managers to conduct more effective fiscal policy analysis and monitoring, as well as evaluate the benefits and costs of various tax policy proposals. • *Expansion of the tax base:* Expansion of electronic linkages to other government regulatory agencies and local governments will allow validation of taxpayer declarations against third-party information to identify unregistered tax *payers.* • *Proxy information for enforcement and internal control:* Improved systems will produce data for assessment of taxpayer compliance and support enforcement work of taxpayers conducted by revenue enforcement agencies. *Beneficiaries:* • *Broad reach:* Higher revenues will enable the government to finance key infrastructure and services on a sustainable basis that will fuel further economic growth to overcome poverty. Potential gains of 0.3% of GDP per year will allow government to raise national outlays on health, education, and infrastructure by 2-3% annually, which would in turn increase real GDP growth by 0.5% per year.

* Cost estimates based on concept papers submitted February 2009 and are subject to change as MCC completes its assessment of the proposed projects.

**ERRs and beneficiary estimates are preliminary and subject to further investigation by MCC.

Malawi	
Proposed project & objective	*Potential benefits & beneficiaries*
Energy Sector Rehabilitation, Expansion and Reform ($247 million*) **Objective:** Increased access to reliable and quality power for economic use. **Outputs:** Rehabilitated generation, transmission and distribution infrastructure, distribution network extended to peri-urban & rural areas, improved service delivery, enabling environment for public private partnerships.	***Benefits:*** • 14-18% Economic Rate of Return** • *Expanded access to electric power:* Increased opportunities for income generating activities including agricultural, agro-processing, and manufacturing; reduced household reliance on wood fuels. Number of households and people expected to benefit from network expansion has not yet been calculated. • *Reliable energy supplies:* Increase network reliability for nearly 1 million people who currently have access to electricity, about seven percent of the population; reduced sales losses & equipment replacement costs; improved business environment. • *Services:* Improved delivery of social and business services. ***Beneficiaries:*** • Peri-urban and rural households • SME and micro-enterprises in urban and rural areas • Manufacturing plants • Farmers engaged in irrigated agriculture • Mining & tourism companies • Social services (schools, clinics, etc.)
Transport Sector ($229 million*) **Objective**: Increased economic growth through more reliable, efficient and affordable transport options. **Outputs:** Rural roads improved to increase access to major trading centers and national and regional transport network; rail infrastructure and fleet rehabilitated to improve efficiency and reliability of transportation to Nacala port in Mozambique.	***Benefits:*** • 22-36% Economic Rate of Return** • *Access:* Increased access to domestic, international & regional markets and social services for nearly 400,000 people living along the impact corridor of proposed roads, of which half live below the poverty line. • *Costs:* Reduced transportation costs; improved efficiency of transport corridors; improved environment for doing business. ***Beneficiaries:*** • Small holder farmers in areas with high agricultural potential • Importers and exporters • Manufacturing companies that export goods • Users of health clinics and schools

Malawi - Continued	
Proposed project & objective	*Potential benefits & beneficiaries*
Governance and Fiscal Management Reform (TBD) **Objective**: Effective and efficient use of public resources in an accountable and transparent manner. **Outputs:** Improved public financial expenditure management, effectiveness of parliamentary oversight of the national budget and increased prevention of corruption.	***Benefits:*** • Increased investor confidence in Malawi • Reduced corruption and graft • Increased transparency of budget processes • Increased accountability of public servants and government budget to citizens • Improved checks and balance on government procedures ***Beneficiaries:*** • National level benefits from expenditure management improvements • Tax-payers • Domestic and foreign investors

* Cost estimates based on concept papers submitted April 2009 and subject to decrease as MCC completes the initial project screening process.

**ERRs and beneficiary estimates are preliminary subject to further investigation by MCC.

Compact Development Strategies

MCC's internal reorganization in October of 2007 directly confronted the challenges of compact development. MCC took the opportunity to reexamine its business processes and working relationships with country partners. MCC introduced more intensive upstream engagement while retaining the key principles of country ownership and high quality investments.

The quality of compact program proposals received from our country partners and the time needed to prepare them has varied widely in the past. Although our country partners often invested a great deal of time, energy, and political capital on these submissions, many proposed projects required extensive reformulation to meet MCC's economic environment, gender, and technical standards. The revised MCC approach is to:

- **Analyze key economic constraints.** Our partner countries identify key constraints to their economic growth and poverty reduction through rigorous analysis that subsequently provides a useful framework for targeted consultations and subsequent investment ideas.

- **Undertake deeper, more focused consultations.** MCC provides resources and tools to help partners define and compare alternative solutions through stakeholder engagement and participatory project planning, consistent with MCC's commitment to country ownership.

- **Develop project concept papers.** Partner countries now develop concept papers for every project under consideration. These concept papers describe the project and its rationale (the results chain); place projects in the context of broader sector reforms and the activities of other donors; and provide preliminary assessments of benefits and beneficiaries, financial sustainability, social and environmental risks, and implementation capacity.

- **Early economic and beneficiary analysis.** Rigorous economic analysis is critical to determining whether compact programs generate adequate benefit streams to justify their costs. Our partners, often with MCC assistance, develop preliminary assessments of the potential benefits and beneficiaries from proposed projects.

With this information in hand, MCC is able to make earlier decisions, through internal and external peer review, about which projects are suitable for further development, which require more information, and which may be rejected. MCC is now able to provide more focused assistance to our partners to develop the promising concepts into full investment project proposals by funding feasibility and design work, and environmental and social impact assessments. These studies inform project design to maximize benefits to the poor, while minimizing implementation risks.

The following chart outlines MCC's compact development process in detail.

Phases of Compact Development

1. Start up and Preliminary Analyses — **2. Project Definition** — **3. Project Development and Appraisal** — **4. Compact Negotiation and Compact Signing** — **5. Pre-EIF Activities** — **6. Implementation**

Implementation Preparations

1. *Getting started:*

- Eligible country names National Program Coordinator – key manager of the compact process
- Eligible country establishes Core Team – responsible for completing the compact
- Eligible country commences initial public consultations
- Eligible country completes analysis of binding constraint to growth
- MCC provides feedback on analysis of binding constraints to growth
- MCC provides guidance on results focused project design principles and tools

2. *Identifying priorities:*

- Eligible country completes initial public consultations
- Country develops and provides a Concept Paper for each potential project – each Concept Paper proposes a set of related investments
- MCC conducts a "peer review" of the proposed Concept Papers; MCC may undertake fact-finding mission to country
- MCC provides formal response to Concept Papers – identifying suitable candidates and indicates further studies that may be needed
- MCC provides 609(g) funding if needed for project development of approved concepts

3. *Developing the program:*

- Eligible country further develops projects that appear promising for potential investment
- MCC disburses 609(g) funding and assists with needed preparatory studies – feasibility studies, environmental impact assessments, framework resettlement plans, preliminary designs, etc.
- At an appropriate time, MCC prepares and submits Congressional Notification to commence negotiations*
- MCC conducts formal appraisal of developed projects, including second "peer review"
- MCC begins to develop Investment Memo – used as a decision document internally (not public)

4. *Negotiating* the terms of the compact:*

- MCC and country conduct Compact negotiations (technical content)
- MCC prepares and submits Investment Memo to MCC Investment Committee
- MCC and country negotiate Compact documents (legal documentation)
- MCC Board approves Compact
- MCC and country sign the Compact -- at this point funds are obligated, program objectives are defined and total dollar amount is set

5. *Getting ready for implementation:*

- Compact ratification, if necessary
- Completion of stand-up of MCA Accountable Entity
- Completion of Implementing Entity agreements
- Completion of annual budgets and implementation plans
- Completion of Terms of Reference and work plans for implementation and procurement
- Pre-qualification of consultants and contractors for early procurements

6. *The clock starts:*

- Compact "Enters Into Force" (EIF) and five year clock starts
- Compact provisions in full force and effect in the country
- Accountable Entity (PMU) is responsible for overseeing implementation of projects
- PMU submits quarterly progress reports
- MCC authorizes disbursements, U.S. Treasury transmits funds
- Ongoing public updates on Compact
- Monitoring and evaluation of project impacts

- **Country sets up its Project Management Unit structures** – Accountable Entity, Fiscal Agent, Procurement Agent, and Implementing Entities established and trained

* As defined under Section 610 of the Millennium Challenge Act of 2003.

Threshold Programs in Development

Request for Threshold Program Assistance (in $ millions)	FY2008 Appropriated	FY2009 Enacted	FY2010 Request
	19	40	40

The Threshold Program is intended to provide assistance to countries that do not yet meet the MCC's eligibility criteria but which the MCC Board deems worthy of assistance. In the first part of FY 2009, MCC signed one Threshold Program Agreement, partially funded with prior year funds. MCC will use up to $40 million more of FY 2009 funds for two Threshold Program grants with Liberia and Timor-Leste if the budget allows. MCC and its Board of Directors are in the process of reviewing how to best manage the Threshold Program in the future and may use up to $40 million for the Threshold Program for FY 2010.

FY 2009 Programs

In December 2008, MCC's Board of Directors approved Liberia and Timor-Leste as Threshold eligible. Both programs are anticipated to submit their Threshold Country Plans this year. The Government of Liberia has identified three indicators as possible targets for threshold funding, Girls' Primary Education Completion Rate, Land Rights and Access, and Trade Policy, and anticipates submitting a proposal in which the bulk of any threshold funding would be concentrated on improving enrollment and retention for girls at the primary school level. The Government of Timor-Leste has identified Girls' Primary Education Completion Rates, Corruption, and Immunization as possible targets for threshold funding.

Program development is still at a very early stage for both countries and funding priorities could change as the program proposals are reviewed. The average Threshold Program has been funded at approximately $25 million. In light of budget constraints for FY 2009, we anticipate smaller Threshold Programs than the average.

