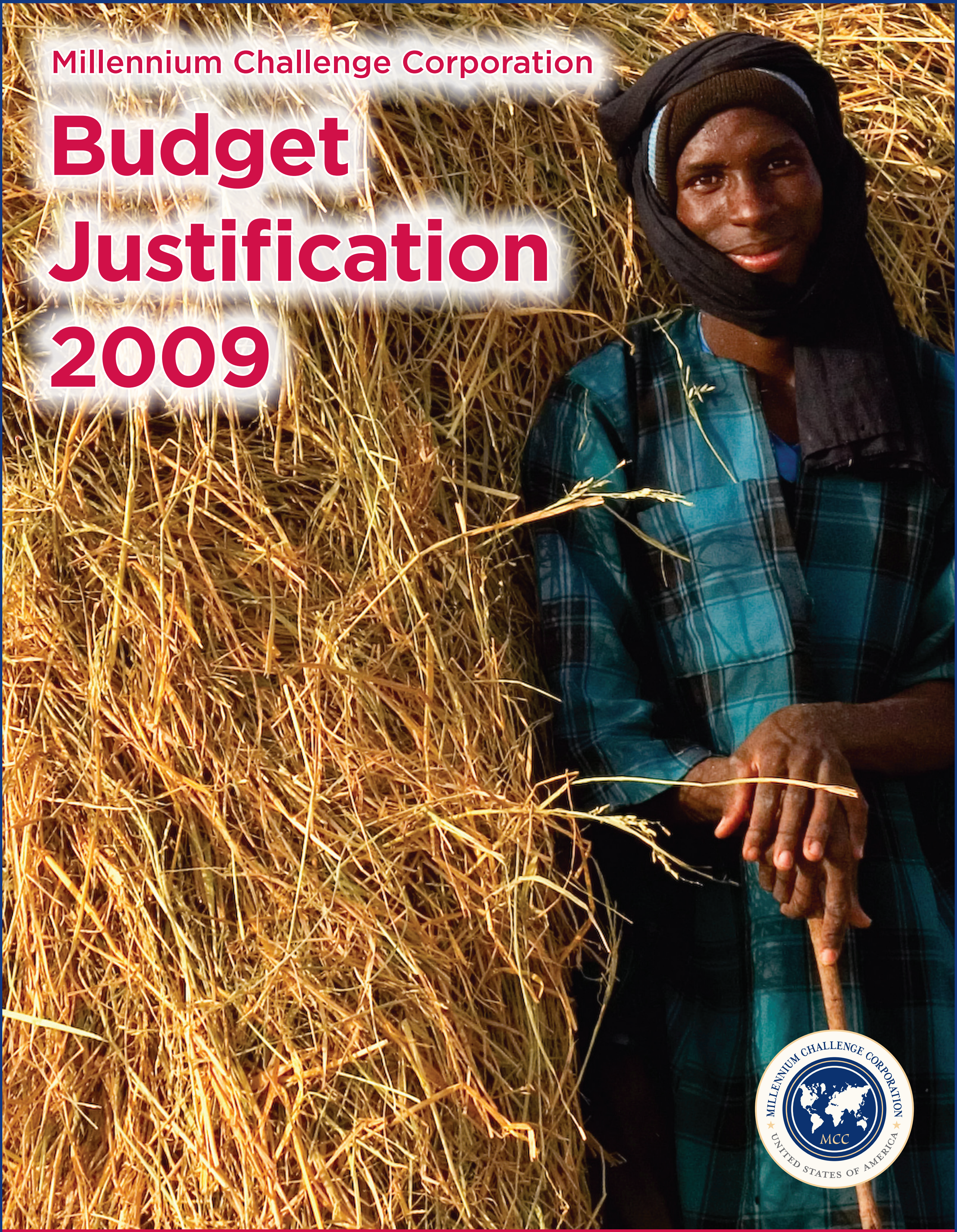
Millennium Challenge Corporation

Budget Justification 2009



Reducing Poverty Through Growth

s in **Honduras.** Port expansion in **Cape Verde.** Business d
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armers in **Georgia.** Upgrading wharfs in **Vanuatu.** Improve
credit services in **Ghana.** Providing legal aid in **Benin.** Wa
ion in **Cape Verde.** Gas pipeline rehabilitation in **Georgia.**
Improve access to agriculture services in **Mali.** Enable dev
velopment of water point system in **Mozambique.** Provide
crop insurance in **El Salvador.** Teacher training in **Mongol**
Water supply improvements in **Nicaragua.** Formalize prop
operty rights in **Benin.** Improve ferry service in **Ghana.** St
Rehabilitate health centers in **Lesotho.** Port upgrades in
ncrease financial services in **Morocco.** Repair rural roads
vocational education in **El Salvador.** Standardizes propert
rights in **Mozambique.** Promotes irrigation development
in **Ghana.** Rural credit assistance to farmers in **Armenia.**
Bridge construction in **Cape Verde.** Standardize land tenu
nure policies in **Nicaragua.** Water supply and sanitation in
mprovements in **Georgia.** Improve solid waste disposal in
n **Mali.** Construct fish landing sites in **Morocco.** Execute a
pilot wetlands restoration in **Lesotho.** Improve coconut p
producers' products in **Mozambique.** Introduce a long-ter
rangeland leasing system in **Mongolia.** Expand the capac
a water treatment plant in **Tanzania.** Strategic road maint
ntenance planning in **Armenia.** Modernize national interba
bank payment system in **Madagascar.** Road improvement
farmer access to credit in **Honduras.** Improve credit infor
ormation bureau in **Benin.** Services to efficiently perform
contracts in **Vanuatu.** Construct a blood transfusion cent
Millennium Challenge Corporation. Reducing poverty thr

About the Cover

A farmer in Mali's Office du Niger region, south of the town of Niono, takes a break from moving hay. The region benefits from the Alatona irrigation project, one component of Mali's $460.8 million compact, which supports the irrigation of 16,000 hectares of land that will create economic opportunities for the poor.

MCC staff member Marc Tkach took the photo in July 2007.

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Executive Summary

The President's request of **$2.225 billion** in his fiscal year (FY) 2009 budget for the **Millennium Challenge Corporation** (MCC) supports the continuing evolution of an agency with a different approach to development assistance.

Since its founding by Congress in 2004 with the mission to *reduce poverty through economic growth*, MCC has established a new and innovative development model, worked with dozens of partner countries to create a series of multi-year development plans, and launched project implementation.

As an institution, it has grown from a staff of seven in January 2004 to nearly 300 in December 2007, employing diverse professionals with expertise and experience in various facets of development. It has remained agile and flexible to respond to partner countries. Because of its commitment to organizational effectiveness, MCC was named one of the *2007 Best Places to Work* within the U.S. government, ranking fifth out of 31 small federal agencies.

