Budget Justification 2008

MILLENNIUM CHALLENGE CORPORATION
MCC
UNITED STATES OF AMERICA

REDUCING POVERTY THROUGH GROWTH

About the Cover

A woman in Faratsiho, Madagascar displays a land certificate issued under the Millennium Challenge Corporation project that works to modernize the country's antiquated land tenure system. Photo taken in May 2006 by MCC staff member Brian Levy.

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Overview

The President is requesting in his Fiscal Year (FY) 2008 Budget an appropriation of $3 billion for the Millennium Challenge Corporation (MCC). These funds are essential for building on MCC's track record of success and for furthering MCC's mission of reducing poverty through sustainable economic growth among developing countries committed to ruling justly, investing in their people and encouraging economic freedom.

> *"This [Millennium Challenge Account] visionary program will play a pivotal role within the context of democracy, freedom, national security, and trade. This new kind of assistance makes it clear that there is a shared commitment in the task of reducing poverty and creating prosperity and we are committed to this."*
>
> *—President Enrique Bolaños of Nicaragua*

The year concluded has been marked by significant achievements:

- MCC has signed **compacts** to date with 11 partner countries: *Armenia, Benin, Cape Verde, El Salvador, Georgia, Ghana, Honduras, Madagascar, Mali, Nicaragua,* and *Vanuatu*. Six of these 11 compacts were signed during FY 2006 and the first quarter of FY 2007 (Armenia, Benin, El Salvador, Ghana, Mali, and Vanuatu).
- MCC has awarded **$3 billion** to eligible countries to address various barriers to poverty reduction and economic growth. These compacts create plans of action for communities to reduce poverty through:
  - improvements to water and sanitation services;
  - the opening of trade schools and health clinics;
  - business development initiatives, including the building of industrial parks and the implementation of micro-lending credit programs;
  - improvements to agriculture and irrigation systems;
  - land tenure and soil conservation projects; and

  - infrastructure projects that make access to markets, schools and health clinics possible by rehabilitating roads, ports and railroads.

- Compact **implementation** is underway and **disbursements** are accelerating.   We are beginning to generate results in partner countries such as increased property rights, access to credit, improved agricultural practices, and enhanced infrastructure for business and community development.

- MCC now has a total of **11 Threshold agreements** representing **$286 million** in awards to *Albania, Burkina Faso, Indonesia, Jordan, Malawi, Moldova, Paraguay, Philippines, Tanzania, Ukraine,* and *Zambia*. While most programs focus primarily on improving governance, especially on curbing corruption, others focus on key social investments such an improving primary education rates among girls as well as the immunization rates for diphtheria, tetanus, pertussis, and measles for children. Nine of the 11 Threshold agreements were signed in FY 2006 and the first quarter of FY 2007 (Albania, Indonesia, Jordan, Moldova, Paraguay, the Philippines, Tanzania, Ukraine, and Zambia).

- MCC's selection criteria for funding are generating remarkable political, economic and social **policy reforms** in countries around the world that want to be deemed eligible for an MCC investment or wish to maintain eligibility. This **"MCC Effect"** has become more pronounced and increasingly successful in encouraging countries to adopt an optimal policy environment for MCC assistance to be most effective.

- MCC is strengthening its selection criteria with the **introduction of two new performance indicators**—a *Natural Resources Management Index* and a *Land Rights and Access Index*. These provide MCC with additional measures to determine how well a country is making the right policy choices in terms of providing clean drinking water, expanding sanitation services, reducing child mortality, protecting its eco-regions, streamlining the property registration process, and making land rights accessible and secure for poor and vulnerable populations, including women. These are all critical considerations in poverty reduction and economic growth.

- MCC recognizes that *gender inequality* is a significant constraint to economic growth and poverty reduction and has developed a plan of action to integrate gender analysis and sensitivity into all stages of proposal and compact development and implementation. While MCC has always taken gender inequality into account while developing compacts, the policy was formally instituted in October 2006.

- MCC had 264 full-time **employees** as of September 30, 2006, only 36 below its authorized level of 300, and is thus continuing to build its **organizational capacity**. By streamlining policies and procedures, improving departmental structures, improving guidance to countries, and implementing lessons learned, MCC is better positioned to help eligible countries move expeditiously through the compact development process and toward realizing their goals for poverty reduction and economic growth.

Fully funding the President's FY 2008 budget request of $3 billion is necessary for MCC to continue fulfilling its mission of poverty reduction through economic growth:

- MCC projects that it will sign **compacts** with up to 6 countries in FY 2008 with a projected average compact size of $400 to $500 million. MCC is intentionally increasing the average size of compacts to support transformational growth and poverty reduction in its partner countries. Up to twenty-five percent of program funding will be used for compacts with lower middle income countries (LMICs) in keeping with MCC's legislation. MCC legislation allowed for the consideration of LMICs for the first time in FY 2006.

- MCC will allocate up to 10 percent of its FY 2008 appropriation for countries deemed eligible for **Threshold program assistance**.

Compacts: MCC has a robust pipeline of countries at various stages of the compact development process. MCC is likely to have enough funding in

FY 2007 to sign six to seven compacts based on the likelihood of a full year Continuing Resolution in FY 2007. MCC signed compacts with El Salvador and Mali during the first quarter of FY 2007, leaving room for four to five additional compacts to be signed before the end of the fiscal year. By the end of FY 2007, MCC expects to have compacts with a total of 15 to 16 countries leaving an additional 9 to 10 countries in the pipeline. Additional eligible countries for FY 2008 will be chosen in November 2007.

Of these remaining countries, three were selected by MCC's Board of Directors in FY 2007 as eligible for MCC compact assistance: Jordan, Moldova, Ukraine. The remainder were selected in FY 2006 or prior years. With increased efficiencies in the compact development process and earlier engagement of compact-eligible countries to provide clear guidance on moving forward, it is likely that most or all of these newly-selected countries will be ready to sign compacts with MCC in FY 2008 if sufficient funding is available.

Compacts to Date

Compact	Signed	Entry Into Force
Armenia	March 27, 2006	September 29, 2006
Benin	February 22, 2006	October 6, 2006
Cape Verde	July 4, 2005	October 17, 2005
El Salvador	November 29, 2006	
Georgia	September 12, 2005	April 7, 2006
Ghana	August 1, 2006	
Honduras	June 13, 2005	September 29, 2005
Madagascar	April 18, 2005	July 27, 2005
Mali	November 13, 2006	
Nicaragua	July 14, 2005	May 26, 2006
Vanuatu	March 2, 2006	April 28, 2006

Threshold program: Full funding will also be vital for preserving and furthering the positive incentive effect that is motivating countries to enact difficult reforms. Twenty-one countries in total have been selected by the MCC Board as eligible for Threshold program assistance during the past four annual selection cycles, including the most recent in November of 2006. These countries are close to meeting the Millennium Challenge Account (MCA) policy criteria and are moving in the right direction. Threshold program assistance helps push eligible countries, as the name suggests, over the threshold and helps to keep them there by supporting their policy reforms in an effort to qualify for compact assistance. Even though some countries do not meet the medians on one or more indicators, carefully-targeted Threshold assistance can help them implement the reforms necessary to pass the MCA indicators. The MCC Board evaluates country performance on a yearly basis. As such, Threshold programs with countries that become eligible for a compact will continue throughout the compact development and implementation process. Full funding at the FY 2008 budget level will allow MCC to fund and support additional Threshold countries as an important tool in promoting and sustaining political, economic and social reforms.

The countries that MCC's Board of Directors has selected for partnerships based on their performance on political, social and economic indicators include:

MCA Compact-Eligible Countries[1]