Threshold Program Review

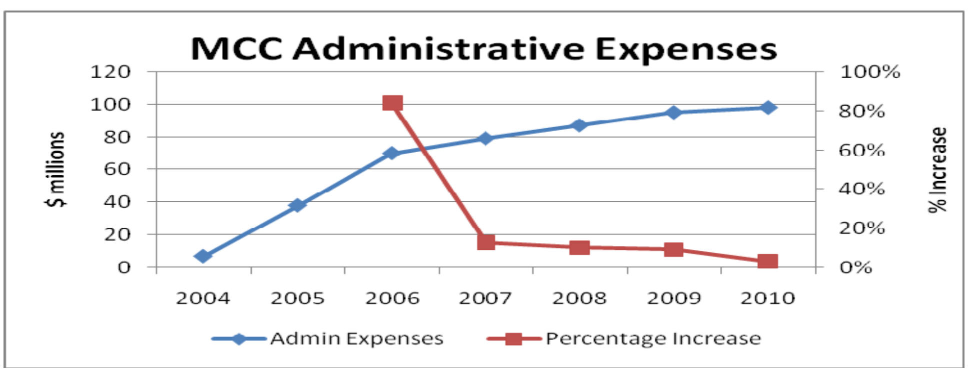
MCC's Threshold Program has funded 21 programs in 19 countries with approximately $470 million, of which five countries' programs have concluded over the last year. MCC is in the process of conducting a review of the Program to assess its achievements to date and its purpose of helping countries to become eligible. MCC will consider feedback from a wide range of stakeholders and examine whether there are improvements that should be made to existing or future programs. The review will examine how countries are selected as eligible for Threshold Program assistance and the desirability of Stage II programs. MCC and its Board of Directors also will determine how the program can best fit within the broader US development assistance portfolio.

Administrative Budget Request

(in $ millions)	FY2008 Appropriated	FY2009 Projected	FY2010 Request
Salaries and Benefits	47.2	50.0	53.4
Training	1.0	.6	.6
Financial Services Provider	2.2	2.5	2.8
Contracted Services	4.2	5.0	3.2
Rent, Leasehold & Improvements	5.9	7.6	7.5
Information Technology	10.6	9.4	8,2
Overseas Operations	9.5	12.8	15.9
Travel	5.2	5.3	5.3
Other Operating Expenses	1.0	1.8	1.0
Totals	86.8	95.0	97.9

For FY 2010, MCC is requesting an administrative limitation of $97 million. In addition, MCC will use up to $1 million of carryover under the FY 2009 administrative limitation and/or recoveries of prior year obligations, for a total administrative expenses budget of $98 million, an increase of $3 million or 3 percent above the FY 2009 level.

Since its creation in 2004, MCC has put into place the structural components of an independent agency: a high-performing staff, a financial management system, dependable information technology, and fully competitive procurement and hiring practices, shifting in the process from a start-up mode of rapid expansion to a focus on compliance, effectiveness and efficiency. The chart below shows the result of this effort – the modest three percent increase in administrative expenses for FY 2010 compares favorably to the 85 percent between the first two full years of MCC operations, FY 2005 and 2006.



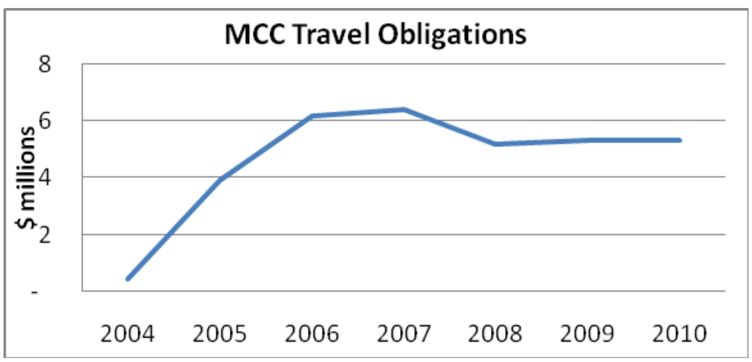
Focus on Compact Implementation and Development

The majority of MCC's administrative expenses directly support compact implementation and development.

- 45 percent of the FY 2010 administrative expense request is for salaries and benefits, overseas expenses, travel, and other direct costs of compact implementation, while another 10 percent is for the direct costs of compact development.
- Of MCC's authorized level of 300 staff in Washington, 125 work directly on compact implementation and another 50 on compact development.
- Nearly 40 percent of MCC staff are technical experts who help MCC ensure that its programs are well designed, responsibly implemented, and objectively evaluated, including:
  - 24 economists and experts in monitoring and evaluation;
  - 27 engineers and infrastructure experts;
  - 25 technical experts in agriculture, land rights, financial sector development, health and education;
  - 19 environment and social assessment experts; and
  - 21 experts overseeing compact finance and procurement activities.

Controlling Costs

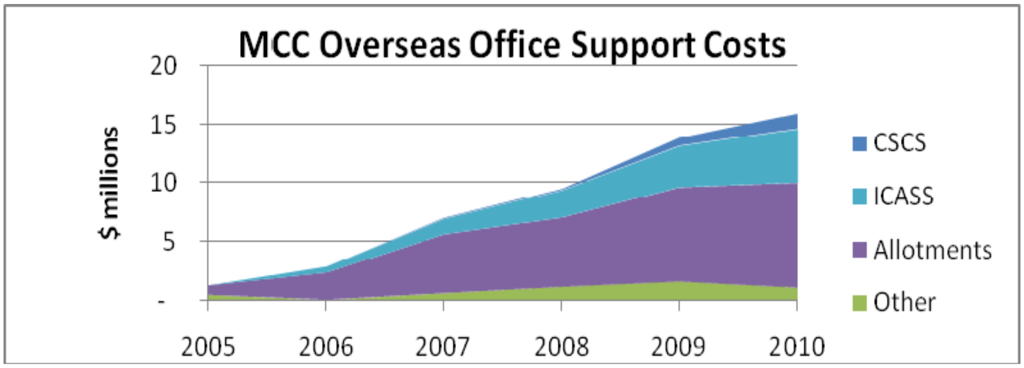
The average pay increase provided to MCC staff was 3.1 percent in 2008, significantly below the USG-wide pay increase of 4.5 percent. In FY 2009, MCC froze salaries for the 60 highest-paid MCC managers and staff. Additionally, despite travel times of up to 20-30 hours to some partner countries, MCC has significantly limited business class travel. As a result of the decline in business class travel usage, even though MCC is working in more countries, the total MCC travel obligations have fallen over the past few years.



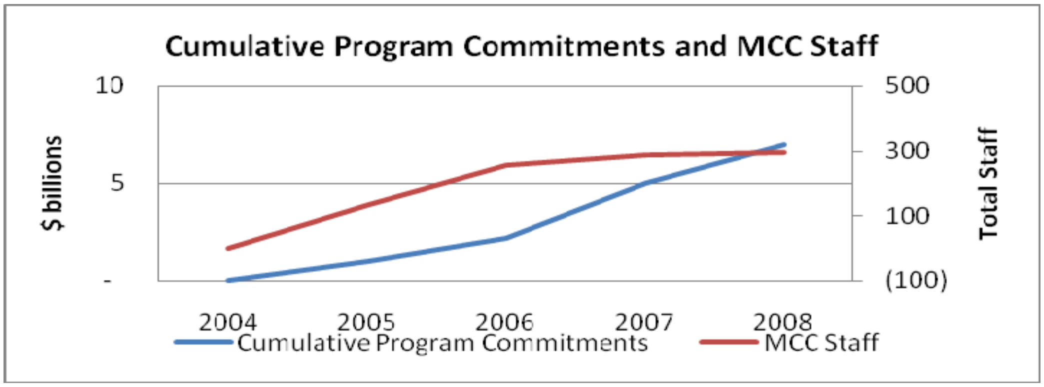
MCC has pursued outsourcing of administrative services, such as financial management and information technology, wherever possible in order to focus its limited staff resources on its core mission of poverty reduction. At the same time, MCC has looked for more efficient outsourcing options, and eliminated non-essential contracted services. In FY 2010, as a result, MCC's costs for contracted services will decrease by 20 percent, and for information technology by 12 percent.

Cost Drivers
While MCC has worked to control administrative costs, two areas will continue to put upward pressure on MCC's administrative expense budget – overseas support costs and total staffing.

Overseas support costs: MCC's overseas support costs have almost doubled since 2007, and will increase another $3 million in 2010, accounting for the entire requested increase in administrative expenses. While MCC maintains a very small support footprint of only two direct hire staff in each compact country, the costs of maintaining this staff are increasing at a rapid rate, of which the fastest growing portions are International Cooperative Administrative Support Service (ICASS) and Capital Security Cost Sharing (CSCS).



Staff: While MCC is authorized to have 300 staff in Washington (not including its small overseas footprint), staffing numbers in early 2009 have fallen to below 250 due in part to a hiring freeze resulting from the straight-line of administrative funding under the Continuing Resolution. Without the resources to hire additional personnel in order to approach its FTE level, MCC will continue to face challenges managing a portfolio of $6.4 billion in programs in 18 countries, and negotiating billions more in compacts.



Detail of Administrative Expenses

Salaries and Benefits: The budget request includes $53.4 million for salaries and benefits in FY 2010, a 7 percent increase over the projection for FY 2009. The entire increase for FY 2010 represents the resources needed to increase staffing from the current level of 250 to an average FTE level of 290 in Washington, as well as 4 new overseas positions in FY 2009 and up to 6 new positions during FY 2010 (for countries with compacts that begin implementation in those years). Maintaining staffing at the authorized level is critical to ensuring MCC has the professionals needed to provide adequate oversight of its 18 compacts in implementation and prepare the five new compacts we expect to sign in FY 2009 and FY 2010. MCC recently adjusted its existing pay bands to more closely align them with the current SES and GS pay scales.

Training: The budget request includes $600,000, a 4 percent decrease, for training and staff development programs in FY 2010. In FY 2010, the majority of the training budget will be used to sustain key central programs, including language skills, project management, and management/leadership training.

Financial Services Provider: This budget request includes $2.8 million, a 12 percent increase, for MCC's financial service provider, the National Business Center, to provide accounting services, system hosting, e-travel support and payroll processing. NBC's cost continues to increase, and MCC has little ability to negotiate or otherwise control the costs for these services.

Contracted Services: The FY 2010 request includes $3.2 million for contracted services in FY 2010, a 36 percent decrease from FY 2009. These services include support for procurement, facilities, security, and human resources. MCC has reduced costs in facilities management and other areas, and is assessing possible ways to further reduce the cost of these contracted services in 2010.