As a development model, MCC has also made strides. It reached out and explained its approach to the world's poorest countries, and a new conversation about development assistance is now underway with them, based on mutual respect, teamwork, and partnership. MCC assistance recognizes sound policy performance. It uses 17 eligibility indicators from independent sources to assess prospective partners' commitment to good governance, investing in health and education, and economic freedom. Countries know they are principally responsible for identifying and prioritizing their own barriers to poverty reduction and economic growth through *consultation* with all segments of their society. Such engagement builds a culture of democratic practices and transparency as well as ownership for the development process. Placing countries in charge of their development—country ownership—is difficult in light of capacity constraints, but it is the clearest path for achieving sustainable results.

MCC's approach is changing the way aid is managed and measured. From heads of countries to leading NGOs, the consensus is that MCC is not business as usual. Ghana's public sector reform minister best described this when he said, *"Unlike other traditional development assistance programs where the donor proposes how funds are used, countries selected under the*

Millennium Challenge Account propose programs to receive funding. Thus, the MCA is designed to allow developing countries to take ownership and responsibility for funds provided by the Millennium Challenge Corporation."

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

MCC's contribution to "smart" U.S. foreign policy is significant, and MCC can point to important signs of progress. Partner countries are undertaking the difficult work of policy reforms and taking the lead in their own development to reduce poverty. Focused MCC effort has produced a portfolio of 16 compacts with countries in Africa, Central America, Eurasia, and the Pacific, totaling $5.5 billion.

Five compacts were signed in FY 2007 alone, bringing the overall number of compacts to 14 at the end of the fiscal year, totaling over $4.5 billion. In early FY 2008, an additional two compacts worth $1.0 billion were signed, bringing the total value to $5.5 billion. In addition, seven more threshold agreements were signed in FY 2007, increasing the overall number of threshold programs to 14 at the close of the fiscal year, totaling nearly $316 million. So far in FY 2008, a threshold program with São Tomé and Príncipe for $8.7 million has been signed.

MCC investments are bearing early fruit: partner countries are issuing new land titles to the poor and disenfranchised, building and operating girl-friendly schools, helping farmers increase their incomes, and improving infrastructure. To sustain these results, partner countries are instituting policy changes and building their capacity in areas such as procurement, financial management, environmental and social assessments, and project implementation. More impressive is the powerful incentive effect MCC policies have in poor, non-MCC countries, which are attempting to reform their way into the "MCC club" of eligible countries.

Press coverage in partner countries worldwide illustrates the activities underway on the ground and demonstrates the effective use of U.S. taxpayer funds. The groundwork has been laid for long-term engagement and transformative change within a few, targeted countries that can maximize MCC investments to build on initial compacts and to leverage such investments to attract and increase private sector activities.

With these early implementation results, MCC has become a more mature organization, transitioning from compact development to compact implementation. It tackled the initial challenges of getting started, learning lessons and reassessing optimistic early projections. Countries appreciate MCC's emphasis on forging true partnerships in place of traditional donor-recipient relationships.

Yet, as MCC now fully enters the implementation stage, it faces a new set of challenges. Increases in energy and transport costs, dollar depreciation, and a worldwide construction boom all impact infrastructure projects underway. MCC is tackling these implementation challenges with the same vigor with which it tackled the challenges of starting up and launching its model.

The following funding breakdown will allow MCC to continue to move forward in 2009.

Funding Compacts: MCC will allocate **$1.88 billion** of the budget request to meet demand for compact funding from the existing pipeline of countries, which includes the newly selected country of Malawi. This excludes any second compacts with existing compact countries, either concurrent or consecutive. The increase requested for FY 2009 will fund compacts with up to five countries.

Funding Threshold Programs: MCC will allocate up to **$150 million** for its threshold program to assist countries that seek to improve their scores on specific MCC selection indicators. Threshold programs are typically implemented in partnership with the U.S. Agency for International Development.

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

—Sheila Herrling on the Center for Global Development blog of December 12, 2007, commenting on the HELP Commission Report

Funding Due Diligence/609(g): MCC will allocate **$90 million** in due diligence/609(g) funding to support compact development and early implementation activities in partner countries.

Funding Administrative Expenses: MCC will allocate **$100 million** to fund administrative expenses. As an organization, MCC has made significant strides toward operating more efficiently and effectively in order to manage the important implementation work ahead, employing a highly qualified staff at its Washington headquarters, with a small presence in partner countries worldwide. MCC continues to adopt internal processes and operating procedures to make the best use of U.S. taxpayer money and to deliver tangible results in the lives of the poor benefiting from MCC investments.

Funding Audit Expenses: MCC will budget **$5 million** for audit expenses to ensure that projects utilize funds efficiently.

MCC at a Glance

MCC's Mission

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

Reducing poverty through economic growth

MCC's Three Core Values

Good Policy Performance

Recognize good policy performance. MCC partners with those countries demonstrating that they rule justly, invest in their citizens, and promote economic freedom, based on performance indicators taken from independent, non-U.S. government sources. Decades of development experience point to these attributes as necessary conditions for growth and poverty reduction. A scorecard is produced that captures each country's performance among its peer group within the same per capita income range.

Country Ownership

Put the country in the lead. MCC believes that a country can move itself out of poverty only if it is in charge of its development. MCC partner countries are asked to identify and prioritize their barriers to poverty reduction and economic growth through a broadly-based, timely, and meaningful consultative process involving input from civil society. Then, MCC asks that the country develop its own investment proposal and assume primary responsibility for implementation. MCC and the partner country define respective responsibilities for realizing the country's goals in a "compact."

Tangible Results

Focus on results. MCC holds partner countries accountable for the aid they receive. MCC also holds itself accountable for the impact of these investments. Grants are awarded to countries that have developed well-designed programs with clear objectives, benchmarks to measure progress, procedures to ensure fiscal accountability for the funds' use, and an effective plan for monitoring and evaluating results. Programs are designed to enable sustainable progress even after compact funding ends.

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MCC's Selection Process

MCC recognizes that the development of a country's economy and the development of its democratic institutions are complementary objectives.

Over time, democracies experience more predictable and lasting growth, greater economic stability, more equal distribution of income, and recover more quickly from economic shocks. MCC promotes the development of democratic institutions by:

Creating incentives for democratic reform: MCC's selection process provides incentives for democratization by publicly recognizing governments that demonstrate a commitment to democracy. Three of the six selection indicators measure a country's commitment to democracy. The Board of Directors pays close attention to democratic governance and weighs heavily performance on these three indicators in making decisions about countries' eligibility.

Country Ownership and Demand Driven Development

MCC is committed to partner countries driving their own national development, from the first day of eligibility through the last day of implementation. Ownership starts with countries defining their development and investment needs and expands with their own capacity to manage these investments. In that sense, ownership is an end in itself. Several decades of donor experience suggests that countries that "own" a program are more likely to see it through to completion, make politically tough policy choices, and manage unanticipated hurdles along the way. *For a list of existing accountable entities in partner countries responsible for managing compact implementation, see Appendix 1.*

Country ownership highlights the complexity of effective development assistance:

Country ownership is necessary but not sufficient. To reduce poverty through growth, development programs must also have clear economic logic and technical quality.

There can be tradeoffs between the goal of having a country own the process and the goal of fast implementation. Allowing for a learning process can slow or otherwise alter implementation activities, particularly with MCC's limited staff size.