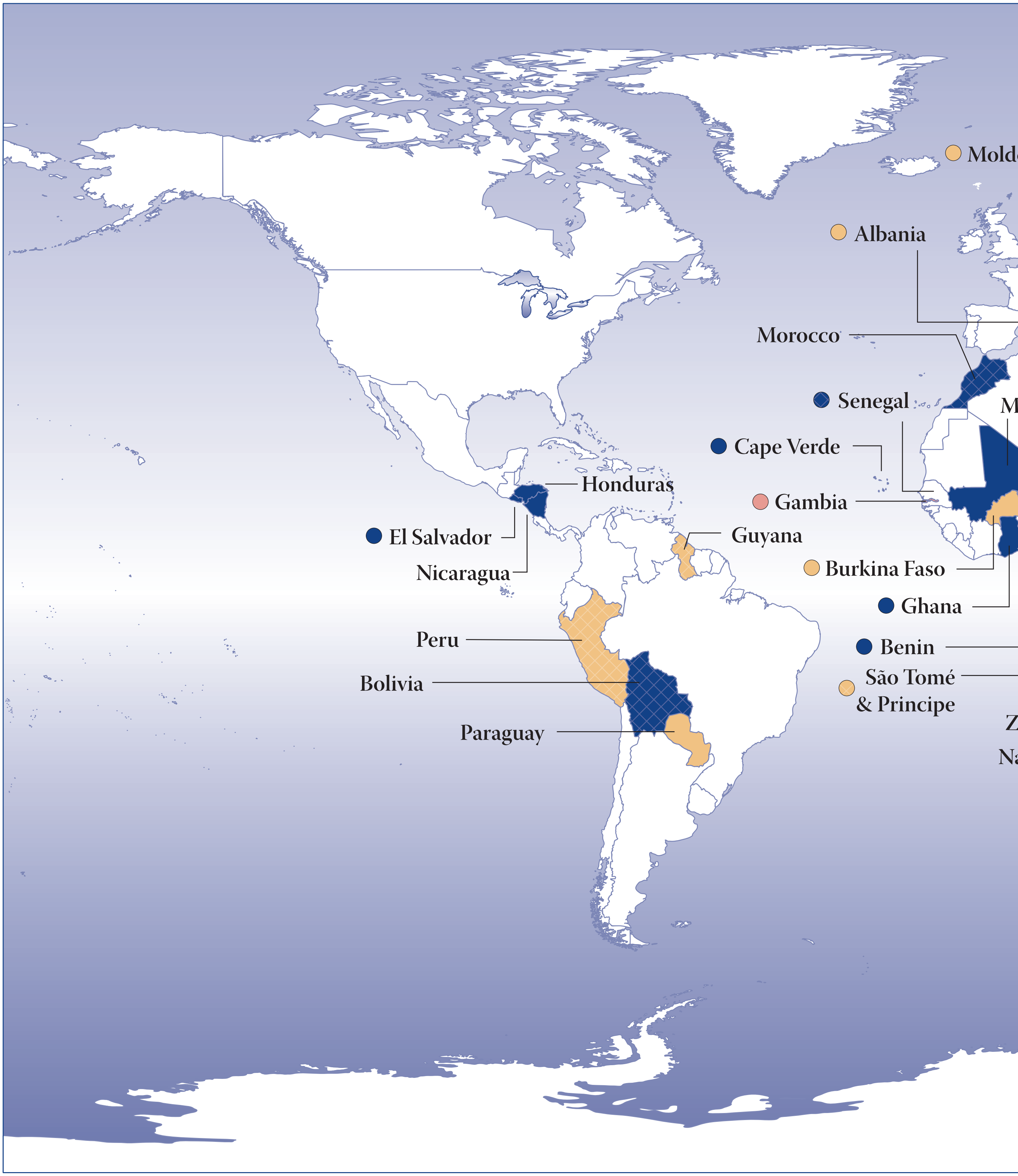
Low Income ($1,675 gross national income per capita for FY 2007)		
Africa	**Eurasia**	**Latin America**
Benin	Armenia	Bolivia
Burkina Faso[2]	East Timor[3]	Honduras
Ghana	Georgia	Nicaragua
Lesotho	Moldova[2]	
Madagascar	Mongolia	
Mali	Sri Lanka	
Morocco	Ukraine[2]	
Mozambique	Vanuatu	
Senegal		
Tanzania[2]		

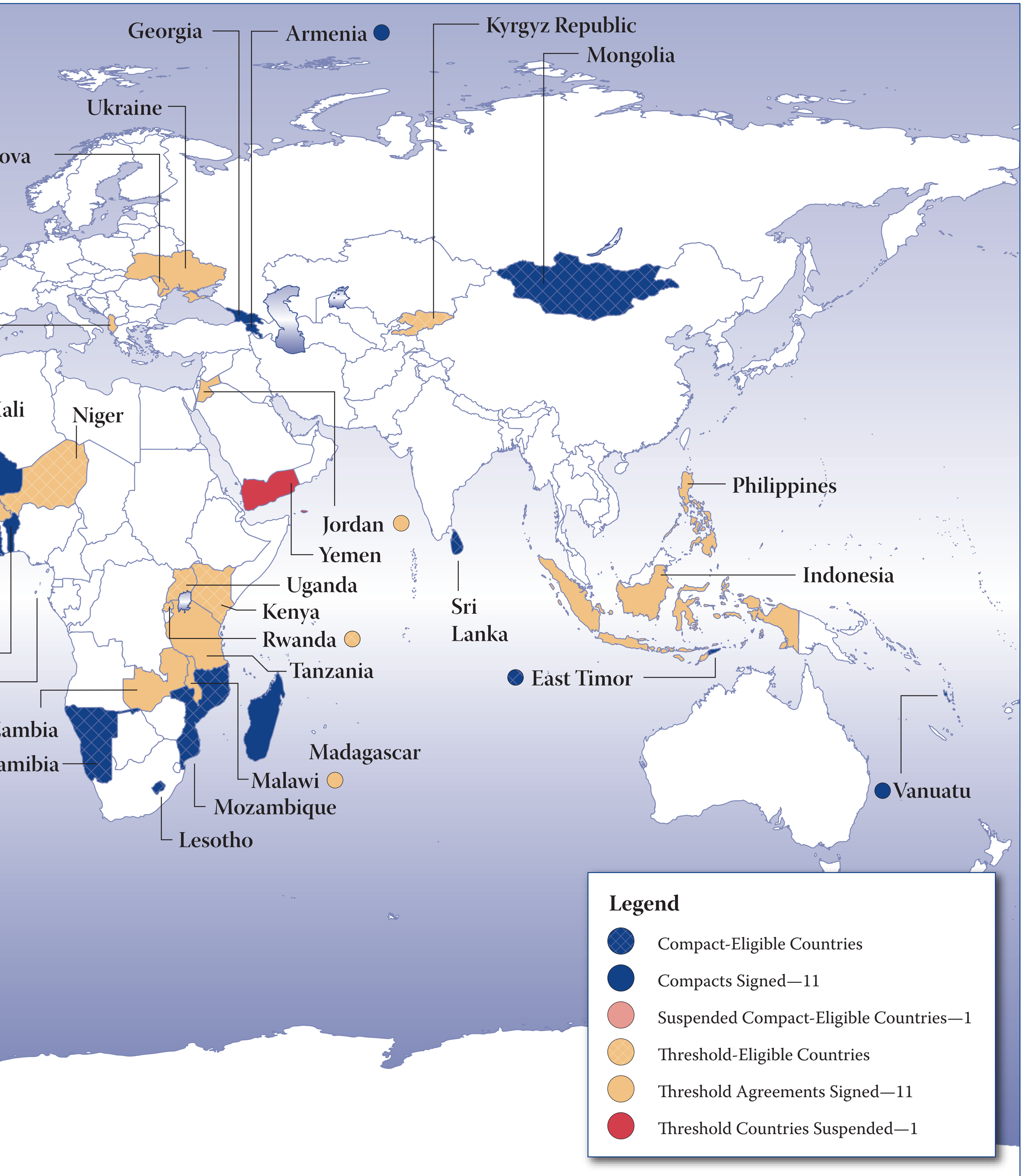
Lower Middle Income ($1,676 – $3,465 gross national income per capita for FY 2007)		
Africa	**Eurasia**	**Latin America**
Cape Verde[5]	Jordan[2]	El Salvador
Namibia		

Threshold Program Countries[4]

Africa	Eurasia	Latin America
Kenya	Albania	Guyana
Malawi	Indonesia	Paraguay
Niger	Kyrgyz Republic	Peru
Rwanda	Philippines	
São Tomé and Principe		
Uganda		
Zambia		

Eligible, Compact, Threshold, and Suspended Countries





Georgia
Armenia
Kyrgyz Republic
Mongolia
Ukraine
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Niger
Jordan
Yemen
Uganda
Kenya
Rwanda
Tanzania
Sri
Lanka
Philippines
Indonesia
East Timor
ambia
amibia
Madagascar
Malawi
Mozambique
Lesotho
Vanuatu
Legend
Compact-Eligible Countries
Compacts Signed—11
Suspended Compact-Eligible Countries—1
Threshold-Eligible Countries
Threshold Agreements Signed—11
Threshold Countries Suspended—1

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Budget Justification

The Millennium Challenge Corporation's mission is to reduce poverty by supporting sustainable economic growth in developing countries that create and maintain sound policy environments. The primary objective of MCC's strategic plan is to achieve sustainable and transformational development.

For FY 2008, MCC requests $3 billion to continue to realize the President's vision of providing assistance to those countries that govern justly, support economic freedom and invest in their people.

The following table breaks the request into its component parts ($ millions).

Program	FY 2006 Appropriation	FY 2007 Estimate	FY 2008 Request
Compacts	1,429	1,408	2,620
Threshold	175	175	190
Due diligence/609(G)	70	80	80
Administrative Expenses	75	85	105
Inspector General	3	4.2	4.5
Total Appropriation/Request	**1,752**	**1,752***	**3,000**

*Assumes that the final FY 2007 CR is based on FY 2006 enacted levels

The bulk of the increase requested for FY 2008 will go directly to compacts with up to six countries. Note that the breakdown between compact and Threshold/other programs is notional. The exact split between these categories will depend on the size of the programs that MCC funds with eligible and Threshold countries. MCC will commit in FY 2008 all of the funding that is requested to address the significant pipeline of eligible and threshold countries.