Rent, Leasehold and Improvements: The budget request includes $7.6 million for rent in FY 2010, the same level as in FY 2009. MCC lease costs are significantly below the equivalent cost per square foot that new commercial clients are paying in these buildings.

Information Technology: The budget request includes $8.2 million for information technology in FY 2010, a 13 percent decrease over the FY 2009 level. This is required to support:

- **MCC Integrated Data Analysis System (MIDAS):** MIDAS combines financial, performance and procurement data into a single administrative data store, enabling MCC to generate compact-specific, cross-country, and MCC-wide reports to inform management, the MCC Board, Congress, partners, other stakeholders. The FY 2010 request includes $750,000 for ongoing operations and maintenance support for MIDAS, including the addition of new compact countries and continued refinement of reporting capabilities.

- **Document Management:** The FY 2010 request includes up to $500,000 for a comprehensive document management approach at MCC. The development of a document management system is a priority for MCC in meeting the Office of Management and Budget and National Archives and Records Administration requirements.

- **Shared Services and IT Security:** MCC reorganized its information technology management structure in FY 2008 to improve the stability and security of the MCC information technology infrastructure. This allows MCC to address the findings of the Inspector General under the Federal Information Security Management Act in FY 2009, and to implement new IT capabilities such as improved network access for overseas resident country missions.

Overseas Operations: The budget request includes $15.9 million for Overseas Operations in FY 2010, a 24 percent increase over the estimate for FY 2009.

This large increase is only partly attributable to the start-up of the new Resident Country Missions in FY 2010. A large portion of the increase is due to cost increases in both ICASS and CSCS that are outside of MCC's control. ICASS charges for MCC countries increased by 10 percent in FY 2009, and are estimated to increase by an additional 15 percent increase for FY 2010. CSCS costs are increasing even more rapidly, with the total CSCS bill for MCC increasing by over 500 percent in FY 2009 and almost 90 percent in FY 2010.

As a result of these and other inflexible costs of supporting MCC staff overseas, the average total cost to maintain an MCC employee who is housed at the U.S. Embassy is approximately $400,000 per year. Such costs include office space, support services, pay differentials, and security. MCC is working with OMB to develop options for reducing these significant costs. Any successful approach to cost reduction will require concurrence from the Department of State.

Travel: The budget request includes $5.3 million for travel in FY 2010, the same level as in FY 2009. Because MCC staff is largely Washington-based (due to MCC's small footprint overseas), travel is an essential part of MCC's effective compact development and responsible compact implementation. The FY 2010 request for travel includes funding for newly-selected countries in FY 2009 for compact development (Indonesia, Colombia, and Zambia) as well as the signing and beginning of implementation in three countries in FY 2010 (Jordan, Malawi and Philippines). MCC has significantly reduced business class travel and the associated costs. As a result, the travel budget has actually decreased almost 17 percent from its high in FY 2007, even as the number of countries to which MCC travels has increased.

Other Operating Expenses: The budget request includes $1.0 million for other operating expenses in FY 2010. This category includes public outreach, colleges for partner country staff implementing compacts, printing, MCC Board expenses, and representation funds.

MCC's Authorization

MCC was authorized in January 2004 for a period of three years, an authorization that expired at the end of FY 2006.

MCC's authorizing legislation currently restricts MCC to a single compact with each partner country at one time. Allowing MCC to enter into multiple, or concurrent, compacts, would improve our ability to manage the compact pipeline with greater predictability, serve as an added incentive for ongoing policy reforms in partner countries, and help address MCC's unobligated balances.

With concurrent compacts, however, the agency could move forward with projects that are investment-ready, instead of having to put several projects at various stages of readiness into a single compact or delaying compact signing for a promising but less-developed project. Concurrent compacts will allow for smaller, staggered agreements and more certainty in the budget process; speed implementation; improve project management by allowing countries to focus on managing fewer projects at a time; build management capacity with early projects; ease the current burden of managing large, complex compact programs; and foster innovation by allowing the agency to pursue more innovative approaches that may normally slow down the compact development process.

A key element of the MCC model is the ability to obligate program funding at the point of entry into force. This up-front obligation of all spending over the duration of the Compact is consistent with lessons in aid effectiveness, because it allows partner countries to plan and manage development strategies and budgets in a sustained way. It also allows MCC to make large investments in long term infrastructure projects without suffering the cost premiums associated with uncertain project funding. This practice, however, means that MCC must hold large obligated but undisbursed balances. Concurrent compact authority would allow MCC to sign smaller compacts, implement them more efficiently and thereby reach disbursement targets more quickly.

Another critical change would allow MCC to structure compacts so that, on occasion, individual projects can exceed the five-year rule for a short period. Having definite time frames for MCC compacts is an important best practice for effective foreign assistance, but in some cases the most successful projects for poverty reduction are too large or complex to be completed within the mandated five-year period, particularly with MCC's emphasis on recipient-led implementation.

MCC will work with Members of the congressional authorizing committees and others in Congress to make these important legislative adjustments.

Appendix A: Current Portfolio of Compacts & Threshold Program Agreements

Compact Implementation Progress
Summary of Results to Date
Summary of Disbursements
Protecting U.S. Taxpayer Dollars
Implementation Challenges and Responses
Summary of Threshold Programs

Compact Implementation Progress

Like MCC, our partner countries are dedicated to promoting economic growth and poverty reduction, and are committed to measuring program success based on increased incomes. During compact implementation, a local entity, generally known as the "MCA", is designated by each partner country and is responsible for program implementation. MCC plays an oversight role that includes providing technical support in compact program sectors such as education, finance, infrastructure, agriculture, and health, and ensuring compacts are implemented in compliance with MCC standards.

Compact Countries	Entry-into-Force	Amount (in millions)
1. Madagascar	July 27, 2005	$109.8
2. Honduras	Sept 29, 2005	$215.0
3. Cape Verde	Oct 17, 2005	$110.0
4. Nicaragua	May 26, 2006	$175.1
5. Georgia	April 7, 2006	$295.3
Georgia Compact Amendment	Jan 30, 2009	$100.0
6. Benin	Oct 6, 2006	$307.3
7. Vanuatu	April 28, 2006	$65.7
8. Armenia	Sept 29, 2006	$235.7
9. Ghana	Feb 16, 2007	$547.0
10. Mali	Sept 17, 2007	$460.8
11. El Salvador	Sept 20, 2007	$461.0
12. Mozambique	Sept 22, 2008	$506.9
13. Lesotho	Sept 17, 2008	$362.6
14. Morocco	Sept 15, 2008	$697.5
15. Mongolia	Sept 17, 2008	$284.9
16. Tanzania	Sept 15, 2008	$698.1
17. Burkina Faso	*4th quarter of FY2009 (est.)*	$480.9
18. Namibia	*4th quarter of FY2009 (est.)*	$304.5
Total		**$6,418.10**

MCC is focused on sectors that *partner countries* identify as priority investments for economic growth and poverty reduction. This has led to a program portfolio in which over half of MCC funds are dedicated to strategic infrastructure, agriculture, and rural development. MCC is currently the U.S. Government's largest foreign assistance contributor to agricultural-related development, for example, and is a major contributor to global food security.

MCC is also making a significant contribution to meeting the leading Millennium Development Goal of halving the proportion of people whose income is less than $1 a day. In addition, specific projects target priority MDG areas such as education, health, and access to improved water and sanitation. Programs are designed to be comprehensive and include technical assistance in production, marketing, and development of small and medium enterprises, access to credit, and land tenure reform, and are coordinated with investments in rural transportation or irrigation infrastructure.

MCC goals of increasing economic growth and reducing poverty will be achieved over a long period of time, often up to 20 years even though compacts are five years in duration. To meet compact completion goals, as of March 31, 2009, MCC compact countries had cumulative disbursements of $533 million and contract commitments of $1.5 billion. MCC and MCAs are working toward targets of $780-850 million in cumulative disbursements and $2 billion in contract commitments through FY 2009. MCC compact countries already have achieved a number of important milestones including (as of March 31, 2009):

- Over 800 kms of roads are currently under construction and contracts for roads works worth $425 million have been signed. Twenty-two percent of funds for roads works have been disbursed – a proxy for completion of road works. These are important early milestones that will lead to lower transport costs, better access to basic public services such as health and education, increased access to markets for producers and ultimately increased incomes.

  As an example, in Armenia over 290 km of roads are under contract for construction. These improvements will provide rural communities with improved access to markets, social services, and main road networks. At the end of the compact, road roughness (as measured by the IRI index) will have decreased by over 60% yielding a significant reduction in vehicle operating costs.

- The construction and rehabilitation of irrigation and watershed management systems is underway in two countries, with a contract value of $12 million. Thirty-seven percent of contracted works have been disbursed – a proxy for completion of irrigation works. Five other MCAs are undertaking preparatory work for similar projects. MCC investments in irrigation include the construction and rehabilitation of irrigation systems and watershed management systems and aim to increase income and productivity of agricultural producers. These investments are often part of broader agriculture development projects that include support to water user groups, farmer training, assistance to agribusinesses, access to credit, and rehabilitation of rural roads.

  In Morocco, for example, improved irrigation systems are expected to contribute to increasing the production of olives in irrigated areas from 28,000 tons to 37,000 tons at the end of the Compact, which will ultimately help to increase the average agricultural revenue per farm in rain-fed areas from $1,061 per year to $1,206 per year at the end of the Compact.