It affects the way "success" is defined. It is challenging to align public expectations with MCC's efforts to leave behind country-owned projects, institutions, and processes that are more likely to be sustainable and transformative.

Direct support for democracy initiatives: MCC supports democracy promotion directly through its threshold program. For example, Jordan's threshold program targets performance on two democracy indicators.

Deepening democracy through compact development and implementation: The processes associated with an MCC compact call on existing local institutions to play their democratically prescribed role. Partner countries are asked to maintain meaningful, public consultations with civic, private, and political actors throughout the development and implementation of the compact, and compact programs are subject to political debate and ratification in the legislature, where appropriate. The transparency requirements of compact implementation also help strengthen domestic accountability on MCC's behalf. In a recent Gallup survey, partner countries pointed to the high degree of oversight, which speaks to MCC's commitment to ensuring the best use of taxpayer dollars.

> *"The Millennium Challenge Corporation has already made a big contribution to development in a different way: by tying its money to a set of quantifiable and publicly-available indicators of reform progress. This allows an open discussion of what it takes to qualify for the Corporation's money and cuts down on favoritism."*
>
> *—Simeon Djankov, December 9, 2007, World Bank Institute blog*

The indicator-based selection process is a cornerstone of MCC's innovation and transparency, but it has some limitations.

MCC's selection process identifies the countries in which MCC investments will have the greatest impact on poverty reduction and economic growth. The difficulty of measuring policy performance and the reality of how reforms happen in developing countries present certain challenges:

Data lags: It takes time—usually over a year—for policy reforms on the ground to be reflected in scores on the performance indicators.

Changes in country status: As MCC's partner countries work to stimulate economic growth, their income status changes. This has propelled several countries from the low income category to the lower middle income country category, where performance standards are higher and harder to meet.

Nature of reform: The reform process is often complex in developing countries, with ups and downs as reforms are initiated and consolidated.

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MCC's eligibility criteria have improved and this has made the selection process more competitive.

Two new natural resource management indicators were added in 2007 to fulfill a congressional mandate. With the inclusion of the new natural resource management index in the *Investing in People* category, countries must now score above the median on three of five indicators instead of on two of four indicators.

> *Eighty-six percent of country partner respondents feel MCC fits in well with their country's overall development strategy, and 81 percent believe MCC's approach to country ownership will help their country achieve its development objectives. Moreover, compared to other donor agencies, partner countries report that MCC provides more oversight, that MCC provides more help to move toward sustainability, and that MCC does a better job with building country capacity.*
>
> *—November 2007 Gallup Survey*

The quality of the data MCC uses has been updated and improved. As data are updated, some countries that previously passed an indicator may now find themselves below the median.

While governments are able to undertake policy reforms to improve their performance on the indicators, shifts in performance relative to other countries due to heightened competitiveness are largely outside of their control.

MCC helps partner countries plan for continuing eligibility.

Some of MCC's partner countries have *not* met the eligibility criteria in subsequent selection rounds. This is because the country selection process has become more competitive, there have been slight declines in performance in some counties, and a number of countries have graduated to a higher income category in which the performance standards are higher. MCC works with its partners if they are generally maintaining and improving performance to meet the eligibility criteria. If a compact partner country does not meet the eligibility criteria, MCC, in collaboration with other parts of the U.S. government, engages with its leadership in a dialogue about policy performance and/or the data issues that keep it from meeting the criteria. Countries are required to develop and implement a strategy with the goal of meeting the criteria in future years.

MCC's Compacts

Table 1 (next page) summarizes signed compacts through the end of FY 2007 totaling $4.55 billion. Note that two additional compacts have already been approved for FY 2008.

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

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

As of December 1, 2007, MCC has a portfolio of 16 approved compacts totaling $5.5 billion.

MCC anticipates compact signings with **Burkina Faso** and **Namibia** during the late spring or summer of 2008, pending approvals from the Board of Directors. This would bring total MCC compact commitments to more than $6.4 billion.

Compact

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

Impact Evaluation

The purpose of impact evaluation is twofold: to provide highly credible evidence of development results in terms of economic growth and poverty reduction, and to provide concrete feedback to policymakers and practitioners on the most effective poverty reduction programs.

MCC and eligible countries work together during compact development to select and design impact evaluations. Objectivity is ensured through the use of independent experts to validate baseline data and conduct the impact analysis. Evaluations and underlying data will be publicly available.

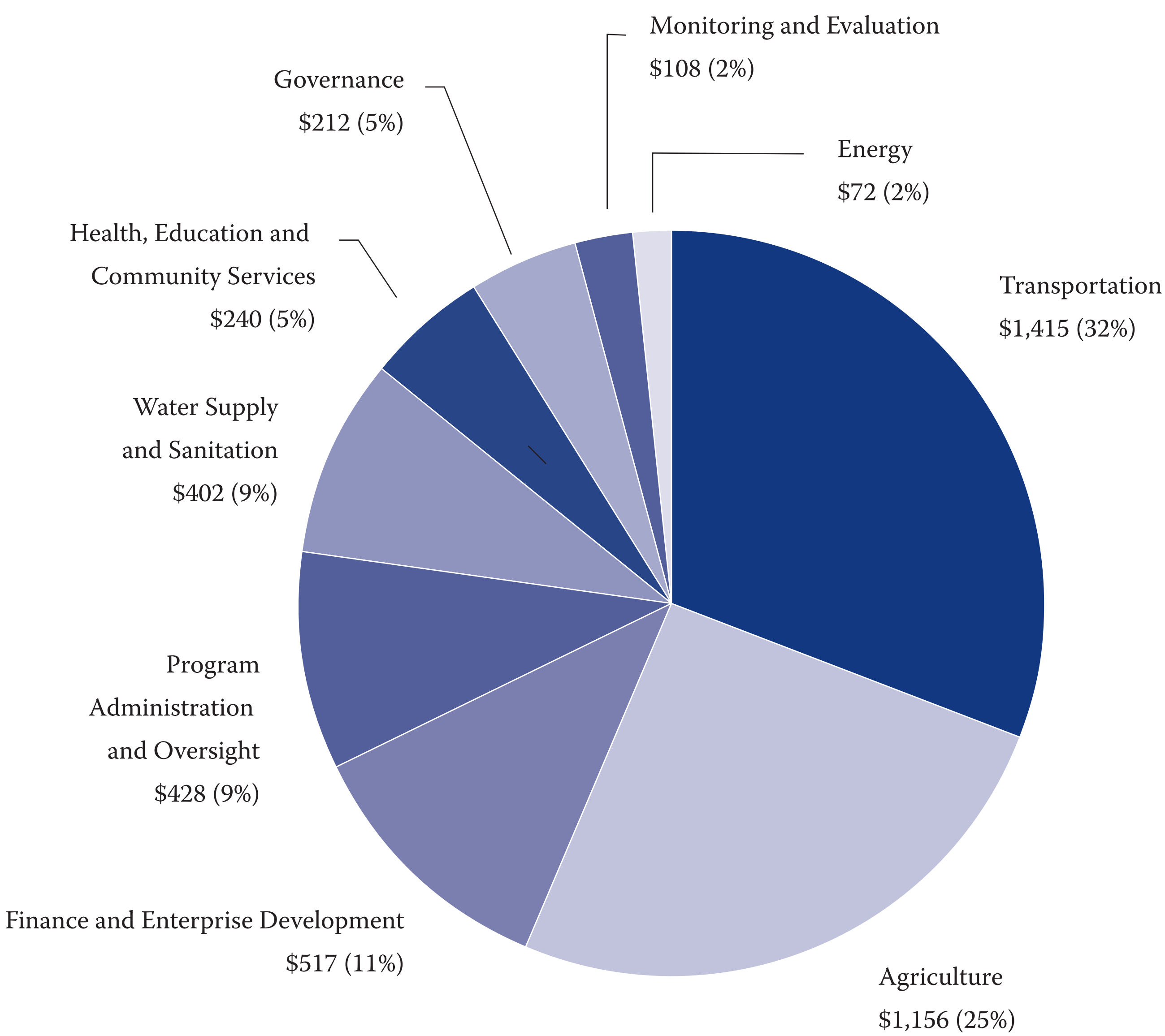
The impact of many MCC investments typically will accrue during the latter part of the five-year compact period and beyond. Transforming behaviors and institutions requires time and patience, and complex infrastructure investments to relieve critical bottlenecks to growth take years to plan and execute, with construction work necessarily extending, in many cases, into the final year of compact implementation. To ensure that MCC is able to track progress toward the long-term investment objectives, MCC measures interim milestones for procurement, contracting, and delivery of goods and services. With this step, MCC anticipates being better positioned to more effectively monitor progress, transparently link performance and disbursement data, and better manage implementation risks. *For a table summarizing the planned and ongoing evaluations for a sample of nine MCA countries, with expected timelines for interim and final results, see Appendix 2.*