The requests for compacts, Threshold programs, and administrative expenses are discussed in more detail below.

Compact Requirements

The MCC budget request for FY 2008 is based on an estimate of the funds needed to sign MCC compacts with currently eligible countries that will be ready to enter into compacts. Without fully funding the FY 2008 request, MCC will not have sufficient resources to finalize compacts with all eligible countries.

MCC expects to have more demand than resources for compact funds in FY 2007, due in part to the likelihood that MCC will be funded under a full-year Continuing Resolution for the remainder of FY 2007. MCC is likely to have enough funding in FY 2007 from prior year unobligated balances and new funding provided under the Continuing Resolution (CR) to sign three to five compacts in addition to the two compacts already signed in FY 2007 with El Salvador and Mali. This leaves at least nine eligible countries competing for funding in FY 2008 including the three countries selected by the Board in FY 2007: Jordan, Moldova and Ukraine. Projected countries that could complete compact negotiations in FY 2007 include Lesotho, Morocco, Mozambique, Tanzania, and Sri Lanka.

MCC compacts have steadily increased in average size, from the early compacts with Madagascar ($110 million) and Honduras ($215 million) to the most recent compacts with Ghana ($547 million) and El Salvador and Mali ($461 million each). This trend will continue as MCC expects the average size of new compacts to be between $400 to $500 million. At this rate, MCC will be able to sign five to six new compacts in FY 2008 at the full request level.

Threshold Program Requirements

In keeping with MCC's role in fostering policy change, up to 10 percent of the FY 2008 appropriation will be used for MCC's Threshold program. Under the Threshold program, funds are used to help Threshold countries address specific policy weaknesses in targeted areas among the three MCC indicator categories of ruling justly, investing in people and encouraging economic freedoms. These programs have focused primarily on improving governance, especially curbing corruption, and making social investments in health and education. The average assistance provided under these Threshold programs has been approximately $27 million.

The following additional assumptions and program justifications support the request for funding the Threshold program in FY 2008:

- **Natural Resource Indicators:** With the upcoming addition of natural resource indicators, countries may have to address additional policy deficiencies in this area. MCC anticipates that the budgets for such Threshold programs will be larger than the current average.

- **Guidance in Threshold Country Plan Development:** In the past year, MCC, USAID, and other U.S. Government agencies have become more engaged in helping countries develop more effective Threshold country plans. This includes providing eligible countries with indicator analyses and funding to help with program design. This assistance has resulted in more focused, better-quality Threshold programs.

- **Monitoring and Evaluation (M&E):** Until now, M&E has been an integral part of an individual country's Threshold program, but MCC has not played an active role in the design of the M&E component. In an effort to obtain good information on the progress and impact of Threshold programs, MCC plans to hire an additional staff member to build better M&E systems into Threshold programs and to evaluate their performance.

Administrative Expenses

The President is requesting $105 million for administrative expenses for the Millennium Challenge Corporation in FY 2008. The reasons why include:

- **Maintenance of a lean workforce:** The FY 2008 request maintains the currently-approved staffing level of 300 direct hire employees in Washington. This small workforce will support the development and/or implementation of MCC compacts with 25 or more partner countries.

- **Development of a highly effective and diverse workforce:** 300 employees can support a program of the size and complexity of MCC only if they have the highest qualifications and skills. The request continues MCC's efforts to recruit a highly qualified and diverse workforce, while supporting a new and comprehensive training program. At the January 2007 level of 277 employees, 26 percent are minorities; 55 percent are women; 64 percent are women and/or minority men. Because of a CEO priority initiative and commitment to a diverse workforce, MCC experienced a 41 percent increase in minority hires from June to December 2006.

- **Devolution of authority to our partners:** MCC expects its partner countries to take primary responsibility for the development and implementation of MCA assistance programs. In order to provide guidance and review results, funding for MCC staff travel and for small MCC offices in partner countries is a critical component of this request.

- **Real integration of budget and performance:** As a new and cutting edge government corporation, MCC has a unique opportunity to build real managerial cost accounting into its business practices, so that it can demonstrate the results it is getting for its investment of taxpayer dollars. The request supports this effort through information technology acquisitions and business process improvements.

> *"I think it's [Millennium Challenge Account] really one of the most, I think, by far the most efficient tool of help I'd ever seen, and I've seen many assistance programs in my country for the last decade. And I think this is the most efficient, this is the most targeted one, and this is going to produce most of the results."*
>
> *—President Mikheil Saakashvili of Georgia*

- **Competitive sourcing of integrated support services:** MCC will continue to take maximum advantage of the President's initiative to competitively source administrative support services. Therefore, the request includes funding for an integrated solution that provides out-sourced services for financial management, procurement, travel and human resources.

- **Compliance with Federal requirements:** MCC is committed to full compliance with all U.S. Government requirements, and the request fully supports continued efforts to achieve unqualified audits and to meet all other key financial management and internal control requirements, such as those contained in OMB Circular A-123.

A more comprehensive description of MCC's request for administrative expenses is in the Budget Tables section.

Summary of Beneficiaries and Impacts Attributable to MCC Interventions

Compact Country	Project Name	Number of Beneficiaries[6]	Compact Multi-Year Net Investment in Projects[7]
Armenia			**$212,770,000**
Compact Signed: 27 March 2006	**Rural Road Rehabilitation**	360,000	$67,100,000
Entry Into Force: 2 September 2006	**Irrigated Agriculture**	250,000	$145,670,000
Benin			**$259,387,000**
Compact Signed: 22 February 2006	**Access to Land**	712,537	$36,020,000
Entry Into Force: 06 October 2006	**Access to Financial Services**	216,859	$19,650,000
	Access to Justice	2,377,312	$34,270,000
	Access to Markets	4,031,250	$169,447,000
Cape Verde			**$96,808,838**
Compact Signed: 04 July 2005	**Watershed Management & Agricultural Support**	185,877	$10,848,630
Entry Into Force: 17 October 2005	**Infrastructure Project**	364,074	$78,760,208
	Private Sector Development Project	(a)	$7,200,000
El Salvador			**$416,100,000**
Compact Signed: 29 November 2006	**Human Development Project**	484,000	$95,070,000
Entry Into Force: Pending	**Productive Development Project**	55,000	$87,470,000
	Connectivity Project	600,000	$233,560,000
Georgia			**$259,200,000**
Compact Signed: 12 September 2005	**Regional Infrastructure Rehabilitation Project**	53,000	$211,700,000
Entry Into Force: 17 April 2006	**Enterprise Development Project**	54,236	$47,500,000
Ghana			$485,376,000
Compact Signed: 01 August 2006 Entry Into Force: Pending	**Agriculture Project**	425,000–654,000	**$240,984,000**
	Transportation Project	700,000 (b)	$143,104,000
	Rural Development Project	30,000 (c)	$101,288,000

Per Capita Income[8]	MCA Country Income Indicator[9]	Projected net Increase in Income Indicators Attributable to MCC at End of Compact[21]
$1,470	Change in real income from agriculture in rural areas (Index)[10]	5% increase over index baseline
$510	Average household income in land and finance areas[11]	Estimated at 7% increase in treated areas compared to untreated areas (difference-in-differences)
$1,870	Increase in annual income (US$ millions)[12]	$10 million increase in annual income
$2,450	Annual per capita income of Program beneficiaries in the Northern Zone (treatment group)[13] Annual per capita income of Program beneficiaries in the Northern Zone (control group)[13]	Estimated at 20.6% increase in treated areas compared to untreated areas (difference-in-differences of $148 per capita)
$1,350	Incremental increase in financial benefits from Compact interventions (US$)[14]	$41,977,000 increase
$450	Crop income (Northern Zone) (US$ per household)[15]	135% ($945 per household) increase over baseline
	Crop income (Afram Basin Zone—East) (US$ per household)[15]	55% ($451 per household) increase over baseline
	Crop income (Afram Basin Zone—West) (US$ per household)[15]	142% ($767 per household) increase over baseline
	Crop income (Southern Zone) (US$ per household)[15]	33% ($614 per household) increase over baseline