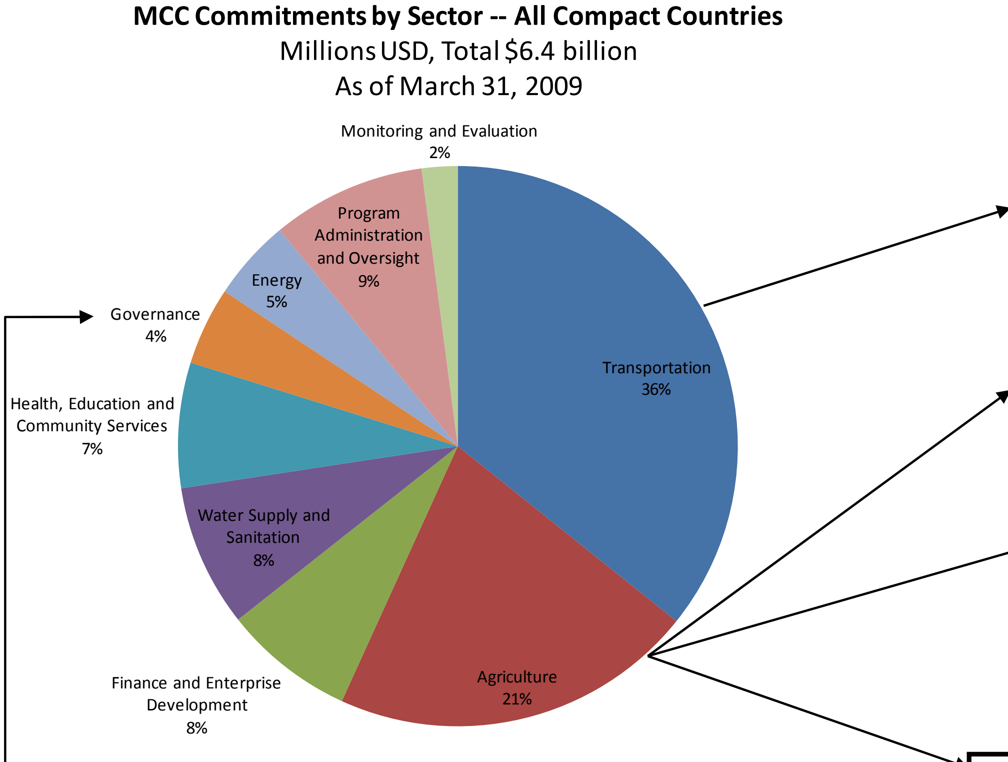
- Over 115,000 stakeholders have been reached through land and property rights activities and 39,000 hectares of rural land have been formalized. MCC's investments in land and property rights support legal and regulatory reforms, clarification and formalization of land and property rights, capacity building of local institutions, and land-related outreach and education. These interventions are aimed at reducing real estate transaction costs, increasing land tenure security and improving land allocation. This, in turn, will result in increased transactions and investment in land and property and higher land productivity and value.

- Financing over $20 million for agricultural and/or rural loans. For example, in the last year, $5.43 million dollars in short- and medium-term agricultural loans have been disbursed to farmers and/or agribusinesses in Ghana. And in Georgia, $9 million in agricultural loans have been disbursed to agribusiness enterprises working in poultry production, vegetable canning, hazelnut processing and fish catching and processing.

- The training of over 83,000 farmers and 1,200 agribusinesses on business plan development, access to credit, financial planning, production techniques, and/or linking to markets. Due to farmer training and other interventions over 8,500 hectares are under production with MCC support. These are important early milestones that will contribute to increases in income over time by creating jobs in the agriculture sector, increasing farmers' capacity, productivity, and access to markets, improving access to credit, and strengthening agribusiness. Some of these higher level results are already emerging.

For example, in Armenia, over 21,000 farmers have received training and technical assistance in better on-farm water management techniques and nearly 10,000 have already adopted these practices. As a result of MCC interventions, the change in real income from agriculture in rural Armenia is expected to increase by 5% by the end of the compact term. In Georgia household net income of all farmers participating in the Agribusiness Development Activity has increased by $632,000 since the inception of the activity and firm income of agribusiness receiving support has increased by $219,000. And in Honduras, more than 600 farmers have earned at least $2,000 after receiving technical assistance in high-value horticulture.

MCC Compact Program Results



Roads

- $40.2 million, contracts for feasibility and/or design studies
- 44%disbursed, contracted feasibility and/or design studies
- 3,609 kilometers of roads under design
- $425 million, contracts for roads design and/or works
- 928 kilometers of road under works contracts
- 22%disbursed, road works contracts

In **transportation** projects, roads rehabilitation and construction aim to reduce transport costs, improve access to public transportation and basic services, and facilitate trade. In **agriculture** projects, roads aim to link producers to markets for their goods, and to inputs for their production. Roads in **irrigation** projects provide access to, from, and within irrigated areas.

Agriculture

- 83,166 farmers trained
- 1,289 agribusinesses assisted
- 8,959 hectares under production with MCC support
- $20.01 million in agricultural and rural loans

MCC investments in agriculture aim to increase incomes by creating jobs in the agriculture sector; increasing farmers' capacity, productivity and access to markets; improving access to credit; and strengthening agribusiness.

Property Rights and Land Policy

- 13,870 personnel trained in land registration, surveying, conflict resolution, land use planning, land legislation, land management and/or new technologies
- 39,656 rural hectares formalized
- 2,454 urban parcels formalized
- 115,311 stakeholders reached
- 7 legal and regulatory reforms adopted

MCC's PRLP investments are designed to contribute to poverty reduction and economic growth by establishing secure and efficient access to land and property rights. PRLP support of legal and regulatory reforms, clarification and formalization of land and property rights, capacity building of local institutions, and land-related outreach and education are aimed at reducing transaction costs, increasing tenure security and improving allocation of land. This, in turn, will result in increased transactions and investment in land and property and higher land productivity and value.

Irrigation

- $28.2 million, contracts for feasibility and/or design studies
- 12%disbursed, contracted feasibility and/or design studies for canals, pipes, and other water conveyance systems
- $12.1 million, contracts for irrigation system construction
- 37%disbursed, irrigation system works contracts

MCC investments in irrigation include construction and rehabilitation of irrigation systems and watershed management systems. They aim to increase the income and productivity of agricultural producers.

Results data are preliminary as of March 31, 2009, and subject to adjustment.

Tracking MCC's Agriculture Project Results

	Capacity Building of Farmers		Other Support to Farms & Agribusiness (irrigation, inputs, credit, and marketing support)		Growth in Agricultural Sector & Employment Generation
Indicator Type	**Output**	**Output**	**Output**	**Output**	**Outcome**
Progress Indicators	Number of farmers trained	Number of agribusinesses assisted	Value of agricultural and rural loans	Number of hectares under production with MCC support	Increase in income
Totals	83,166 farmers trained	1,289 agribusiness assisted	$20.01 million in agricultural and rural loans	8,959 hectares under production	Income increase attributable to MCC activities will be measured by impact evaluations
Currently implementing	**Armenia** (21,882) **Cape Verde** (83) **El Salvador** (1,858) **Ghana** (16,767) **Honduras** (3,964) **Madagascar** (34,455) **Nicaragua** (4,157)	**Armenia** (70) **El Salvador** (25) **Georgia** (166) **Ghana** (329) **Honduras** (409) **Madagascar** (290)	**Armenia** ($1.5 million) **Cape Verde** ($.088 million) **Georgia*** ($9 million) **Ghana** ($5.434 million) **Honduras** ($2.91 million) **Madagascar**** ($1.08 million)	**Cape Verde** (530 hectares) **El Salvador** (536 hectares) **Honduras** (6,000 hectares) **Nicaragua** (1,893 hectares)	MCC investments in agriculture aim to increase incomes by creating jobs in the agriculture sector; increasing farmers' capacity, productivity, and access to markets; improving access to credit; and strengthening agribusiness.
Pending Implementation	Mali Morocco Mozambique	Cape Verde Morocco Mozambique	Burkina Faso Mali	Armenia Burkina Faso Ghana Mali Morocco Mozambique	

All program data as of March 31, 2009.
Data are preliminary and are subject to adjustment.
*This data captures the value of all loans made to-date in Georgia, but has not previously been reported.
**The "value of loans" indicator for Madagascar includes both agricultural and non-agricultural rural loans

Tracking MCC's Irrigation Project Results

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (6 to 12 months)		Procurement for Works (4 to 8 months)	Construction (1 to 5 years)	Expected Outcomes (up to 15 years)
Indicator Type	**Process**	**Process**	**Process**	**Process**	**Outcome**
Progress Indicators	Value of signed contracts for feasibility, design, supervision and program mgmt contracts	%disbursed for contracted studies	Value of signed contracts for works for irrigation systems	%contracted irrigation works disbursed	Expected upon completion of works
Totals	$28.2 million in studies contracted	12%disbursed for contracted studies	$12.1 million in works contracted	37%of contracted irrigation system works disbursed	Expected upon completion of works
Currently implementing	**Armenia** ($7.59M) **Ghana** ($1M) **Morocco** ($18.95M) **Nicaragua** ($0.7M)	**Armenia** (29%disbursed for canals, pumps, and other water conveyance systems) **Ghana** (39%) **Nicaragua** (100%)	**Armenia** ($6.1M for 5 main canals) **Cape Verde** ($6M for many small works including dikes, reservoirs, and distribution systems)	**Armenia** (18%disbursed) **Cape Verde** (57%disbursed)	MCC investments in irrigation include the construction and rehabilitation of irrigation systems and watershed management systems. They aim to increase income and productivity of agricultural producers.
Pending Implementation	Burkina Faso	Burkina Faso Morocco	Burkina Faso Ghana Mali Morocco Nicaragua	Burkina Faso Ghana Mali Morocco Nicaragua	

All program data as of March 31, 2009. Data are preliminary and subject to adjustment.