Table 1: Compacts in Signing Order

	Country	Award (in millions)	Signing Date	Entry Into Force
	Madagascar	$109.8	April 18, 2005	July 27, 2005
	Honduras	$215.0	June 13, 2005	September 29, 2005
	Cape Verde	$110.0	July 4, 2005	October 17, 2005
	Nicaragua	$175.1	July 14, 2005	May 26, 2006
	Georgia	$295.3	September 12, 2005	April 7, 2006
	Benin	$307.3	February 22, 2006	October 6, 2006
	Vanuatu	$65.7	March 2, 2006	April 28, 2006
	Armenia	$235.7	March 27, 2006	September 29, 2006
	Ghana	$547.0	August 1, 2006	February 16, 2007
	Mali	$460.8	November 13, 2006	September 17, 2007
	El Salvador	$461.0	November 29, 2006	September 20, 2007
	Mozambique	$506.9	July 13, 2007	Estimated Entry into Force projected for Spring 2008
	Lesotho	$362.6	July 23, 2007	Estimated Entry into Force projected for Summer 2008
	Morocco	$697.5	August 31, 2007	Estimated Entry into Force projected for Summer 2008

Chart 1: MCC Compacts by Sector

In millions of U.S. dollars through fiscal year 2007 (Total is $4.5 billion.)



Update on Disbursements and Contracts: Trending Upwards

Compact disbursements

As of November 30, 2007 (the first quarter of FY 2008), MCC has disbursed nearly **$150 million**. By the end of FY 2008, MCC expects to disburse **$450 million**.

The upward trend of disbursements results from:

- Full force implementation of compact projects beyond feasibility stages and
- Improving country capacity to execute on compact projects.

Compact implementation contracts

As of the end of FY 2007, MCC has committed about $260 million. By the end of FY 2008, MCC expects to commit at least **$1 billion**.

Reorganization Focuses on Supporting Compact Implementation while Compact Development Continues

Since 2004, supporting partner countries in *compact development* has been at the core of MCC's efforts. With the success of developing viable, results-oriented compacts to reduce poverty and stimulate growth—resulting in a portfolio of 16 compacts totaling $5.5 billion as of the first quarter of FY 2008—MCC now enters a new phase. MCC's ongoing and future success depends on compact implementation. Therefore, over the long term, MCC's core activity will focus on supporting *compact implementation*.

In late FY 2007, MCC restructured its organization and realigned its priorities and goals to enhance its ability to meet the long-term demands of compact implementation with efficiency and effectiveness. By combining two existing departments (the Department of Operations and the Department of Accountability) into two new departments (the Department of Compact Development and the Department of Compact Implementation), the agency is now better equipped to support successful compact implementation while fully integrating the important role of gender in development, effective monitoring and evaluation, and social and environmental assessments into both new departments. In doing this, MCC will effectively utilize the expertise and experience of its professionals to focus more on program implementation along with compact development. In addition, this new structure provides the resident country directors with more responsibility and flexibility to respond to implementation issues in ways appropriate to country context.

By streamlining compact development, MCC remains capable of developing a robust pipeline of sound compact proposals, which meet vigorous due diligence reviews, and are poised for signature, entry into force, and implementation.

MCC's Threshold Programs

Table 2 (next page) summarizes signed threshold programs through the end of FY 2007 totaling $316 million. Note that additional threshold programs have been approved, signed, or are scheduled to be signed in FY 2008.

MCC's threshold program with **São Tomé and Principe** for $8.7 million was signed on November 9, 2007.

MCC's $35 million threshold program with **Peru** was approved on November 30, 2007, and will be signed in early 2008.

Since FY 2007, the MCC's $15.9 million threshold agreement with the Kyrgyz Republic and the $20.6 million threshold program with Yemen have previously been approved by the Board and signing is pending.

Threshold

A threshold program is designed to assist countries that are on the "threshold," meaning they have not yet qualified for compact funding, but demonstrate significant commitment to improving their performance on the eligibility criteria for full compact funding. MCC's authorizing legislation allows using up to 10 percent of MCC funding for the threshold program.

Section II

Threshold program expenditures

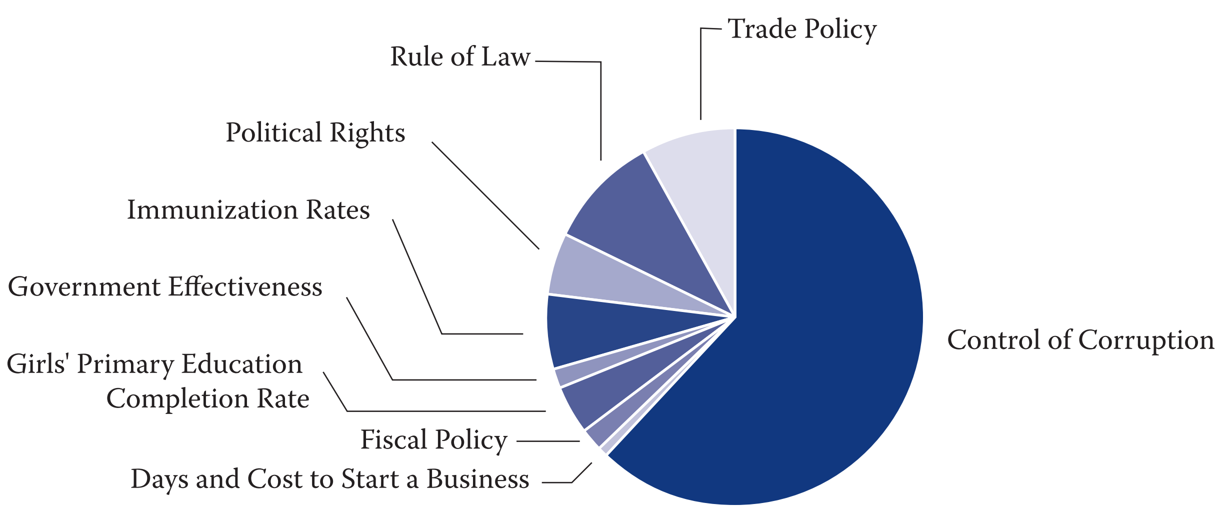
As of the end of FY 2007, over **$90 million** has been expended for threshold programs.