Summary of Beneficiaries and Impacts Attributable to MCC Interventions

Compact Country	Project Name	Number of Beneficiaries[6]	Compact Multi-Year Net Investment in Projects[7]
Honduras			**$197,895,000**
Compact Signed: 13 June 2005 Entry Into Force: 30 September 2005	**Rural Development Project**	28,255 (d)	$72,195,000
	Transportation Project	(e)	$125,700,000
Madagascar			**$91,374,000**
Compact Signed: 18 April 2005 Entry Into Force: 25 July 2005	**Land Tenure Project**	204,000 (f)	$37,803,000
	Finance Project	125,905 (g)	$35,888,000
	Agricultural Business Investment Project	102,000	$17,683,000
Mali			**$418,506,164**
Compact Signed: 13 November 2006 Entry Into Force: Pending	Bamako-Sénou Airport Improvement Project	(h)	$89,631,177
	Industrial Park Project	3,439 (i)	$94,266,519
	Alatona Irrigation Project	11,903 (j)	$234,608,468
Nicaragua			**$153,000,000**
Compact Signed: 14 July 2005 Entry Into Force: 26 May 2006	**Property Regularization Project**	43,000 (k)	$26,500,000
	Transportation Project	(l)	$92,800,000
	Rural Business Development Project	7,000 (m)	$33,700,000
Vanuatu			**$60,690,000**
Compact Signed: 02 March 2006 Entry Into Force: 28 April 2006	**Transport Infrastructure Project**	65,227	$60,690,000

Per Capita Income[8]	MCA Country Income Indicator[9]	Projected net Increase in Income Indicators Attributable to MCC at End of Compact[21]
$1,190	Increase in income of Beneficiaries (annual US$ millions)[16]	$69 million increase over baseline
$290	Increase in household income in Zones[17]	Estimated at 5% of average land value for each of the Zones
$380	Total revenue of firms servicing the Airport (millions US$)[18]	13% ($1 million) increase over baseline
	Total receipts of hotels and restaurants in Bamako (millions US$)[18]	31% ($41 million) increase over baseline
	Gross value-added of firms in the Industrial Park (millions US$)[18]	$33 million increase over baseline
	Real income from irrigated agricultural production (US$ per capita)[18]	$316 per capita increase over baseline
$910	Total Expected Income Gains (millions US$)[19]	$20.94 million increase over baseline
$1,600	Average cash income per capita of residents living within the catchment area of infrastructure sub-projects[20]	17% ($205 per capita) increase over baseline

Results

MCC's innovative model for providing assistance to developing countries is demonstrating powerful and tangible results. Fully funding the President's FY 2008 budget request for MCC at the $3 billion level will further these results by

- strengthening the MCC Effect and providing a strong incentive for countries to make critical political, economic and social policy reforms in the hope of qualifying for MCC Threshold and compact funding;
- ensuring that MCC has the necessary funds to reward compact eligible countries that demonstrate the political will and leadership as well as the creativity and participation of their citizens to follow-through on compact development and implementation; and
- increasing internal organizational capacity to administer a growing number of compacts and Threshold agreements.

The MCC Effect is accelerating.

One of MCC's main strategic objectives is to create incentives for countries to adopt good policies that create a foundation for poverty reduction and economic growth. Countries are doing the hard work of reform to enhance their chances of becoming a compact or Threshold-eligible country by making improvements in governance, fighting corruption, ramping up investments in the health and education of their citizens, and adopting micro- and macro-economic reforms. This is the *MCC Effect* of the selection process.

Countries—by their own accounts and by the accounts of the indicator institutions that measure them—are striving to meet MCC's policy criteria in order to be eligible for significant amounts of funding.

- According to the *Doing Business* report at the International Finance Corporation, 24 countries specifically cited the Millennium Challenge Account (MCA) as the primary motivation for their efforts to pursue business start-up reforms.

- Some of the most aggressive reformers in the world, as measured by the *Doing Business* report, are among MCC's eligible countries. The report traces the origin of their reform efforts to the MCA.

- Inter-ministerial committees and presidential commissions have been set up in more than a dozen countries to devise reform strategies to address MCC's selection criteria and track and demonstrate progress.

    - **Cameroon**, for instance, has indicated a strong interest in becoming eligible for MCC funding and intensified its fight against corruption. The government removed 3,000 "ghost workers" from its payroll, referred 500 civil servants to a disciplinary council on charges of fraud or misappropriation, and promised to lift the secrecy surrounding its oil revenues. The government has also established an MCA Inter-Ministerial Working Group and an MCC–Cameroon website to document the actions they are taking to come into compliance with MCC's eligibility standards.

    - The **Dominican Republic** has set up three working groups to address performance weaknesses on MCC's selection criteria. Presidential Technical Secretary Temistocles Montás said the following about the MCA selection criteria: "We are embracing these goals because they are the right thing to do. They will constitute part of this administration's legacy to the Dominican people." The government plans to release an MCA Action Plan and launch an MCA–Dominican Republic website to highlight the reforms they are adopting in their effort to become MCA eligible. Most recently, the government informed MCC that because of its

"It's a program that does not give fish to people, but gives them the fishing rod and teaches them how to fish, thus allowing…for people to be able to fish for their own consumption and to continue their own development. We think that only growth will allow us to ensure that people have their own necessary income and that will allow us to fight poverty."

—Prime Minister Jose Maria Pereira Neves of Cape Verde

desire to become MCA eligible, it would roll out a large measles immunization campaign that will reach 5 million people.

- In **Lesotho**, where married women had been considered legal minors, MCC made gender equality in the area of economic rights a precondition to the signing of a compact. The recent enactment of a law by the Parliament of Lesotho conferring equal legal status on married women is a tremendous step in the right direction and a powerful example of how the MCC Effect changed policy for the better and, in this case, enhanced gender equality.

Fully funding the President's FY 2008 budget for the MCC sends a clear message to those countries who are adopting critical political, economic and social reforms. Leveraging the potential of MCC funding as a strong catalyst for reform serves to reinforce a country's political will and efforts to create an environment where transformational change can take root and prosper. However, this incentive would be severely undermined if funding were not available to reward and invest in the successful reformers.

MCC is building on a track record of compact success.

MCC has successfully negotiated and signed 11 compacts valued at nearly $3 billion with countries in Africa, Central America, Eurasia, and the Pacific to date. These compacts are at various stages of implementation, and disbursements have been made for *all* eight of the compacts that have entered into force. Such compacts outline a development plan with measurable performance benchmarks to monitor progress that will help communities around the world tackle poverty through strategic investments in agriculture, education, health initiatives, private sector development, and infrastructure. Initial results include:

- In **Madagascar**, more than 361 land titles have been awarded, 1,200 local farmers have received technical assistance from local agricultural business centers, and 200 farmers have been trained to tap into microfinance credit because of compact funding. These numbers will accelerate as the compact progresses.

- In **Nicaragua**, the property regularization component of the compact awarded 26 clean titles to beneficiaries in León, many of which went to female landowners. These titles are the first of 43,000 titles expected to be delivered under the compact.

- In **Georgia**, projects are underway to rehabilitate municipal water supplies in two cities that serve 230,000 Georgians and are expected to generate $67.5 million in economic benefits to those cities. Renovating regional infrastructure will help create 24,000 new jobs and increase household incomes by almost $60 million over the life of the compact.

Compacts and capacity-building: During the compact development phase, progress has also been noted in critical capacity-building.

- The most recently signed compact with **El Salvador** in November of 2006 reflects the political will at the highest level and the involvement of over 2,000 Salvadorans in the broad-based consultation process, whose input will continue throughout compact implementation.

- Similarly, in **Benin** over 100 local civil society organizations elected their own representatives to the working group that designed that country's compact proposal. This degree of civic participation was unprecedented and is continuing now throughout the implementation of Benin's Compact.

MCC is promoting local capacity-building, strengthening institutions, and jumpstarting critical thinking about the policies necessary to ensure sustainability by insisting that its partner countries engaged in a comprehensive, consultative process and design and implement their own compacts.

Compacts and donor coordination: To ensure the cost effectiveness of its assistance, MCC has integrated coordination with other donors into every phase of compact development. As a result, not only do some MCA programs grow out of successful USAID pilot projects, but MCC has built on, benefited from or leveraged the contributions of other donors in every MCA country. For example, MCC joined with other donors in Honduras, Nicaragua and El Salvador to finance the construction of roads that no one donor could do alone. UNDP (United Nations Development Programme) has funded proposal development teams in several countries. MCA access to the land project in Madagascar builds off of a comprehensive World Bank review of land tenure reform proposals. The MCA justice project in Benin complements European Commission and French investments in court infrastructure and procedural code development. MCA private sector development activities in Cape Verde stem from an International Finance Corporation study on business sector constraints. The UK is financing activities to help civil society groups in Nicaragua ensure that consultation with key stakeholders continues throughout implementation of the MCA program. In all these cases, cooperation has saved time and money and helped magnify development results.