Tracking MCC's Road Project Results

Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (12 to 36 months)

Procurement for Construction Contractors (6 to 9 months)

Construction (1 to 3 years)

Expected Outcomes (up to 15 years)

Indicator Type	**Process**	**Process**	**Process**	**Process**	**Process**	**Outcome**
Progress Indicators	Value of signed contracts for feasibility, design, supervision and program mgmt contracts	% disbursed for contracted studies	Value of signed contracts for road works	Kilometers (km) of roads under works contracts	% of contracted roads works disbursed	Expected upon completion of works
Totals	$40.2 million in studies contracted	44% of contracted studies disbursed; 3,609 km of roads under design	$425 million in works contracted	928 km of roads under works contracts	22% of contracted roads works disbursed	Expected upon completion of works
Currently implementing	**Armenia** ($3.12M) **Cape Verde*** **El Salvador** ($7.95M) **Georgia** ($3.95M) **Ghana** ($17.1M) **Honduras** ($2.5M) **Nicaragua** ($3.8M) **Tanzania** ($1.8M) **Vanuatu****	**Armenia** (81%; 892km) **Cape Verde** (N/A; 63km) **El Salvador** (8%; 150km) **Georgia** (98%; 253km) **Ghana** (26%; 1,185) **Honduras** (100%; 200km) **Nicaragua** (96%; 384km) **Tanzania*** (363km) **Vanuatu**** (119km)	**Armenia** ($65M) **Cape Verde** ($18.4M) **Georgia** ($99.3M) **Ghana** ($42.2M) **Honduras** ($70.2M) **Mali** ($34.8M) **Nicaragua** ($41.1M) **Vanuatu** **($54M)	**Armenia** (297 km) **Cape Verde** (40km) **Georgia** (171km) **Ghana** (6km) **Honduras** (146km) **Mali** (81km) **Nicaragua** (68km) **Vanuatu** (119 km)	**Armenia** (7%) **Cape Verde** (71%) **Georgia** (20%) **Ghana** (10%) **Honduras** (23%) **Mali** (10%) **Nicaragua** (28%) **Vanuatu** (41%)	MCC investments in roads aim to reduce transportation costs, improve access to basic services, increase farm to market access and facilitate trade.
Pending Implementation	Burkina Faso Mozambique	Burkina Faso Mozambique	Burkina Faso El Salvador Mozambique Tanzania	Burkina Faso El Salvador Mozambique Tanzania	Burkina Faso El Salvador Mozambique Tanzania	

All program data as of March 31, 2009. Data are preliminary and subject to adjustment. *Additional studies associated with Compacts have been funded by the Governments in El Salvador and Tanzania, and by another donor in Cape Verde. **Design-Build contract, where the value of design work is included in the value of the works contract.

Tracking MCC's Property Rights and Land Property Project Results

*These activities may be implemented in this order but often overlap and extend throughout the compact period.

	Regulatory, Legal and Other Work	Public Outreach	Institutional Upgrading and Capacity Building	Clarification and Formalization of Land Rights	Expected Outcomes (up to 20 years)
Indicator Type	**Output**	**Output**	**Output**	**Output**	**Outcome**
Progress Indicators	Preparatory Studies Completed; Legal and Regulatory Reforms Adopted	Stakeholders Reached	Buildings Built or Rehabilitated; Equipment Purchased; Personnel Trained	Rural Hectares (Ha) mapped/formalized; Urban Parcels mapped/formalized	Effective Property Rights System
Totals	**34 studies completed; 7 legal and regulatory reforms adopted**	**115,311 Stakeholders Reached**	**37 Buildings built/rehabilitated; $7.39 million in equipment purchased; 13,870 personnel trained**	**68,255 rural hectares mapped; 39,656 rural hectares formalized; 2,454 urban parcels formalized**	Reduced Transaction Costs Increased Tenure Security Improved Allocation of Land Increased Transactions and Investment in Land and Property Increased Land Productivity and Value
Currently implementing	**Benin** (15 studies; 0 reforms) **Ghana** (4 studies; 1 reform) **Lesotho** (1 study; 0 reforms) **Madagascar** (7 studies; 4 reforms) **Mali** (0 studies; 2 reforms) **Mongolia** (2 studies; 0 reforms) **Mozambique** (1 study; 0 reforms) **Nicaragua** (4 studies; 0 reforms)	**Benin** (38,960) **Ghana** (5,458) **Lesotho** (125) **Madagascar** (unavailable) **Nicaragua** (69,035) **Mali** (555) **Mongolia** (1,017) **Mozambique** (161)	**Benin** (0 bldgs; $0.77mil; 20 trained) **Ghana** (0 bldgs; $0.07mil; 11 trained) **Madagascar** (29 bldgs; $4.82 mil; 12,216 trained) **Mozambique** (0 bldgs; $0.04 mil; 13 trained) **Nicaragua** (8 bldgs; $1.69 mil; 1,610 trained)	**Ghana** (998 rural Ha mapped) **Madagascar** (36,368 rural Ha mapped and formalized) **Nicaragua** (30,889 rural Ha mapped; 3,288 rural Ha formalized; 2,454 urban parcels formalized)	
Pending Implementation	Burkina Faso	Burkina Faso Namibia	Burkina Faso Lesotho Mali Mongolia	Benin Burkina Faso Lesotho Mali Mongolia Mozambique Namibia	

All program data as of March 31, 2009. Data are preliminary and subject to adjustment.

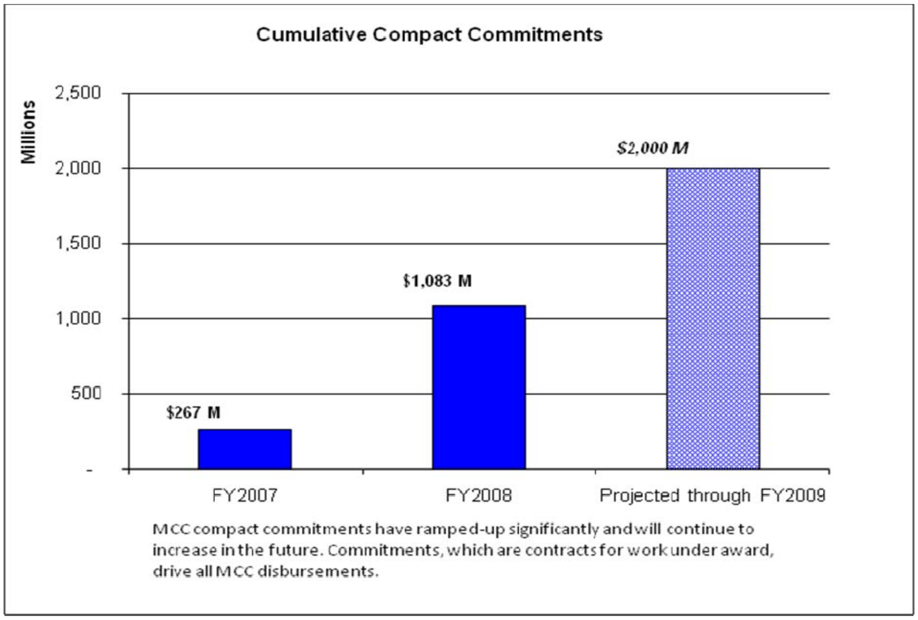
Summary of Compact Disbursements

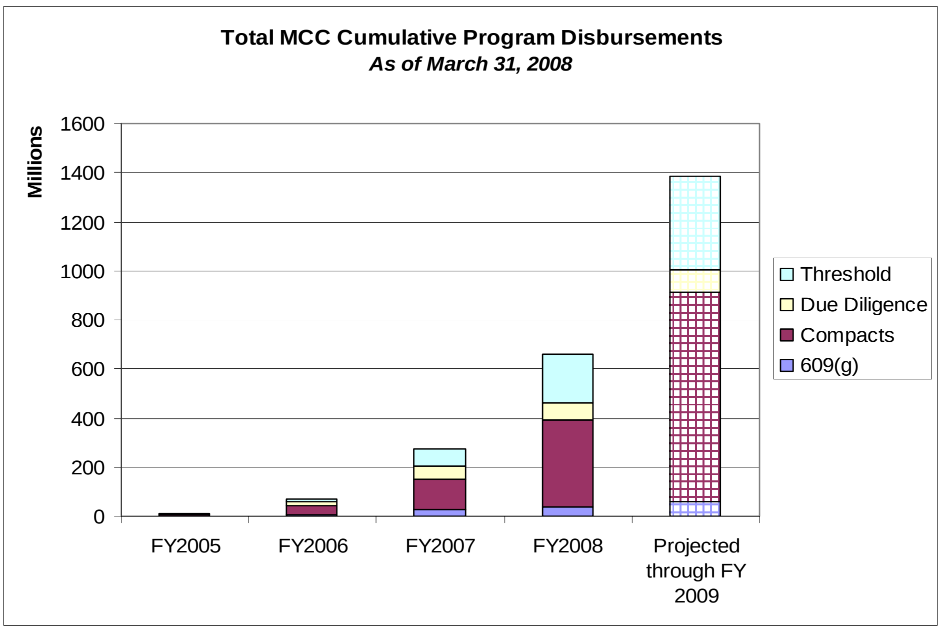
Compact Obligations and Disbursements

Data as of March 31, 2009 ($ in millions)

	Status	Signing Date	Entry Into Force	Obligations				Projected Obligations		Disbursements			
				FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2005	FY2006	FY2007	FY2008*
Country													
Armenia	EIF	3/27/2006	9/29/2006		235.2	0.5						7.9	16.3
Benin	EIF	2/22/2006	10/6/2006			307.3						13.4	11.0
Burkina Faso	Signed	7/14/2008	*Estimated Q4 FY09*				16.1	*464.8*					3.3
Cape Verde	EIF	7/7/2005	10/17/2005		110.1						7.5	6.4	13.1
El Salvador	EIF	11/29/2006	9/20/2007			460.9	0.0					2.2	10.0
Georgia	EIF	9/12/2005	4/7/2006		294.7		0.6	*100.0*			10.1	19.9	43.1
Ghana	EIF	8/1/2006	2/16/2007			547.0						9.3	16.6
Honduras	EIF	6/13/2005	9/29/2005	215.0							3.0	8.0	24.0
Jordan	Draft Concept Papers	TBD	TBD						*350.0*				
Lesotho	EIF	7/23/2007	9/17/2008			15.7	346.9						4.0
Morocco	EIF	8/31/2007	9/15/2008			32.4	665.1					-	0.8
Madagascar	EIF	4/18/2005	7/27/2005	109.8						2.5	7.1	13.1	27.3
Malawi	Program Development	TBD	TBD						*20.0*				
Mali	EIF	11/13/2006	9/17/2007			460.7	0.1					2.1	8.2
Moldova	Program Development	TBD	TBD					*30.0*	*430.0*				
Mongolia	EIF	10/22/2007	9/17/2008				284.9						1.7
Mozambique	EIF	7/13/2007	9/22/2008			25.3	481.6						2.8
Namibia	Signed	7/28/2008	*Estimated Q4 FY09*				19.5	*284.9*					
Nicaragua†	EIF	7/14/2005	5/26/2006		174.9	0.1	(0.3)				2.2	7.8	24.3
Philipinnes	Program Development	TBD	TBD						*30.0*				
Senegal	Program Development	TBD	TBD					*25.0*	*425.0*				
Tanzania	EIF	2/17/2008	9/15/2008				698.1						0.3
Vanuatu	EIF	3/2/2006	4/28/2006		65.7						1.6	0.4	22.2
Total				324.8	880.5	1,849.9	2,512.7	*904.8*	*1,255.0*	2.5	31.5	90.6	228.9