MCC in the media

The programs to reduce poverty and stimulate growth in MCC partner countries continue to make headlines. See Table 3 (next page) for what heads of state say about the effectiveness of MCC programs in their countries. *For*

Chart 2: MCC Threshold Programs by Sector

In millions of U.S. dollars as of September 2007 (Note: Figures do not include monitoring and evaluation costs.)



Section II

Table 2: Threshold Programs in Signing Order

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

further examples of media coverage on MCC, see Appendix 3.

MCC as a major donor

At the 2005 Gleneagles summit, President Bush and other G8 leaders agreed to double aid to Africa by 2010. Later that year at the WTO meetings in Hong Kong, the U.S. committed to more than double aid-for-trade from $1.3 billion in 2005 to $2.7 billion annually by 2010, provided development partners prioritize trade in their development plans. MCC plays an important role in helping the United States work towards these commitments. Over 60 percent of the $5.5 billion MCC has approved in compacts benefits sub-Saharan Africa, and MCC has become the largest U.S. contributor to aid-for-trade, with an estimated $778 million in obligated aid-for-trade activities in FY 2007. Fully funding MCC's FY 2009 request is critical to enable the MCC to continue playing a vital role in helping meet the Presidential commitment made at Gleneagles and in Hong Kong.

MCC is among the largest donors in each of its partner countries. After the initial compacts, which were smaller in size, MCC is now among the top three donors in certain partner countries.

In a number of partner countries, MCC funding has helped raise the overall profile of the United States as a donor. For example, in Benin, where the United States was the seventh largest donor on the basis of average 2005-06 ODA (official development assistance) disbursements, it could well become the largest. In Mali, the United States could move from fifth to first in terms of overall ODA receipts, and, in Ghana, from fifth to second.

Table 3: MCC in the Media

Source	Date	Excerpt
The Washington Times ‘$461 million grant will help Mali invest in a brighter future’	November 20, 2006	“What makes the difference between the MCC and other donors is that this project is designed by Malians…It’s not the government’s proposal. It’s the people’s proposal.” Mr. Moussa Ouattara, Mali compact coordinator
The Miami Herald (commentary) ‘From war to peace to sustainable development’	February 26, 2007	“MCC sends a powerful message to countries around the world that their reforms have not gone unnoticed and that their commitment to good governance as well as economic and social development deserves their ongoing effort. Through its support of MCC, the U.S. Congress also demonstrates strong support for reformers around the world, like El Salvador, that are leveraging aid to further an agenda of opportunity where citizens and businesses can thrive.” President Elias Antonio Saca of El Salvador
The Washington Post (commentary) ‘Mongolia: Moving Mountains’	November 21, 2005	“Further strengthening our development efforts is the inclusion of Mongolia in the Millennium Challenge program. When we sign our compact to begin project implementation, it will add a new level of transparency, “sunlight” and public participation to this critical poverty alleviation program by supporting economic growth. The mechanics of putting together our Millennium program have involved public input and solicitation of proposals from the people. This is grass-roots governance at its best.” Prime Minister Elbegdorj Tsakhia of Mongolia
All Africa: Private Enterprise ‘A Partner in Development’	August 14, 2007	“Ongoing economic reforms coupled with our political stability—a history of free and fair national and local elections—have not gone unnoticed by the Millennium Challenge Corporation …[The] fact that the MCC is willing to invest in our country—make[s] Mozambique an attractive destination for doing business.” President Armando Guebuza of Mozambique

Section II

Table 4: MCC as a Donor

MCC Compact Country	Ranking among other donors in terms of total ODA*
Armenia	#1
Benin	#1
El Salvador	#1
Lesotho	#1
Mongolia	#1
Georgia	#2
Vanuatu	#2
Cape Verde	#3
Ghana	#3
Mali	#3
Morocco	#3
Mozambique	#3
Tanzania	#4
Honduras	#5
Madagascar	#6
Nicaragua	#8

*Average 2005-06 ODA disbursements (2004-05 for regional development banks), excluding other USG and non-Development Assistance Committee members.

Key MCC Achievements

MCC has worked with countries to build a portfolio of high quality compacts that are changing the role countries play in their own development. See the summary of MCC's portfolio of compacts beginning on page 25.

MCC partner countries are delivering measurable, tangible results. Early returns on compact implementation—as of the end of FY 2007—are promising.

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

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

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

In addition to these tangible investments to reduce poverty and stimulate economic growth, MCC's intangible successes surface in a number of ways.

MCC motivates policy reforms

By stressing sound political, economic, and social policies, MCC motivates those countries interested in attaining or maintaining MCC eligibility to undertake the hard work of policy changes.

To preserve the *MCC effect* that motivates such policy reforms, MCC must have sufficient funding to sign compacts with countries that have undertaken the difficult reforms necessary to attain eligibility status and that have invested the resources and effort in developing sound compact proposals. If countries deemed eligible for MCC assistance do not think that sufficient resources will be available for them to receive compact grants from MCC, they are less likely to undertake the challenging steps of reform and compact development. In addition, countries that are not yet eligible are less likely to enact key reforms necessary for them to achieve eligibility.

> *In a recent study, the Center for Global Development (CGD) found evidence of a strong "MCC effect" in Nicaragua. Although donors had been encouraging road maintenance reform for years, CGD found that the prospect of an MCC compact galvanized the political will to pass the necessary legislation. "In the words of one government official, the passage of the law was 'unthinkable' before the arrival of the MCC."*
>
> *—Nicaragua Field Report 2007, Center for Global Development*

Madagascar reduced the minimum capital requirement for new businesses by 80 percent in 2006 and saw a 26 percent increase in new business registrations. Similarly, **El Salvador** reduced the number of days it takes to start a business from 115 to 26 days. To maintain its eligibility, El Salvador also passed a new ethics/anticorruption law and other reforms, resulting in its inclusion in the World Bank's *2007 Doing Business* report as a top 10 performer worldwide.

Madagascar, **Mali**, and **Benin** are undertaking difficult land reform measures, which are necessary to promote secure land rights, access to credit, investments, and increased productivity. Through the current compact, MCC is the leading donor for land reform in Madagascar, where only seven percent of land is officially titled, and the backlog of registration requests could take over 100 years to process without these key reforms.