> *"Good governance is the key to everything else. Fighting corruption, enforcing state accountability, creating transparency, improving service delivery and the efficiency of [the] justice system...these are the basis of trust and security. Economic reform is equally important. All the economic incentives that we have implemented over the last two years are all based on one philosophy: We will only succeed if we open up our country, faced with challenges of international competition, and create suitable conditions and the right climate for international and domestic investment. The MCA (Millennium Challenge Account) compact will assist us in realizing our vision."*
>
> *—President Marc Ravalomanana of Madagascar*

Compacts and early guidance: MCC has invested much effort up-front to help eligible countries develop successful compact proposals and to put into place the necessary management and financial accountability capacity for implementation of those compacts. The key changes in MCC's approach leading to this increased efficiency in compact development and implementation include:

- restructuring several parts of the organization to streamline the proposal evaluation and compact development process;
- developing a comprehensive training program for teams working on compacts while encouraging them to think creatively and challenge assumptions;

- providing clear guidance to countries immediately after their eligibility selection to enable them to move swiftly toward the development of their compact proposals;
- offering "MCC University" to representatives from newly-selected and currently-eligible countries to address questions on how to develop and implement a successful compact proposal;
- reducing the time between compact signing, entry into force and first disbursement through "bridge" funding (609(G)) that allows the partner country to begin working on implementation requirements; and
- putting into place fiscal and procurement agents earlier in the process to reduce delays in initial compact disbursement.

The focus on outputs and performance measures to ensure compact success is designed to enable progress even after MCA funding has ended. In this way, the private sector, through homegrown activities and in partnership with foreign investors, can play an instrumental role in development. This significantly leverages MCC's development assistance and paves the way for it to be replaced over time with entrepreneurship and enterprise that are key to sustainable and transformational economic growth.

MCC is building further internal capacity to deliver results

MCC has successfully transitioned into a results-oriented and high-performing agency. By incorporating continuous improvement efforts, it is streamlining functions, formalizing policies and procedures, implementing lessons learned, training personnel, and enhancing operational efficiencies across departments to streamline and improve the quality of the compact development and implementation process. In strengthening its organizational capacity and instituting mechanisms to assess results and fiscal accountability, MCC is equipped and poised to follow through on current and future compacts with partner countries committed to poverty reduction through economic growth as well as Threshold programs.

MCC's Mission and Milestones

Understanding MCC's unique place in the development assistance field

The Millennium Challenge Account (MCA) is an innovative foreign assistance program designed to "reduce poverty through sustainable economic growth" in some of the poorest countries in the world. The Millennium Challenge Corporation (MCC) is an independent U.S. Government corporation established by Congress on January 23, 2004 to administer the MCA. MCA provides a strong incentive for policy reforms by rewarding countries for their policy performance.

MCC's Mission

Reducing poverty through economic growth

The mission of the Millennium Challenge Corporation is to reduce poverty by supporting sustainable, transformational economic growth in developing countries that create and maintain sound policy environments.

MCC's Three Core Values

1. Reward good policy. MCC partners only with those countries that measure up—and continue to measure up—to performance indicators taken from independent sources validating that they rule justly, invest in their citizens, and support economic freedom.

2. Operate in partnership reinforced by full country ownership. MCC places a country in the driver's seat of its own development by expecting its full participation in, ownership of, and responsibility for its development path. MCC asks countries to identify and prioritize their own barriers to poverty reduction and economic growth through a broad-based consultative process involving input from all segments of society, including the private sector and non-governmental organizations. They are asked to develop their own proposal for funding—known as a compact—and to take on the responsibility of implementing it. Both the MCC and the partner country clearly define their respective responsibilities toward realizing this compact.

3. Focus on results. MCC holds its partner countries accountable for the aid they receive. Assistance goes to those countries that have developed well-designed programs with clear objectives, benchmarks to measure progress, procedures to ensure fiscal accountability for the use of the assistance, and an extensive plan to monitor and evaluate results and outputs along the way. Programs are designed to enable sustainable progress even after compact funding has ended.

MCC's Hallmark Approach to Foreign Aid

MCC incorporates the best lessons learned during the last half-century of work in the development field into an integrated package:

- **MCC rewards performance, not promises.** MCC works only with countries that have already shown they perform better than their peers on the policies that support growth and poverty reduction: ruling justly, investing in people, and encouraging economic opportunity. By selecting countries based on transparent criteria using independent, non-governmental indicators, MCC rewards countries which already have in place the policies that make aid effective and, thus, provides an incentive for other countries to adopt sound policies.

- **MCC gives responsibility to partners.** Programs with a broad base of in-country support are more likely to succeed. Instead of telling a country what it needs, MCC lets partner countries pick their own priorities in consultation with civil society and the private sector and then helps them develop their own investment programs.

- **MCC insists on mutual accountability.** The partner country oversees implementation. MCC and its partner both have a stake in and a responsibility for program performance. MCC monitors fiduciary responsibility.

- **MCC measures success by outputs, not inputs.** MCC integrates measures of success and how to monitor and evaluate results into the design and implementation of every compact for funding.

- **MCC assistance is an investment.** MCC conducts an investment analysis and due diligence process, much as a private sector investor would, to protect this investment of U.S. taxpayer dollars. The key difference is that MCC does not measure for a monetary return but for a poverty reduction and economic growth return.

- **MCC's governance combines the best of public and private approaches.** MCC's high-level Board of Directors from the government and non-government sectors provides coherence across U.S. foreign policy, trade, finance, aid, and other policy areas critical to development, gives support and judgment to the MCC mission, and enables MCC to operate in a more business-like way. MCC staff is also drawn widely from the public, private and not-for-profit sectors.

- **Congress gave MCC operational flexibility so it can do its job.** MCC grant assistance is "non–earmarked" so MCC can respond to country priorities and it is "no–year" so MCC is not under pressure to fund programs before they are ready and can work with eligible countries to support truly strategic, transformational programs.

Impact: Summary of Compacts and Threshold Programs

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- El Salvador—page 25
- Georgia—page 30
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- Mali—page 27
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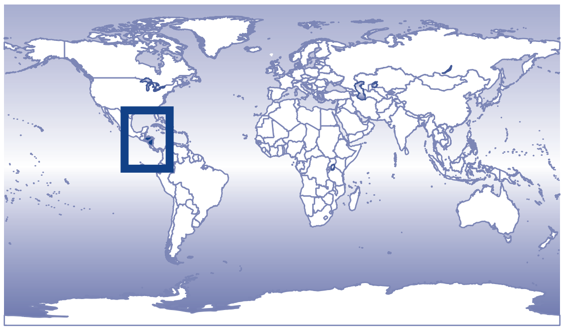
- Vanuatu—page 29

Impact: Summary of Compacts



Honduras

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

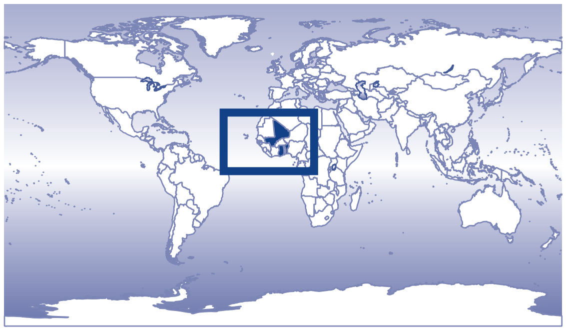
El Salvador

In El Salvador, the five-year, $461 million compact seeks to improve the lives of Salvadorans through strategic investments in education, public services, agricultural production, rural business development, and transportation infrastructure. The largest of the compact's components, the transportation project, will physically unify El Salvador's Northern Zone with the rest of the country, enabling new economic opportunities for rural households, lower transportation costs, and decreased travel times to markets for more than 850,000 beneficiaries.

Nicaragua

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

Impact: Summary of Compacts



Cape Verde

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

Ghana

The five-year $547 million MCC compact aims to reduce poverty by raising farmer incomes through private sector-led, agribusiness development. Specifically, MCC investments are designed to increase the production and productivity of high-value cash and food staple crops in some of Ghana's poorest regions and to enhance the competitiveness of Ghana's agricultural products in regional and international markets.