*Disbursements before FY 2008 were adjusted to be in line with a new accounting policy





FUND Grouping	Cumulative Obligations through March 31, 2009	Disbursements in FY2009	Cumulative Disbursements by Program	Total Cumulative Agency Disbursements	Projected Cumulative Disbursements by Program through FY2009	Projected Cumulative Disbursements Through FY2009*
609g*	64,290,181	5,940,849	42,440,019	42,440,019	56,499,170	56,499,170
ADMIN	317,869,590	38,416,326		294,475,135		349,361,299
AUDIT	11,999,101	1,265,345		9,212,491		11,447,146
COMPACTS**	5,668,027,238	179,525,797	533,128,629	533,128,629	828,151,937	828,151,937
DUE DILIGENCE	128,958,861	11,455,290	80,956,507	80,956,507	94,501,216	94,501,216
THRESHOLD***	452,229,332	58,844,538	257,953,332	257,953,332	381,608,794	381,608,794
Total	**6,643,374,303**	**295,448,145**	**914,478,487**	**1,218,166,112**	**1,360,761,117**	**1,721,569,562**

*As of April 2009, projected cumulative disbursements through FY2009 have been revised to reflect changes to MCC's projection for Compact disbursements in FY2009 associated with MCC Board discussions/decisions on Armenia, Georgia, Madagascar, and Nicaragua.

**Funds used by MCC to assist partner countries in developing compacts are authorized under section 609(g) in MCC's legislation.

***The fund grouping "Compacts" includes Compact Implementation Funding, Compacts, and other grants except those made using threshold program and 609(g) fund groupings.

****All data for the threshold program are provided by USAID, except for the Sao Tome and Principe, which is administered by U.S. Department of Treasury.

Protecting U.S. Taxpayer Dollars

Ensuring that scarce U.S. Government development resources are used well is a driving principle of MCC. In the context of a strong commitment to country ownership, MCC promotes responsible stewardship of financial resources in a variety of ways:

- **Strict program oversight:** MCC's model is founded on the belief that country ownership is essential in the design and implementation of development programs. For this reason, MCC country counterparts have primary responsibility for administering MCC-funded programs and are accountable for their results; MCC plays an active oversight role and takes difficult decisions when necessary to ensure program success. For example, MCC has worked with MCAs to re-allocate funding from low- to high-performing projects and to terminate contracts with procurement agents, fiscal agents and program implementers when performance is poor. In several cases, MCC also has worked with country governments to change MCA leadership when necessary, or to restructure the programmatic role of government ministries.

- **Quarterly disbursement approvals:** MCC commits the full value of compact agreements upon compact signing. This stretches U.S. taxpayer dollars and allows partner governments to benefit from predicable funding. However, MCC program disbursements quarterly, based on fiscal and program progress and projections of the next quarter's planned activities. MCC withholds disbursements in cases where project planning is insufficient, conditions precedent have not been met, MCC financial management standards are not followed, or program progress is significantly delayed.

- **Policy on Fraud and Corruption:** MCC's anti-fraud and corruption policy is designed to help MCC and partner countries prevent, detect and remediate the risk of fraud and corruption. It is explicitly designed to bolster the capacity of MCC's country counterparts to identify corruption and fraud, and to ensure corruption allegations are consistently addressed internally at MCC and referred to the Office of the Inspector General for investigation.

- **Holding Country Counterparts Accountable:** MCC selects country partners based on their commitment to policies that foster economic growth, poverty reduction, and effective use of aid resources. By rewarding countries that perform well, MCC provides a powerful incentive for non-partners to reform. Additionally, MCC holds current country counterparts accountable for their policy performance. When faced with significant policy deterioration, MCC has suspended portions of a compact or ended eligibility for funding. This ensures funds continue to flow only to accountable partners.

Compact Implementation Challenges and Responses

During compact implementation, MCAs are responsible for program implementation, but MCC plays a critical oversight role that includes providing technical support in compact program sectors such as education, finance, infrastructure, agriculture, and health and ensuring that compacts are implemented in compliance with MCC standards and policies. MCC also tracks the performance of compact programs and manages performance risk. Each MCC compact is supported by a country team led by an in-country resident country director, or RCD, and a Deputy RCD, and supported by Washington-based technical staff.

Because MCC's approach to program design and implementation, with a strong focus on country ownership, is still new, the agency engages in ongoing collection and application of lessons learned to enhance implementation effectiveness.

As MCC's compact portfolio has matured, both MCC and MCA staff have been able to incorporate lessons learned from early stages to make implementation increasingly efficient and effective in older compacts and to incorporate lessons learned in new compacts. Strong teams are in place in many of the compact countries further along in implementation, and these teams are able to anticipate problems in their own countries and share that knowledge with other teams. The learning curve is now much less steep, especially as lessons are being incorporated in training and guidance for new and old country teams. Problems are being identified much earlier and strategies to address them and make hard decisions are being developed earlier and with more impact. Additionally, MCC's policy of restructuring projects to address fundamental problems, such as with financing, timing, poor performance of contractors, is well developed.

MCC has faced challenges in the following areas:

- Project cost escalation due to increased input costs, tight global construction markets, unfavorable currency fluctuations, and revised technical specifications associated with the need for additional feasibility or design studies;

- Slower-than-expected start up of compact programs due to various causes including, among other things, MCA capacity constraints, need to complete or refine project design, difficulty meeting program conditions such as legal or regulatory reform, failed procurements, and slow or inadequate government cooperation where essential to progress;

- Poor performance on the part of some procurement and fiscal agents, independent engineers, contractors, and implementing entities – in a number of cases requiring time-consuming procurements for firm and staff replacement; and

- Political interruptions (such as in-country elections or significant policy reversals) or weak political will to pursue reforms essential for project success.

MCC closely tracks and aggressively manages these challenges and has developed a number of approaches to address issues that include (i) taking steps to streamline implementation; (ii) refining MCC's oversight role; and (iii) re-structuring projects and/or re-allocating funds across projects in response to cost escalations, poor performance, or other constraints. MCC is considering additional measures including cancellation of under-performing projects (followed by re-allocation or de-obligation of funds) and seeking select extensions for projects facing severe time constraints.

Streamlining Implementation: MCC has taken a number of steps to streamline implementation. For example, MCC works with MCA partners to establish key systems and staffing before compacts enter into force, which enables faster ramp-up of program activities. MCC has developed standard bidding documents and simplified procurement processes to give MCAs better operational tools. MCC also has started to implement a comprehensive plan for MCA capacity building to support their ability to fully exercise country ownership over program implementation.

Refining MCC's Oversight Role: Country ownership is one of MCC's fundamental principles. In practice, defining and reinforcing country ownership is difficult due to limited country capacity; lack of experience with MCC's policies and procedures; multiple complex projects; fixed program timelines; and MCC accountability to Congress and U.S. taxpayers for timely achievement of program results.

MCC recognizes that a one-size-fits-all approach to oversight does not work and MCC has developed an oversight model in which the number of MCC prior approvals for a country is tailored to the stage of compact implementation and the capacity and experience of the country's implementing team. While allowing MCAs more room to implement programs, MCC conducts technical program reviews to identify and address problems that arise (see the Interim Activity Review example below). In this way, MCC manages the healthy tensions among country ownership, accountability, capacity building, and achieving results on a country-by-country basis.

Restructuring Projects: MCC has introduced a number of mechanisms for managing projects that face potential restructuring; these include (i) quarterly portfolio reviews of all compacts; (ii) early identification of high risk projects and management strategies (including identification of responsibilities and timelines for key decisions and actions); (iii) MCC and MCA collaboration in development of restructuring plans; and (iv) approval of restructuring plans at the appropriate MCC level.

In 2008, MCC and MCAs worked together to formally restructure infrastructure projects in six countries (Armenia, Cape Verde, Georgia, Honduras, Mali, and Vanuatu), occasioned primarily by escalating costs for construction inputs and services and by unfavorable currency fluctuations. Solutions included project re-scoping, re-allocation of program funds, and securing parallel financing from other donors.

MCC conducts ongoing monitoring of compact country portfolios and has identified a number of projects that will need to be restructured in 2009. Most recently, Ghana's MCA leadership took the initiative to prepare a plan for re-allocation of $31 million in compact funds. This reallocation was necessitated by emerging realities regarding which projects can reasonably be completed within the remaining time in the compact term, and by higher-than-budgeted costs for several other projects. MCC supported this initiative, which is an excellent example of country ownership in managing key implementation challenges.

Summary of Recent Project Restructures and Re-Allocations			
Country	**Project**	**Restructure Cause**	**Solution Implemented**
Armenia	Roads	• Dollar depreciation • Increased input costs	MCC to fund design for all planned kms and construction for a third of planned kms; World Bank to fund part of remaining originally targeted roads.
Cape Verde	Roads and Port	• Revised technical information and project scope (port) • Increased input costs • Dollar depreciation	Government of Portugal to fund part of port project; re-scope of roads project; re-allocation of funds from private sector development project to roads.
Georgia	Roads	• Dollar depreciation • Increased input costs • Construction boom	Project re-scoped to reduce extent of road rehabilitation; however, additional $100M in funding now expected to cover entire original project scope.
Ghana	Transportation and Rural Development	• Increased project costs	Re-allocation of funds between projects.
Honduras	Roads	• More detailed information from feasibility studies • Expansion in scope • Increased costs for resettlement • Increased input prices	MCC to fund portion of planned road segments; Central American Bank of Economic Integration to fund the remainder.
Mali	Airport and Industrial Park	• Airport: more detailed information from feasibility studies; proposed expansion of scope • Industrial Park: more detailed information from feasibility studies; decreased viability of project; dollar depreciation; increased input costs	Re-allocate funding from industrial park project to airport project.
Vanuatu	Roads	• More detailed information in design study leading to higher costs • Dollar depreciation • Increased input prices • Regional construction boom	MCC to fund portion of planned road segments; Government of New Zealand to fund additional segments.