In **Armenia**, international observers deemed the May 2007 elections were improved over previous elections. Many attribute this to MCC's policy requirements in the *Ruling Justly* category and Armenia's resolve to maintain MCC eligibility.

Nicaragua and **Honduras** implemented reforms to secure unprecedented levels of funding for road maintenance. These funds improve the sustainability of the road investments MCC and others are making. In a country where road maintenance funds were insufficient to maintain the road network in sustainable ways, Nicaragua collected $10 million for road maintenance in the first year. In Honduras, not only has funding for road maintenance dramatically increased but also the reporting requirements for the country's road maintenance plan have improved transparency in planning and execution.

The MCC Effect

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

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

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

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

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

President Marc Ravalomanana of Madagascar: "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."

MCC fights corruption

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

> *"For the group of poor nations that perform best, development assistance should be allocated to some metric of efficiency or effectiveness. In the U.S. aid system, the Millennium Challenge Corporation most closely approximates such an approach, determining eligibility... according to transparent measures of capacity (or more accurately, policy virtue) and need."*
>
> *—Lael Brainard, 2006 Brookings Institute Press, Security by Other Means*

Motivated by its interest to qualify for MCC funding, **Guatemala** has taken significant steps to improve its policy performance on MCC's indicators. Tough anticorruption reform measures include prosecuting high-ranking officials on charges of corruption, creating a financial crimes unit, hiring a foreign accounting firm to audit congressional spending, initiating online disclosure of government procurements, and implementing a performance-based budgeting process.

Benin produced an action plan to ensure compliance with the MCC corruption indicator. On its own, it initiated sweeping reform of several government offices and ministries to reduce corruption and establish a "no tolerance for corruption" campaign. Several high-level government personnel have been dismissed or indicted on charges of embezzlement or misuse of public funds.

Georgia adopted dramatic anticorruption reforms leading to a significant improvement in its control of corruption indicator from the 36th percentile of low income candidate countries in 2004 to the 78th in 2005. The percentage of firms in Georgia reporting that bribes are necessary to get things done plummeted from 37 to 7 percent. Georgia has arrested scores of corrupt public officials, made legislative changes that facilitate the prosecution of corruption cases and increased the salaries of 10,000 public servants to counter the lure of petty corruption. In September 2007, Transparency International released its *2007 Corruption Perception Index*. Other than the Baltic countries, Georgia outperformed all other countries in the former Soviet Union. The World Bank's 2006 and 2007 *Doing Business* reports identified Georgia as one of the world's most aggressive reformers.

MCC helps build country and institutional capacity

By insisting that partner countries design and implement their own development plans, MCC is strengthening institutions and jumpstarting critical thinking about the policies necessary to ensure sustainability. Country ownership reinforces good policies, and good practices are spreading beyond just MCC-funded programs in partner countries.

In **Ghana**, one of the obstacles to successful development has been the lack of adequately trained procurement specialists. MCC is funding a *procurement capacity-building initiative* within the Ghanaian government designed to strengthen the effectiveness of various procurement entities to help Ghana *help itself* overcome this barrier to its own development. Ghana now requires project analysis for public investments modeled on MCC's due diligence approach and is developing a procurement curriculum for the national university. Ghana also plans to use the consultative and rigorous project evaluation process MCC requires for compact development to evaluate non-MCC funded activities within the country. Moreover, to share experiences and lessons learned in developing and implementing compacts, Ghana hosted a conference for representatives of other African countries with compacts.

In **Nicaragua**, extensive public participation in designing and implementing the compact program has generated unwavering support from local officials, civil society groups, and program beneficiaries. This support serves to buoy the program during elections and political transitions, allowing it to progress uninterrupted.

Mali conducted an *MCA Press Corps* training workshop. Journalists from various media were briefed on both MCC and the components of Mali's compact in a focus-group format. This has led to more in-depth investigative reporting of the program, has increased reporting volume, has widened coverage to radio and multiple language formats, and has inspired improved reporting on the compact program and its synergies with other donor organizations.

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

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

In **Honduras**, representatives from 200 municipalities attended workshops to identify roads to be improved under the *Farm to Market Roads* activity, resulting in applications for improvements to 6,645 kilometers of road, about 10 times what can be funded with the $21.5 million budget for this activity. Civil engineers are now using publicly available criteria to conduct field assessments of the applications to make selections. The wide participation of municipalities and the use of transparent and objective criteria to select the roads are making this a model process in Honduras.

Georgia's program raised the bar on environmental protection as well as health and safety by improving standards applied to gas pipeline repairs. Georgian corporations have embarked on a program to raise project construction and supervision to international environmental, safety, and health standards for the first time.

MCC engages women in development

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

In **Benin**, over 100 local civil society organizations elected representatives to the working group to design that country's compact; and representatives of Benin's leading NGO promoting women's rights played an instrumental role in expressing the views of rural women and addressing the interrelated issues of land ownership and agricultural production.

Lesotho's parliament enacted a law to confer equal legal status on married women to integrate them fully and formally in the economy. MCC welcomed this groundbreaking policy reform as critical to the success of the Lesotho compact. MCC is partially funding Lesotho's commitment to identifying existing laws that conflict with the *Legal Capacity of Married Person's Bill* and introducing legislation to harmonize certain laws prior to the compact's initial disbursement after entry into force.

In **Ghana**, the Agriculture Productivity Project and the Land Regularization Activity address the constraints to women's participation along the productive value chain for rural agriculture and in land access, ownership, and management. For both activities, MiDA (MCA-Ghana) has taken the lead in developing gender assessments to ensure that female beneficiaries are able to both participate and benefit.

Both MCA-**Mozambique** and MCA-**Tanzania**, through their respective gender officers, are developing gender integration strategies to ensure that both sexes are represented in the planning, implementation, and evaluation of compact activities.

MCC paves the way for greater private enterprise and trade

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

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

As the Finance Minister of Indonesia asserts, the real draw of MCC's eligibility and selection process is not necessarily the development assistance but the *"good housekeeping seal of approval,"* which sends a powerful signal to private investors that conditions are right in MCC countries for investing and doing business. *For a Business Council for International Understanding advertisement in support of MCC's approach to engaging the private sector,* *see Appendix 4.*

Grupo Beta, a textile manufacturing firm, made a $6 million investment in **Nicaragua**, attracted by the favorable business conditions MCC helps create. The investment will create 1,200 new jobs.

Honduras, **Nicaragua**, and **El Salvador**, which are not only partners with MCC but also partners in trade through CAFTA-DR, are accelerating the pace of domestic market-led growth, while building greater trading capacity to maximize regional free trade arrangements already in place. MCC-sponsored workshops held in Honduras and Miami with Nicaraguan farmers have stimulated over $3 million in new private sector commitments in agricultural exports.

In connection with its MCC compact, the Port of Cotonou in **Benin** has enacted dramatic changes that have allowed it to comply with *the International Ship and Port Security* code nearly two years earlier than expected. $169 million is being used to improve the port's operations and infrastructure, resulting in fewer delays, lower operational costs, and a significant increase in the volume of merchandise traffic.