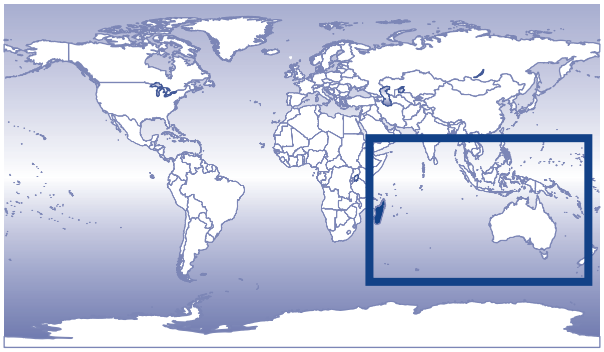
Mali

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

Benin

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

Impact: Summary of Compacts



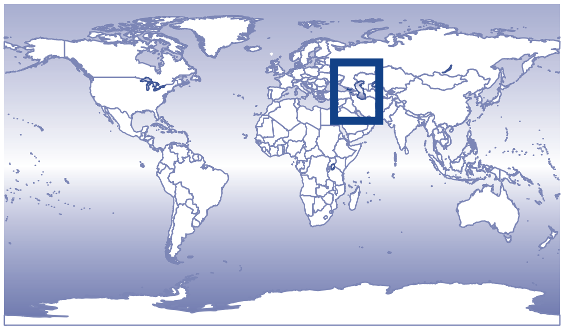
Madagascar

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

Vanuatu

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

Impact: Summary of Compacts



Georgia

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

Armenia

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

Impact: Summary of Compacts and Threshold Programs (continued)

Threshold Programs

Country	Impact
Albania	Reducing corruption is the primary focus of the $13.8 million Albania Threshold Program. Albania is receiving assistance from MCC to fund three programs aimed at reforming tax administration, public procurement and business administration. The program anticipates reducing the bribes and bureaucracy needed to start a business while increasing the national tax base.
Burkina Faso	Burkina Faso's $12.9 million Threshold Program is a pilot program that seeks to improve performance on girls' primary education completion rates. Specific interventions include constructing girl-friendly schools, teacher training, providing take-home dry rations to girls who maintain a 90 percent school attendance rate, and providing literacy training for mothers.
Indonesia	The approved $55 million Threshold Program with Indonesia seeks to immunize at least 80 percent of children under the age of one for diphtheria, tetanus and pertussis and 90 percent of all children for measles. The Threshold Program also has a component aimed at curbing public corruption by reforming the judiciary.
Jordan	The $25 million Jordanian Threshold Program aims to strengthen democratic institutions by supporting Jordan's homegrown efforts to broaden public participation in the political and electoral process, increasing government transparency and accountability, and enhancing the efficiency and effectiveness of customs administration.
Malawi	Malawi is implementing 15 specific interventions over the two-year period of its $20.9 million Threshold Program aimed at preventing corruption, enhancing oversight functions, and building enforcement and deterrence capacity. The interventions intend to create more effective legislative and judicial branches of government, provide support for lead anti-corruption agencies, strengthen independent media coverage, and expand and intensify the work of civil society organizations.
Moldova	The $24.7 million Moldovan Threshold Program seeks to reduce corruption in the public sector through reforms to the judicial, health, tax, and customs systems. The reforms will complement Moldova's national strategy aimed at reducing corruption.

Country	Impact
 Paraguay	The principal objective of the $37 million Paraguay Threshold Program is to reduce corruption. Paraguay is receiving assistance from MCC to fund initiatives aimed at strengthening the rule of law by increasing penalties for corruption and building a transparent business environment by confronting informal business transactions. The Threshold Program also has a business development component aimed at reducing the number of days necessary to start a business.
 Philippines	The $22.1 million Philippines Threshold Program aims at improving revenue administration and anti-corruption efforts in the Philippines. Specifically, the program is reducing corruption by strengthening the Office of the Ombudsman and strengthening enforcement within specific offices of the Department of Finance.
 Tanzania	The $11.1 million Tanzania Threshold Program is focused on four specific anti-corruption initiatives. They are: 1) building the nongovernmental sectors' monitoring capacity; 2) strengthening the rule of law for good governance; 3) establishing a Financial Intelligence Unit; and 4) curbing corruption in public procurement.
 Ukraine	MCC has approved a $48.1 million Ukraine Threshold Program that aims to reduce corruption by strengthening their civil society's ability to monitor and expose corruption. The program will also enable the Ukrainian government to increase the monitoring and enforcement of ethical and administrative standards.
 Zambia	The $24.3 million Zambia Threshold Program focuses on reducing corruption and improving government effectiveness. The program is funding three components aimed at increasing control of corruption within the public sector, improving public service delivery to the private sector and strengthening border management of trade.

Strategy for Budget Implementation

The Millennium Challenge Corporation's six departments are equipped to execute the FY 2008 funding request in the pursuit of developing and implementing compacts and Threshold programs. These departments are focusing on their core competencies and have instituted numerous internal processes and procedures during the last fiscal year to expedite work without compromising quality:

Department of Accountability is responsible for overseeing the assessment of economic logic and growth impact of country proposals, the establishment of monitoring and evaluation plans, the collection and analysis of performance measurement data, the conduct of assessments related to environmental and social impacts, and compliance with fiscal accountability and procurement procedures.

In FY 2006, the Department of Accountability reached full staffing levels and, as a result, formally separated economic analysis from monitoring and evaluation functions, while still preserving the close connections between the two. A new approach to country constraints analysis was developed, which will be used for the first time for FY 2007 selected countries. Accountability conducted training and produced improved country guidance and new reporting formats for MCC and MCA–unit staff in such areas as environmental and social guidelines, economic and beneficiary analysis, procurement, fiscal accountability, monitoring and evaluation, impact evaluation, as well as quarterly and annual financial and results reporting. In addition to continuing work toward growth and poverty impact assessments of compact components in new proposals, work commenced on designing and initiating randomized and other rigorous impact evaluation approaches for many of the projects beginning implementation under signed compacts. Accountability also led the development of a new policy on integrating gender analysis and sensitivity throughout all phases of proposal and compact development and implementation.

Department of Administration and Finance is responsible for planning and directing all activities related to financial management and budgeting, human resources management, information technology infrastructure, procurement and acquisition, personal security, facilities management, administrative services, and corporate records management. The majority of these services are outsourced to other federal agencies and the private sector under MCC's management.

The Department of Administration and Finance took significant steps to build MCC's organizational strength in FY 2006. This involved building a mission-driven workforce that increased 86 percent as a result of an aggressive hiring plan focusing on the Chief Executive Officer's commitment to strategic diversity recruiting and outreach efforts. As a result, 63 percent of MCC's full-time employees are female or representatives of non-white ethnic backgrounds. The department also earned MCC a clean audit opinion on its annual financial statements, even as the volume of financial obligations increased.

Department of Congressional and Public Affairs is responsible for managing MCC's relationship with Congress, the press, non-governmental organizations, other executive branch agencies, key opinion leaders and policy groups, universities, and the broader public. Through press briefings, interviews and materials, Congressional and Public Affairs is key in disseminating the latest information about MCC and addressing inquiries.

In FY 2006, the Department of Congressional and Public Affairs further cultivated critical legislative and media relationships so as to share details of MCC's unfolding activities. Congressional and Public Affairs unveiled MCC's new logo and created important branding guidelines. The public website was redesigned and improved to more effectively communicate activities, policies and progress to partner countries as well as to the public in general. A Speakers Bureau was launched to better match interest in MCC's various topics with appropriate experts. Outreach events scheduled around Board meetings, compact signings, policy announcements, speeches, presentations, and visits from partner country officials created well-attended opportunities to discuss MCC's work. Congressional and Public Affairs continues to play a pivotal role in ensuring organizational transparency by informing all interested constituencies, including members of Congress, about MCC.

Office of the General Counsel is responsible for providing advice to MCC's Board of Directors and MCC staff on all legal issues affecting MCC. It addresses and resolves legal issues associated with compact development, including evaluating and conducting due diligence on country proposals, as well as compact negotiations and implementation. It also provides advice on all issues affecting MCC's internal operations, including personnel law, government contracts, fiscal law, information technology, and corporate records management.

Now fully staffed, the Office of the General Counsel is the first department to implement FileSite, the electronic file management system that ultimately will be integrated throughout MCC. To ensure greater accountability in tying funding to performance benchmarks, the General Counsel adapted legal requirements for the disbursement of compact funds to better reflect on-the-ground realities.

Department of Operations is responsible for all aspects of compact development, due diligence, negotiations, and implementation.

In FY 2006, the Department of Operations integrated the former Country Programs and Markets and Sectoral Analysis offices into a single, coherent function to more effectively manage relationships and provide technical expertise in assessing compact proposals and overseeing implementation. The department also developed and tested uniform standards not only for conducting due diligence on proposed projects in eligible countries but also for collecting performance reports and other related information in MCC partner countries. Operations' staff grew by 71 percent from 69 to 118 employees—with professionals hired and posted to 5 partner countries—to assist with and monitor implementation of the nine total compacts signed by September 30, 2006, valued at just over $2.0 billion.

> *"Hondurans have bet on democracy but have yet to feel the results. This is where the MCC and CAFTA will support us significantly. The compact that we are signing today will provide important support in the key areas of rural development, where our deepest poverty exists, as well as road development in rural and intra–urban roads, which will help raise economic growth by improving market access and lowering transport costs, especially for small rural producers. This support for the rural producer will help them take full advantage of the access to the U.S. market, which CAFTA will provide by making them more productive in their efforts and, where necessary, helping them diversify their production. This will help lift our small farmers out of poverty. We applaud this groundbreaking aid system which focuses on good performance by the recipient countries."*
>
> *—President Ricardo Maduro Joest of Honduras*

Department of Policy and International Relations is responsible for policy analysis and recommendations to improve MCC effectiveness, donor coordination, the establishment of a Private Sector Initiatives unit and managing MCC's relationships with the private sector, and the administration of MCC's country selection process and Threshold program. Policy and International Relations coordinates MCC's positions on international development initiatives and represents MCC on multilateral and donor issues. It maintains relationships with experts in the development community, donor organizations and international organizations to inform them of MCC's policies, programs and approach to development and to learn about innovation and best practices that can be integrated into MCC's practices.