Summary of Threshold Programs

Since its inception in 2004, MCC has funded threshold program agreements worth close to $470 million with 19 partner countries in Africa, South America, Europe, Asia and the Pacific. At the end of 2008, MCC marked completion of the first five of these programs, which are implemented in partnership with USAID, the Department of the Treasury, and Department of Justice.

Completion of these five programs, in Albania, Burkina Faso, Malawi, Tanzania, and Zambia, valued together at more than $80 million, has resulted in significant improvements in partner government practices to increase government transparency, efficiency, and investments in people.

Countries	Signing Date	Expected Completion	Program Funds
Albania	4/3/2006	11/15/2008	$13,850,000
Albania Stage II	9/29/2008	2/28/2011	$15,731,000
Burkina Faso	7/22/2005	9/30/2008	$12,900,000
Guyana	8/23/2007	2/23/2010	$6,711,000
Indonesia	11/17/2006	5/31/2010	$55,000,000
Jordan	10/17/2006	8/29/2009	$25,000,000
Kenya	3/23/2007	9/30/2009	$12,723,000
Kyrgyz Republic	3/14/2008	6/30/2010	$15,994,000
Liberia	Eligible		
Malawi	9/23/2005	9/30/2008	$20,920,000
Moldova	12/14/2006	9/30/2009	$24,700,000
Niger	3/17/2008	9/30/2011	$23,066,914
Paraguay	5/8/2006	5/31/2009	$34,645,092
Paraguay Stage II	4/13/2009	10/31/2011	$30,300,000
Peru	6/9/2008	1/31/2011	$35,585,000
Philippines	7/26/2006	5/29/2009	$20,685,000
Rwanda	9/24/2008	12/31/2011	$24,730,000
Sao Tome & Principe	11/9/2007	1/31/2010	$7,362,426
Tanzania	5/3/2006	12/30/2008	$11,150,000
Timor-Leste	Eligible		
Uganda	3/29/2007	12/31/2009	$10,446,180
Ukraine	12/4/2006	9/30/2009	$44,970,000
Zambia	5/22/2006	2/28/2009	$22,735,000
Total			**$469,204,612**

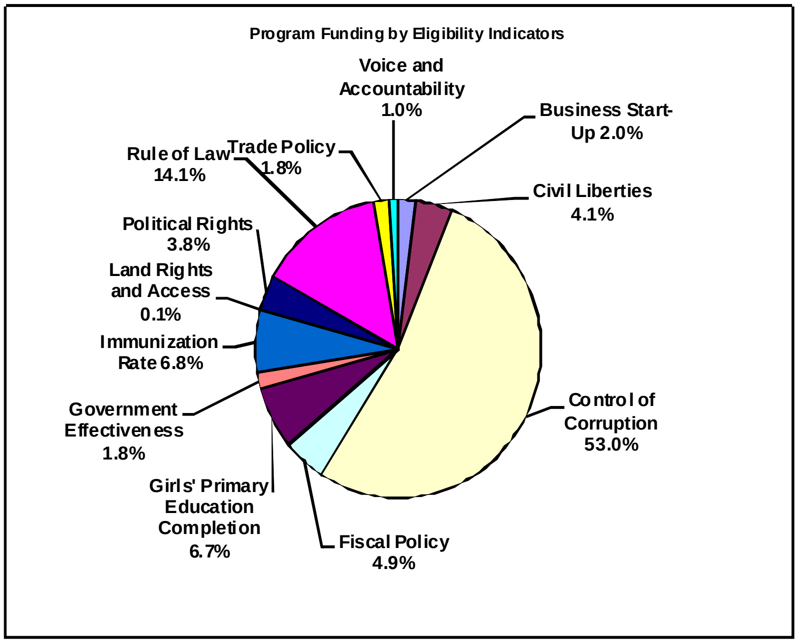
MCC's threshold program is designed to support the reform efforts of countries as they address specific areas of policy weakness identified by the MCC eligibility indicators. By improving a low indicator score, a country may then improve its chances to become eligible for a large-scale MCC compact grant to reduce poverty through economic growth with MCC.

MCC's Threshold Program has supported activities to help control corruption, strengthen rule of law, improve girls' primary education completion rates, increase immunization rates, and various other initiatives and the pie chart below shows the distribution of Threshold funding by MCC indicator.

MCC selects countries for the Threshold Program based on the country's performance on MCC's policy indicators; the country's demonstrated commitment to improving the indicator scores they fail, and the country's ability to undertake reform. Once selected, countries must create a plan identifying measurable ways to improve a specific indicator score.

Examples of Threshold Success Stories

Albania's threshold program reduced opportunities for corruption through reforms in tax administration, public procurement, and business registration. By streamlining business registration processes the number of days needed to register a business decreased from 39 to one. Transparency International noted these reforms when it recognized that Albania was one of the most improved countries in 2008 on its annual Corruption Perceptions Index.



Indonesia's threshold program focuses on reducing public corruption and increasing immunization rates. Its Corruption Eradication Commission is successfully prosecuting high ranking government officials charged with corruption offenses and the immunization program has helped to vaccinate 83 percent of the over 5 million children targeted for measles and DPT3 vaccines.

Burkina Faso's threshold program focused on improving access to and quality of education. Through the construction of 132 girl-friendly schools and housing for teachers, food rations for students and teacher training, over 9,000 girls were recruited to attend grades 1-3. Preliminary results from MCC's first independent impact evaluation indicated that the program resulted in an increase in girls' enrollment by 20 percent and improvement in attendance and test scores.

Zambia's threshold program has reformed business processes in six pilot ministries by assisting the government in reducing complicated administrative barriers. This improved efficiency is helping to reduce opportunities for corruption and increase possibilities for economic growth.

Appendix B: Important Policy Initiatives

Fighting Corruption
Food Security
Millennium Development Goals
Aid Effectiveness and Donor Coordination
The Importance of Country-led Development
Private-Sector Engagement

Reducing Poverty Through Growth

We welcomed the MCC's leadership in the development assistance community in making a commitment to anti-corruption an explicit requirement to qualify for assistance.
Nancy Boswell, President, Transparency International
March 10, 2009

Fighting Corruption

Fraud and corruption diminish the benefits of any assistance program for intended recipients and impede economic growth and poverty reduction.

Good governance is a keystone of poverty reduction and a primary element of that is a commitment to fighting corruption. Using third-party data sources, MCC measures all potential country partners' commitment to controlling corruption before even allowing the country to begin a dialogue on compact development. Of the 17 indicators that MCC uses to determine with which countries to work, meeting the "Control of Corruption" criteria is weighed most heavily.

Additionally, MCC's Threshold Program has invested about $250 million in programs to strengthen anticorruption laws, procedures and practices.

MCC continues to develop a comprehensive and consistent approach to preventing, detecting and remediating incidents of fraud and corruption and has pledged to ensure those implementing MCC's programs do the same.

As part of this ongoing focus on anticorruption efforts, MCC has published its policy on fighting corruption and fraud in all of MCC's programs including the Threshold Program, compact development and compact implementation. The policy is an effort to:

- Bolster the risk detection and management capacity of MCAs implementing entities to identify corruption and/or fraud in MCC-funded programs and projects;
- Achieve greater consistency across MCC and MCA teams in their approaches to the prevention of fraud and corruption; and
- Ensure corruption allegations are consistently addressed internally at MCC and, when appropriate, referred to the Office of the Inspector General.

The policy enshrines key principles on fighting fraud and corruption. MCC's leadership within the development assistance community in articulating a comprehensive policy was recognized by Transparency International which was consulted during the finalization process.

The President and I intend to focus new attention on food security so that developing nations can invest in food production, affordability, accessibility, education, and technology.
Secretary of State Hillary Rodham Clinton
January 26, 2009

Food Security

Investing in food security as part of a comprehensive strategy to alleviate global poverty is a key U.S. Government policy priority. Since 2005, MCC has been serving as an effective tool in achieving America's commitment to global food security by investing in long-term agricultural and rural development.

More than $3.2 billion of MCC's total worldwide commitment of $6.8 billion supports sustainable, market-based solutions to food security.

Through a diverse portfolio of investments, MCC provides support to all aspects of the food production and distribution system, as well as to other aspects of rural economic growth. This includes transferring agricultural technology, securing land rights and access to rural finance, increasing access to sufficient and safe water, and building rural roads and other farm-to-market infrastructure, such as dry and cold storage facilities. These investments help farmers and rural businesses access productive inputs, such as seeds, water, and fertilizers, overcome bottlenecks that hinder their ability to get produce from farm to market, and engage in higher-value production to generate rural income growth.

- In Ghana, MCC funds are being invested in farmer and enterprise training and in programs to enhance land tenure security, promote irrigation development, improve post-harvest handling of produce, improve credit, and rehabilitate secondary and feeder roads.
- Benin is using its MCC's grant to assist rural landholders record their land rights.
- MCC's work to promote long-term food security in these and other partner countries benefits from partnerships with the World Food Program and the Alliance for a Green Revolution in Africa (AGRA). As MCC wrote in a joint op-ed with AGRA that appeared in the Los Angeles Times, sustainable agricultural development starts with a country's own vision for change. MCC and AGRA are supporting African partner countries in their efforts to plan, coordinate, and implement programs to stimulate agricultural and food-system productivity, and these ingredients create a strong foundation for lasting agricultural economic growth by increasing food availability, creating jobs, and generating income for the rural poor.

> ***We will spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty…***
> Millennium Declaration
> September 25, 2000

Millennium Development Goals

The Millennium Development Goals are important benchmarks by which the international community measures development progress in reducing poverty and hunger, expanding education, and improving health. MCC is an effective tool of United States to support partner countries in their efforts to achieve these goals. MCC helps developing countries make tangible, measurable improvements in the lives of their poor and achieve the MDGs by:

Reducing poverty through growth: MCC's core mandate is to reduce poverty in the world's poorest countries through sustainable economic growth. Economic growth is essential to achieving the MDG of halving the proportion of people with income under $1 per day by 2015. Growth is also needed to achieve the other MDGs on a sustainable basis. Since 2004, MCC has committed over $6.8 billion toward this goal.