MCA-**Honduras** is training farmers in small business skills and production practices needed to compete under CAFTA-DR. For example, MCA-Honduras is providing training on *EurepGAP* standards for good agricultural practice. *EurepGAP* training involves actions not only to ensure good agricultural product quality during production, processing, and transportation, but also to guarantee food safety as well as the protection of the environment and field workers. *EurepGAP* will allow Honduran farmers to meet global export standards.

Ghana has identified farmer and enterprise training to accelerate the development of commercial skills and post-harvest handling facilities for fruits and vegetables as a priority for trade, which is expected to significantly expand Ghana's pineapple trade.

1 Madagascar

Signing Date: April 18, 2005
$109.8 million Entry Into Force: July 27, 2005

Land Tenure Project

1. Supports the development of the Malagasy National Land Policy Framework;
2. Improves and decentralizes land services by the National Land Service Administration to provide land services; and
3. Improves land tenure security in rural communities.

Finance Project

1. Promotes legal and regulatory reform;
2. Reforms sovereign debt management of the national savings bank;
3. Provides new instruments for agribusiness credit;
4. Modernizes the national interbank payments system; and
5. Provides training to increase credit information and analysis.

Agricultural Business Investment Project

1. Creates and operates Agricultural Business Centers; and
2. Identifies investment opportunities in the target zones of the country.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

2 Honduras

Signing Date: June 13, 2005
$215.0 million Entry Into Force: Sept. 29, 2005

Transportation Project

1. Rehabilitates two stretches of the CA-5 Highway;
2. Upgrades key secondary roads to improve the access of rural communities to markets; and
3. Constructs a weight control system and issuance of contracts to operate it.

Rural Development Project

1. Provides farmers training in the production and marketing of high value horticultural crops;
2. Improves farmer access to credit by providing technical assistance to financial institutions, loans to such institutions to improve the availability of funds for rural financial institutions, and expansion of the national lien registry system to improve the environment for asset-based lending;
3. Constructs and improves feeder roads that connect farms to market; and
4. Provides grants to support the adaptation of global technological advances in agriculture to local conditions.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for fiscal agent unit, external audits, and technical assistance.

3 Cape Verde

$110.0 million

Signing Date: July 4, 2005

Entry Into Force: Oct. 17, 2005

Infrastructure Project

1. Upgrades and expands the Port of Praia;
2. Rehabilitates of a number of roads; and
3. Constructs several bridges.

Watershed Management and Agricultural Support Project

1. Constructs water reservoirs and
2. Increases the use of drip irrigation systems to promote greater crop production.

Private Sector Development Project

Implements financial sector reforms and mobilizes private sector investment.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for fiscal agent unit and external audit.

4 Nicaragua

$175.0 million

Signing Date: July 14, 2005

Entry Into Force: May 26, 2006

Transportation Project

1. Rehabilitates a primary road segment in the Pacific corridor;
2. Upgrades key secondary routes to link rural producers to the primary road network;and
3. Funds road maintenance and technical assitance to the Ministry of Transportation and Infrstructure.

Rural Business Development Project

1. Provides business development services, disseminates market information, and develops improved production techniques;
2. Provides technical assistance to small and medium farms and agribusinesses transition to higher profit activities; and
3. Improves water supply for irrigation through the use of a watershed management action plan in the Northwest region of Nicaragua.

Property Regularization Project

1. Provides technical support to government institutions to implement and sustain tenure regularization reforms in Leon;
2. Records area-wide cadastral mapping in Leon to obtain accurate property descriptions ; and
3. Standarizes land tenure policies.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for fiscal agent unit and external audit.

5 Georgia

$295.3 million
Signing Date: Sept. 12, 2005
Entry Into Force: April 7, 2006

Infrastructure Rehabilitation

1. Rehabilitates of the North-South Gas Pipeline;
2. Improves water sanitation, water supply and irrigation systems for regions outside Tbilisi; and
3. Constructs and upgrades the Samtskhe-Javakheti road.

Entreprise Development

1. Provides capital and technical assistance through the Georgia Regional Development Fund (GRDF) to support growth of small and medium enterprises outside Tbilisi; and
2. Grants and technical assistance to improve productivity and increase incomes of farmers under the Agribusiness Development Activity (ADA).

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

6 Benin

$307.3 million
Signing Date: Feb. 22, 2006
Entry Into Force: Oct. 6, 2006

Access to Land Project

1. Improves land administration and management;
2. Formalizes property rights in rural and urban areas;
3. Decentralizes land registration by establishing regional offices; and
4. Provides education on land policy.

Access to Financial Services

1. Creates a facility to expand financial services;
2. Strengthens supervision of microfinance institutions;
3. Arranges stakeholder forums on expanding financial services;
4. Improves the financial sector regulatory environment;
5. Improves credit information bureau; and
6. Helps financial institutions provide land collateral-based loans.

Access to Justice Project

1. Expands the Arbitration Center of the national Chamber of Commerce;
2. Improves the Business Registration Center;
3. Trains judges and personnel to strengthen oversees the Inspector General Office;
4. Establishes a public Information Legal Center;
5. Provides legal aid to poor litigants through NGOs; and
6. Constructs new courthouses.

Access to Markets Project

1. Improves port procedures and trains personnel;
2. Upgrades roads and gates, constructs a conveyor system, reinforces north wharf substructure, improves security safeguards;
3. Establishes a fish/seafood inspection-handling facility;
4. Constructs a new south wharf.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

7 Vanuatu

$65.7 million

Signing Date: Mar. 2, 2006
Entry Into Force: April 28, 2006

Transport Infrastructure Project

1. Includes 11 infrastructure projects on 8 islands includes upgrading roads, wharfs, airstrips and warehouses; and
2. Strengthens Vanuatu's Department of Public Works by providing of plant equipment for maintenance;
3. Introduces services to effienctly perform contracts;
4. Establishes local community maintenance schemes and introduces user fees.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

8 Armenia

$235.6 million

Signing Date: Mar. 27, 2006
Entry Into Force: Sept. 29, 2006

Irrigated Agriculture Project

1. Rehabilitates and constructs infrastructure, including new reservoirs, main canals, gravity schemes, pumping stations, and canals;
2. Builds management capacity of local and national water supply entities;
3. Provides technical and rural credit assistance to farmers;
4. Expands the total area under irrigation production;
5. Improves overall efficiency of sourcing and delivery of water to farmers;
6. Helps to ensure sustainable management of improved irrigation infrastructure.

Rural Road Network Rehabilitation

1. Upgrades and rehabilitates roads;and
2. Audits ongoing roads maintenance;
3. Plans for future road maintenance strategically; and
4. Ensures that rural communities have improved access to markets, social services, and to main road network.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

9 Ghana

$547.0 million

Signing Date: Aug. 1, 2006

Entry Into Force: Feb. 16, 2007

Development of Agricultural Productivity and Value-Added Project

1. Provides farmer and enterprise training in commercial agriculture;
2. Improves tenure security for land users;
3. Promotes irrigation development;
4. Improves post harvest handling and value chain services;
5. Improves credit services; and
6. Rehabilitates secondary/feeder roads.