In FY 2006, Policy and International Relations made considerable strides toward facilitating stronger donor coordination, improving the country selection process and expediting the Threshold program. It helped coordinate MCC's assistance with that of other U.S. and foreign donors to magnify impact in the field. It also assessed MCC's performance on the Paris Declaration targets to improve overall aid effectiveness. It worked closely with third-party institutions to develop more granular, actionable and timely policy indicators, integrate two new measures of natural resource management into MCC's country selection process, and help dozens of governments better understand the reforms needed to improve their indicator performance. Policy and International Relations also led efforts to streamline MCC's procedures for its Threshold countries, including providing more detailed guidance.

Budget Tables

The President is requesting $105 million for administrative expenses for the Millennium Challenge Corporation in FY 2008. The FY 2008 request for administrative expenses will be crucial in advancing MCC's strategic goal of improving operational effectiveness. MCC was created to not only be a new approach to the design of foreign aid but also a more effective and efficient approach to its delivery. The FY 2008 request for administrative expenses continues this effort by focusing administrative costs in ways that most effectively support MCC's partner countries.

Salaries & Benefits

MCC is requesting $46 million for salaries and benefits in FY 2008.

Administrative Budget

	FY 2006 Actuals	FY 2007 Planned	FY 2008 Request
Salaries & Benefits	$28,500	$42,000	$46,000
Contracted Services	$12,800	$7,000	$8,750
Rent, Leasehold & Improvements	$14,900	$5,100	$5,750
Information Technology	$5,100	$7,750	$11,500
Overseas Operations	$3,000	$11,750	$17,400
Travel	$6,700	$11,400	$15,600
Totals	**$71,000**	**$85,000**	**$105,000**

- **Full staffing:** In FY 2007 MCC will largely complete the organizational structure of the Corporation after pursuing an aggressive hiring process to fill remaining slots in FY2006. At the beginning of FY 2007, staffing at MCC's Washington headquarters is approximately 280 and will continue to grow during FY 2007 to the authorized level of 300.

- **Attracting and retaining top talent:** MCC continues to hire top notch individuals from the public and private sector. Having resources to attract top candidates is in keeping with its strategic goal of having a small and talented staff. MCC's FY 2008 request for salaries and benefits will help retain employees, reduce costs associated with attrition, and improve job satisfaction, while at the same time ensuring that structural pay increases and incentive payments are strictly tied to performance.

- **Diversity:** MCC undertook a signature effort in FY 2006 to attract and hire a diverse workforce, including a recruitment program that had MCC officials participate in a wide variety of minority-focused educational and professional forums. The FY 2008 request will be essential in continuing this outreach effort.

As part of the request for salaries and benefits, MCC is requesting $1.5 million for MCC staff training in FY 2008. MCC is developing a comprehensive and consistent training program for the agency, which will be ready to roll out by January of 2008. This training program will include:

- **Management skills:** MCC will work with training providers such as the Federal Executive Institute to develop a training program that focuses on the management and executive competencies most critical to success as a manager at MCC.

- **Language skills:** The new training program will take a much more comprehensive approach, with managers identifying specific language needs for their employees, and working with MCC's training coordinator to determine the most appropriate providers. This will likely include on-site language instruction.

- **Specialized professional skills:** In disciplines such as engineering, law, and accounting, professionals have continuing education requirements, while in others, training and participation in professional forums helps to ensure that MCC employees remain on the cutting edge of their professions. Managers will work with the MCC training coordinator to identify specific needs in this area.

Contracted Services

MCC is requesting $8.7 million for contracted services in FY 2008.

- **Maximum competitive sourcing:** As a new federal agency, MCC has applied to the maximum extent possible the President's e-government and competitive sourcing initiatives. Most MCC financial management, payroll, and travel services are provided for MCC by the National Business Center, one of the U.S. Government's "Centers of Excellence." MCC has also partially or fully competitively sourced other administrative requirements, including recruitment and procurement staffing, and has used inter-agency agreements (IAAs) to provide other key services, such as an IAA with the Department of State to provide security services.

- **Increased focus on program results:** As a result of these competitive sourcing efforts, only about 15 percent of MCC's authorized Washington headquarters staff of 300 provides administrative services, maximizing the number of staff positions that are available to work directly on country assistance programs.

Rent, Leasehold & Improvements

MCC is requesting $5.7 million for rent and related expenses in FY 2008.

- **Increased permanent space to accommodate full staffing of 300:** In FY 2006, MCC has completed lease agreements for the permanent space required for the full staff of 300. In addition to the existing long-term lease for floors 2–5 of the Bowen Building at 875 15th Street, Northwest, MCC has signed a lease for the sixth floor of the Bowen Building and a permanent space for the Department of Administration and Finance at 1401 H Street, Northwest.

Information Technology

MCC is requesting $11.5 million for information technology (IT) in FY 2008.

- **Leveraging IT to measure results:** One of MCC's mandates is the requirement that assistance funding lead to measurable results. MCC's request includes funding for systems, including a budget, performance and planning system and a data warehouse, that will allow MCC not only to track and evaluate the significant amount of performance data that will be received from partner countries but also to compare this performance data to budget and cost data through a comprehensive managerial cost accounting system.

- **Reducing costs by renting rather than buying:** In IT as in other areas, MCC is maximizing its use of competitive sourcing. Over 25 percent of the IT request for FY 2008 is for outsourced IT services.

- **Improved operational effectiveness:** Over 20 percent of the FY 2008 request is for potential costs of financial systems integration. The lack of systems integration has impeded MCC's ability to efficiently use financial, personnel, and other data to support its operations, and has made it more difficult to maintain adequate internal controls. MCC plans to carefully assess its business practices and requirements in FY 2007, leading to the procurement in FY 2008 of an integrated solution for accounting and financial management, procurement, and travel.

Overseas Operations

MCC is requesting $17.4 million for overseas offices and related expenses in FY 2008, a 23 percent increase over the estimate for FY 2007.

- **Shift from compact development to implementation:** The FY 2008 budget request for overseas operations reflects the resources that will be required for MCC to incorporate the growing role of compact implementation into MCC's core operations. At the end of FY 2006, MCC had established or was in the process of establishing a presence in 10 eligible countries and this number is expected to grow significantly in FY 2007 and FY 2008 as compacts continue to be signed and move into the implementation phase.

- **Leveraging core competencies of the State Department:** MCC is leveraging the in-country resources of the State Department in all MCC countries with U.S. embassies. Though initial start-up still requires significant resources, cooperating with the State Department for the provision of most services to MCC in-country staff represents a significant cost savings compared to the potential cost of MCC having to start from scratch. In the Memorandum of Understanding between MCC and the State Department, MCC agreed to participate fully in both the International Cooperative Administrative Support Services (ICASS) and Capitol Security Cost Sharing programs.

- **Benefits and cost savings associated with country presence:** Having a consistent country presence of a Resident Country Director (RCD) and Deputy Resident Country Director (DRCD) will allow MCC to provide necessary oversight and support for compact implementation. MCC anticipates improvements in compact implementation in FY 2007 and FY 2008 similar to the efficiencies gained in compact development over our first two plus years of existence. Among these likely efficiencies are reduced travel costs for MCC staff due to in- country staff and reduced timelines for the period between compact signing and entry into force. Other initiatives are also being considered to fully leverage in-country presence including the possibility of providing video teleconference capabilities, where feasible, to improve communications between field offices and headquarters and consequently reduce travel expenditures.

Travel

MCC is requesting $15.6 million for travel in FY 2008.

- **Travel directly supports country programs:** In order to ensure the country ownership that underlies the MCC model, a significant portion of the work involved in compact development and due diligence must take place in MCC partner countries. Similarly, early implementation of compacts in FY 2006 indicates that continuing travel of MCC staff is required during the initial entry into force of a compact, as well as for ongoing oversight and evaluation of compact-funded projects. Over 90 percent of the FY 2008 request for travel is for activities that are directly related to compact development and implementation.

- **MCC fully complies with Federal Travel Regulations:** In FY 2006, MCC shifted to individual travel authorizations, implemented E-travel, and developed and put into effect a detailed travel policy and set of travel procedures that fully comply with Federal Travel Regulations.

Endnotes

[1]The Gambia was previously selected as compact–eligible but is currently suspended.

[2]Previously selected as a Threshold program country and has an approved and/or on-going Threshold program.

[3]Previously selected as a Threshold program country.

[4]Yemen was previously selected as a Threshold program country but is currently suspended. Because of ongoing reforms, Yemen has asked for reinstatement.

[5]Cape Verde was a low income country at the time of its compact's signing.