Rewarding pro-MDG policies: MCC provides an incentive for countries to adopt policies that support poverty reduction and economic growth by working only with those countries that perform relatively well on transparent, independent indicators of good governance, economic freedom, and investing in people. Many of these indicators link directly to MDGs and, for example, encourage countries to increase girls' primary school completion rates, raise immunization rates, reduce the incidence of child mortality, improve access to water and sanitation, and implement good management of natural resources.

Investing in country priorities: Partner countries propose their own priorities for MCC funding and often develop programs that directly address the MDGs. As a result, MCC is investing in water and sanitation, primary education, immunization, health care infrastructure, and land titling, which gives farmers an incentive to improve rather than abandon cultivated land for new slash-and-burn fields. MCC investments in infrastructure also help achieve the MDGs. Roads not only enable crops to get to markets but also provide better access to schools and health facilities.

Examples of MCC investments related to MDGs include:

- ***"to halve the proportion of people who are unable to reach or to afford safe drinking water…"*** In Mozambique, MCC assistance is providing access to safe, reliable water and sanitation services to reduce water-borne diseases.

- ***"to have reduced maternal mortality by three quarters, and under-five child mortality by two thirds…"*** In Lesotho, MCC is rehabilitating health clinics, building diagnostic facilities, and training nurses in order to improve service for health center clients, including pregnant women who seek prenatal care; infants and young children to be immunized against childhood infectious diseases; TB patients; and the 34,000 persons expected to undergo antiretroviral therapy during the life of the MCC grant.

MCC and Aid Effectiveness

MCC founding principles emphasize good policies, country ownership, and results, combined with its focus on donor coordination, transparency and accountability make MCC a leader in aid effectiveness.

Implementing Paris Declaration principles: Founded one year before the signing of the Paris Declaration on Aid Effectiveness, MCC incorporated a number of the Paris Declaration good practice principles from its beginning. Countries take the lead in developing and implementing Compacts to ensure motivated ownership. MCC assistance is untied and aligned with country strategies. MCC's full upfront funding for Compacts ensures predictability and MCC uses country systems, consistent with partner country wishes, wherever they are adequate to ensure accountability and transparency. To manage for results, MCC partners use economic rates of return, beneficiary analysis and broad consultation to determine programs and to implement according to detailed monitoring and evaluation plans. Both MCC and its partners are held accountable by rigorous independent evaluation.

Donor coordination is integrated into each step of the Compact process: MCC addresses the challenge of being a small agency with a limited in-country presence by drawing on other donors' knowledge and country-specific expertise. MCC's coordination efforts have resulted in efficiency and additional resources. Some examples include:

- USAID oversees implementation in almost all of MCC's Threshold Programs and works closely with MCC in compact countries.
- United Nations Development Programme supports MCA countries in anticipation of MCC assistance. Currently, UNDP provides over $200,000 to help Moldova cover salaries and outreach activities as it develops its compact proposal.
- In Mozambique, MCC's investments in water and sanitation will benefit from $40 million from a complementary World Bank project.

MCC also has reached several Memoranda of Understandings, including with AGRA, the UK's Department for International Development, the Ministry of Foreign Affairs of Denmark, the UN World Food Program, and the French Development Agency to increase on-the-ground cooperation and augment MCC capacity in specific technical areas.

MCC and partner countries focus on results: First, partner countries develop proposals based on their analysis of constraints to economic growth and poverty reduction. Second, MCC uses economic rates of return (ERRs) and beneficiary analysis to ensure that projects proposed by countries will lead to economic growth and poverty reduction. Third, partner countries develop and report against monitoring and evaluation (M&E) plans to track program progress, make course corrections as needed, and communicate interim program results. Quarterly disbursements to MCAs are contingent on, among other things, adequate progress on M&E plans. Finally, MCC makes significant investments in rigorous, independent impact evaluations of programs to learn about what works, which will inform future programs and contribute to broader understand by the development community.

> *Take, for example, U.S. government grants awarded through the Millennium Challenge Corp. It's right that MCC grants are awarded only to countries that rule justly, invest in their people and promote economic freedom. It's right that poor countries themselves are empowered to direct these grants to their development priorities.*
>
> Senator George McGovern
> April 14, 2009

The Importance of Country-led Development

Country-led development, or country ownership, has been broadly embraced by the international donor community as a critical element of smart development aid. MCC has spent the past five years working to develop and institutionalize internal processes that can help shift country ownership from a guiding principle to a practical approach. While this effort remains a work in progress, the approach has become more systematic and it represents US leadership in making smart aid practical. For MCC, country led development had three inseparable parts.

1. **Countries control the prioritization process:** Country governments set their compact priorities. Each country partner identifies its objectives for removing constraints to economic growth and poverty reduction and proposes specific programs based on those priorities. This smart-aid tactic is possible because MCC has neither pre-established objectives nor sector-specific spending priorities.

2. **Countries implement their compacts:** Once a compact is signed, MCC partner country governments empower domestic accountable entities (the MCAs) that will take the lead in implementation, and support that entity as appropriate. This may be a pre-existing implementing entity within a ministry or agency, or it may be new and independent. The MCAs (managed and staffed by country nationals) have formal management responsibility and are accountable to their own domestic board of directors.

3. **Countries are accountable to their own citizens:** Country ownership is larger than the wishes of individuals in the national government. MCC expects country partners to incorporate practices and procedures that protect the "democratization of ownership." While a country government needs to satisfy accountability requirements for use of MCC funds, it must also remain accountable to its own domestic stakeholders for economic development decisions and actions. MCC process requirements are designed so that support or opposition for the government's decisions and actions can be expressed and acknowledged through the country's normal institutional channels, such as NGOs, elected officials, or the media.

Based on this, MCC has begun to build a practical approach that MCC country partners value as well. In a survey of our country partners, more than 80 percent of respondents agreed that "MCC's approach to country ownership will help my country achieve its development objectives."

The private sector is key to development and creating opportunity.
IFC, Global Economic Prospects
2007

Private Sector Engagement

The private sector is a key driver of economic growth, and MCC has a number of initiatives to integrate the private sector into compact program development and implementation. Working with businesses, business associations, and foundations, MCC is promoting private sector trade and investment opportunities, identifying ways to leverage and sustain MCC investments through private sector collaboration, and engaging the private sector during compact development to identify opportunities for collaborative investments.

Only the "best governed of the poorest"—those countries that are actively reforming, fighting corruption, helping their people and encouraging business development—are able to participate in the MCC program. These same characteristics make MCC countries attractive to the private sector. With this in mind, MCC organizes Investment and Procurement Forums in conjunction with each compact signing and conducts private sector outreach with and on behalf of its partner countries throughout compact development and implementation.

Highlighted in this outreach to the private-sector are trade and investment opportunities directly related to compact programs for companies looking to enhance their "double bottom line," meaning investments that are both commercially viable and improve a country's standard of living. Agribusiness, transport and logistics, and other sectors are featured in materials that are distributed through roundtables, conferences, and other channels.

Identifying innovative models to leverage and sustain MCC investments through private sector collaboration is a top priority and MCC's partner countries have an opportunity to leverage their compact funding with private sector investment and financing. To help them take advantage of this opportunity, MCC's private sector initiatives toolkit identifies innovative models of private sector collaboration that can enhance the efficiency, sustainability, and impact of MCC programs.

When developing compact programs, MCC partner countries consult extensively with their private sector and civil society to identify key constraints and opportunities for growth. MCC has developed a process for international private sector dialogue to provide feedback on proposed projects and identify leverage opportunities.

MCC is continually building awareness, transparency, and promotion in procurement. MCC's "Doing Business with MCC" events have expanded awareness. The redesign of MCC's procurement webpage has increased transparency. The investment and procurement forums have better promoted specific country procurements. Other MCC initiatives in progress aim to further enhance communication with potential vendors.

Appendix C:
Organizational Structure

Reducing Poverty Through Growth

MCC is governed by a nine-member Board of Directors, and is managed by a Chief Executive Officer. MCC prides itself on its small footprint of fewer than 300 professionals in Washington and two in-country staff members in each MCC country implementing a compact.

Board of Directors: The Board of Directors consists of five public-sector officials including the agency's CEO, along with the Secretary of State as the Board's chairperson, the Secretary of Treasury, the U.S Trade Representative and U.S. AID administrator. In addition, MCC has four private-sector board members appointed by the president at the recommendation of Congress.

The **Department of Administration and Finance** is responsible for managing MCC's human, financial, and information resources as well as physical security and administrative services. The Department plans and directs all activities related to financial management, planning and budgeting, manages MCC's human resources, oversees information technology, manages all MCC contracts, acquisitions, and grants, manages MCC's facilities, provides travel services.

The **Department of Compact Development** manages the relationship between MCC and Compact-eligible countries prior to compact implementation, providing integrated country teams with a broad range of expertise and regional knowledge to Compact-eligible countries to guide and assist with the compact development and finalization process.

The **Department of Compact Implementation** manages MCC's relationship with countries following signing of a Compact. DCI oversees compact projects, ensuring they are implemented in compliance with MCC core standards for procurement, financial management, environmental and social impacts, as well as mitigation and compliance. DCI provides technical expertise in specific sectors, such as education, finance, infrastructure, agriculture and health.

The **Department of Congressional and Public Affairs** manages the agency's relationships with the U.S. Congress, other U.S. Government agencies, the media, universities, non-governmental organizations, think tanks, and other key groups interested in MCC's mission, as well as external communications, including media relations, the website, and public outreach.

The **Department for Policy and International Relations** manages the annual process selecting eligible countries, ensures effective donor coordination, coordinates economic analysis and the rigorous independent evaluations of MCC programs, develops strategies to increase private sector partnerships, and maintains relationships with experts in the development community and other donors. PIR also oversees the Threshold Program.

The **Office of the Chief Executive Officer** is responsible for overall management of MCC including providing executive leadership and direction for the agency, coordinating activities and communications across departments, managing official correspondence, scheduling, and interagency information for the Chief Executive Officer.

The **Office of the General Counsel** provides advice to MCC's Board of Directors and MCC staff on all legal issues affecting MCC, its programs, policies and procedures. The Office manages MCC's ethics program, providing related training and guidance to staff. The General Counsel serves as the Corporate Secretary to the Board.