[6] All beneficiary numbers or ranges of beneficiary numbers, except Armenia, are based on the MCC approved Monitoring and Evaluation Plans. Armenia's beneficiary numbers are based on the Investment Memo. Beneficiary totals do not distinguish between direct and/or indirect beneficiaries. Target populations are likely to benefit from multiple project interventions. Accordingly, it is inadvisable to sum total beneficiaries across projects as the likelihood of double-counting will overstate the actual number benefited.

(a) Cape Verde—Private Sector Development Project: Beneficiaries are to be determined in June–July 2007 after project identification by the International Finance Corporation.

(b) Ghana—Transportation Project: Due Diligence minimal estimates for the improvement of the N1 Highway.

(c) Ghana—Rural Development Project: Likely to underestimate the total number of beneficiaries; a) Support for Community Services is expected to benefit several tens of thousands of households, b) Strengthening of Public Sector Procurement Capacity is expected to indirectly benefit all those affected by government efficiency, c) Strengthening of Rural Financial Services is expected to indirectly benefit all rural banking customers.

(d) Honduras—Rural Development Project: Number likely underestimates the total number of beneficiaries as a) the number of program participants to obtain a loan, b) the number of liens registered, and c) the population benefiting from farm-to-market road upgrades has not yet been determined.

(e) Honduras—Transportation Project: Roads benefits are based on the direct benefits derived from reduced travel time, reduced vehicle operating costs and increased traffic use. Number of beneficiaries is undetermined. Annual traffic volume at end of five years is projected at 4.5 million vehicles.

(f) Madagascar—Land Tenure Project: Based on the total number of Land Offices (255) multiplied by the estimated average number of titles (800) to be issued by each Land Office by the end of Compact; assumes a one-to-one correspondence between land titles issued and beneficiaries.

(g) Madagascar—Finance Project: Indicator will measure number of savings accounts based on the difference between baseline numbers and end-of-Project targets disaggregated by Financial Source; i.e., National Savings Bank, the Central Bank, Commission de Supervision Bancaire et Financiere, and Micro-Finance Institutions.

(h) Mali—Airport Improvement Project: Beneficiary indicators, as opposed to a number of beneficiaries (individuals), include the total revenue of firms servicing the airport, real wage income of employees of firms servicing the airport, real wage income in the tourism industry, and total receipts of hotels and restaurants in the Bamako area.

(i) Mali—Industrial Park Project: Number likely underestimates the total number of beneficiaries as said number accounts only for jobs directly created by project activities. Total beneficiaries are people in Year 5 who have gained long-term employment in the firms located in the industrial park. Other beneficiary indicators include gross value-added of firms located in the industrial park and real wages of employees of companies in the industrial park.

(j) Mali—Alatona Irrigation Project: Number likely underestimates the total number of beneficiaries as said number accounts only for jobs directly created by project activities. Number does not include those who will be affected by larger crop yields and/or lower cargo rates.

(k) Nicaragua—Property Regularization Project: Based on the total number of rural (21,000) and urban (22,000) parcels which will have a registered title; assumes a one-to-one correspondence between land titles issued and beneficiaries.

(l) Nicaragua—Transportation Project: Roads benefits are based on the direct benefits derived from reduced travel time, reduced vehicle operating costs and increased traffic use. Number of beneficiaries is undetermined. Annual average daily traffic volume at the end of five years for N1 is projected at 4,061 vehicles.

(m) Nicaragua—Rural Development Project Business: Number likely underestimates the total number of beneficiaries as said number refers to the number of jobs created at end of five years; does not include other indicators measuring number of program businesses (4,720), including farms, engaged in higher profit businesses at end of the Compact.

[7] Net Investment in Projects excludes Program Administration and Control/Oversight, Monitoring and Evaluation, Procurement Agent, Fiscal Agent, and Audit budgets. Net Investment in Projects is based on the Multi-year Financial Plans of the approved Compact documents. Numbers expressed in USD.

[8] Source: World Bank Gross National Income (GNI) Per Capita as the measure for "per capita income". The World Bank Gross National Income (GNI) Per Capita is the same source data used to determine MCA eligibility. As of January 2007, World Bank data is not available for 2006. Accordingly, all listed "per capita" data are from 2005. In calculating Gross National Income (GNI—formerly referred to as GNP) and GNI per capita in US dollars, the World Bank uses the Atlas conversion factor in order to reduce the impact of exchange rate fluctuations in the cross-country comparison of national incomes. The Atlas conversion factor for any given year is the average of a country's exchange rate (or alternative conversion factor) for that year and its average exchange rates for the two preceding years, adjusted for the difference between the rate of inflation in that country and that of the Euro Zone, Japan, United Kingdom, and the United States, as of 2001. A country's inflation rate is measured by the change in its GDP deflator.

[9] Values and percentages designate the projected increase in incomes, measured in terms of the corresponding indicator of income, that are assumed to result from given MCC interventions. *Source: Compact Annex III.*

[10] Armenia—as measured by the change in real income from the sale of agricultural produce per household member as an index (2005 = 100); *Source: Compact Annex III.*

[11] Benin—as measured by the average revenue and consumption level per household in access to land and access to finance measured through the National Living Standards Measurement Survey; *Source: Compact Annex III Description of the Monitoring and Evaluation Plan.*

[12] Cape Verde—as measured by the total increase in annual income from a) the Watershed Management and Agricultural Support Project, b) the Roads and Bridges Activity, c) the Port Activity, d) the Financial Sector Reform Activity and e) the Partnership to Mobilize Investment Activity; *Source: Compact Annex III Description of the Monitoring and Evaluation Plan.* The increase in annual income is approximately 1.2 percent of annual GDP in Year 5 and 2.2 percent in Year 10, assuming a real GDP growth rate of 4 percent.

[13] El Salvador—as measured by the average annual per capita income of Program beneficiaries in the Northern Zone; *Source: Compact Annex III Description of the Monitoring and Evaluation Plan.*

[14] Georgia—as measured by the financial benefits derived from pipeline rehabilitation and GRDF and ADA enterprise development activities. Note: this measure underestimates the impact of MCC interventions in Georgia as it does not take into account investments in roads and infrastructure. *Source: Compact Annex III.*

[15] Ghana—as measured by a) net income per household from growing yams, sorghum and groundnuts (as proxies of the most likely crops grown) (Northern Zone: Savelugu Nanton, Tolon Kumbungu, Tamale, West Mamprusi and Karaga), b) net income per household from growing maize, yams and cassava (as proxies of the most likely crops grown) (Afram Basin Zone-East: Fanteakwa and Kwahu South), c) net income per household from growing maize, yams and cassava (as proxies of the most likely crops grown)

(Afram Basin Zone-West: Ejura Sekyedumasi, Afram Plains, Sekyere East and Sekyere West), and d) net income per household from growing pineapples and vegetables (as proxies of the most likely crops grown) (Southern Zone: Gomoa, Awutu Efutu Senya, Akuapim South, Manya Krobo, Dangme West, Yilo Krobo, North Dayi, Hohoe, Ketu, Keta, South Tongu and Akatsi). *Source: Compact Annex III.*

[16] Honduras—as measured by the increase in income of beneficiaries of the Rural Development and Transportation Projects; Source: *Compact Annex III Description of the Monitoring and Evaluation Plan.*

[17] Madagascar—as measured by the National Statistical Institute's National Household Income Survey that will enable the comparison of the intervention zones with similar non-intervention zones; *Source: Compact Annex III Description of the Monitoring and Evaluation Plan.*

[18] Mali—as measured by a) the total receipts of commercial concessions, flight kitchens, fuel suppliers, and baggage handling servicing the Bamako-Senou Airport, b) total receipts of hotels and restaurants in Bamako, c) gross value-added of firms as well as total earnings including salaries and taxes of firms located in the industrial park, d) real income from irrigated agricultural production, e) real annual income from sale of agricultural production per household member in the Alatona zone. Data to be disaggregated by current residents and newly settled population to track whether resettled population's incomes are restored as compared to their baseline incomes; *Source: Compact Annex III Description of the Monitoring and Evaluation Plan.*

[19] Nicaragua—as measured by the sum of the expected income gains from a) savings due to reduced vehicle operating costs and travel time, b) increased property value per property times the number of properties registered, c) the increase in value added to project firms, employees of project farmers and businesses as well as employees of businesses in value chain. Total income gains include: a) N-1 Road Upgrade equal to US$5.7million, b) Secondary Roads equal to US$8.6 million, c) Property Regulation equal to US$3.9 million, d) Rural Business Development is Post-Compact and, therefore equal

to US$0 and e) Rural Business Development equal to US$2.7 million; *Source: Compact Annex III Description of the Monitoring and Evaluation Plan.*

[20] Vanuatu—as measured by the average cash income per capita of residents living within the catchments areas of the infrastructure sub-projects); *Source: Compact Annex III Description of the Monitoring and Evaluation Plan.*

[21] Projected increases in incomes are measured in terms of the corresponding country-specific income indicator.

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