Transportation Infrastructure Development Project

1. Upgrades sections of Highway N1;
2. Improves main roads; and
3. Improves Lake Volta ferry services.

Rural Services Development Project

1. Supports community services;
2. Strengthens the procurement capacity of the public sector;and
3. Provides finanical services to rural areas.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

10 Mali

$460.8 million

Signing Date: Nov. 13, 2006

Entry Into Force: Sept. 17, 2007

Bamako-Sénou Airport Improvement Project

1. Constructs a new passenger terminal and airport roads;
2. Improves water supply, solid waste disposal and power generation systems;
3. Reinforces and expands the runway;
4. Replaces a portion of the navigational equipment;
5. Upgrades the security system; and
6. Strengthens institutions involved in airport operation and maintenance.

Industrial Park Project

1. Constructs an Industrial Park near the airport for business promotion;and
2. Improves access to financial and market information.

Alatona Irrigation Project

1. Rehabilitates Niono-Goma Coura Road;
2. Expands Alatona irrigation infrastructure;
3. Improves land tenure security through titling and providing rights education; and
4. Improves access to agriculture and financial services.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

11 El Salvador

$461.0 million

Signing Date: Nov. 29, 2006
Entry Into Force: Sept. 20, 2007

Human Development Project

1. Provides both formal and non-formal technical vocational education;
2. Provides improved access to potable water systems and sanitation services;
3. Increases electricity coverage in the Northern zone; and
4. Constructs and improves community infrastructure.

Productive Development Project

1. Provides technical assistance to farmers and business development services;
2. Supports capital investment to selected applicants for commercial activities;
3. Provides credit guarantees and technical assistance to financial institutions; and
4. Provides crop insurance to small producers in the Northern Zone.

Connectivity Project

1. Designs, constructs, and rehabilitates secondary roads on the Northern Transnational Highway; and
2. Paves and improves roads on the Connecting Road Network to integrate the Northern Zone with national and regional highway systems.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions. Fondo del Milenio (FOMILENIO), expenses for procurement, fiscal agents, and audit functions.

12 Mozambique

$506.9 million

Signing Date: July 13, 2007
Entry Into Force: Spring 2008*

Water Supply and Sanitation Project

1. Improves water and sanitation services to cities, towns, and
2. Enables development of water point system.

Rehabilitation/Construction of Roads Project

Improves key segments of national Route 1.

Land Tenure Services Project

1. Standardizes property rights; and
2. Improves access to land.

Farmer Income Support Project

1. Improves coconut producers' products; and
2. Supports farmer diversification to other cash crops.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

* expected

13 Lesotho

$362.6 million | Signing Date: July 23, 2007 | Entry Into Force: Summer 2008*

Water Sector Project

1. Constructs a Metolong Dam title system;
2. Rehabilitates and expands infrastructure to urban areas;
3. Improves access to water and sanitation in rural areas; and
4. Executes a wetlands restoration and conservation program in the highlands.

Health Sector Project

1. Rehabilitates health centers;
2. Constructs and rehabilitates anti-retroviral therapy ("ART") clinics;
3. Constructs a laboratory and blood transfusion center; and
4. Strengthens medical training, waste management, and information systems.

Private Sector Development Project

1. Improves land administration;
2. Modernizes the commercial legal system;
3. Strengthens payment and settlement systems;
4. Eases access to financial services through a credit bureau national ID schemes; and
5. Provides support and training to promote gender equality.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

* expected

14 Morocco

$697.5 million | Signing Date: Aug. 31, 2007 | Entry Into Force: Summer 2008*

Fruit Tree Productivity Project

1. Promotes planting olive, almond and fig trees;
2. Constructs small and medium irrigation infrastructure;
3. Provides technical assistance to farmers; and
4. Increase access to national and export markets.

Small-Scale Fisheries Project

1. Constructs fish landing sites;
2. Upgrades port facilities for small-scale fishers;
3. Rehabilitates wholesale markets;
4. Provides methods to transport fresh fish; and
5. Provides technical assistance to fish vendors.

Artisan and Fez Medina Project

1. Improves the national system for vocational education and literacy;
2. Provides technical assistance to artisans;
3. Designs and renovates historical sites within the Medina of Fez; and
4. Supports marketing campaigns to highlight artisans and their crafts.

Financial Services Project

1. Increases financial services to micro-enterprises;
2. Supports operational and regulatory requirements for micro-credit associations;
3. Funds improvements in the operational efficiency; and
4. Promotes transparency of financial institutions.

Enterprise Support Project

1. Evaluates government programs to provide training and technical assistance to entrepreneurs and small businesses and
2. Scales-up programs that increase the rate of survival of small businesses.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

* expected

15 Mongolia

$285.0 million

Signing Date: Oct. 22, 2007

Entry Into Force: Summer 2008*

Rail Project

1. Increases rail traffic and shipping efficiency by providing assets needed to operate longer, heavier trains;
2. Increases rail system competition by creating a government-owned, contractor-operated leasing company to own and lease key assets to shippers; and
3. Encourages efficient and transparent operating procedures in the rail sector.

Property Rights Project

1. Provides secure land rights and other incentives to promote efficient land use;
2. Introduces a long-term land leasing system in urban areas; and
3. Installs wells and materials for animal shelters in peri-urban areas.

Vocation Educational Project

1. Provides technical skills to youth and unemployed persons;
2. Defines skills needed for occupations and applies them into a vocational education curricula;
3. Improves teacher training and professional development;
4. Provides career guidance and web-based career information services.

Health Project

1. Decreases the incidence and severity of the most prevalent forms of non-communicable diseases and injuries (NCDIs) that have an impact on mortality (e.g., cancer, cardiovascular disease, diabetes and trauma) by promoting NCDI risk-factor reducing behavior;
2. Increases early detection of NCDIs; and
3. Provides effective disease management services.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

* expected

16 Tanzania

$698.1 million

Signing Date: February 2008*

Entry Into Force: Summer 2008*

Transport Sector Project

1. Rehabilitates high-traffic roads on the mainland;
2. Upgrades the airport on Mafia Island; and
3. Repairs selected rural roads on Zanzibar.
   The Project also includes funds for road maintenance to enhance Tanzania's capacity to maintain its road network.

Energy Sector Project

1. Lays a submarine electric transmission cable from the mainland to Zanzibar;
2. Constructs a small run-of-river hydropower plant on the Malagarasi River and the extension of a mini-grid system in the Kigoma region; and
3. Rehabilitates the existing distribution infrastructure and a number of small distribution line extensions to unserved areas in six regions.

Water Sector Project

1. Expands the capacity of the Lower Ruvu water treatment plant;
2. Improves the system efficiencies of the Dar es Salaam Water and Sewerage Authority;
3. Rehabilitates water intake and water treatment plants;and
4. Improves the existing distribution network in the city of Morogoro.

Monitoring and Evaluation

Collects quantitative and qualitative data to evaluate the impact of compact projects.

Program Administration and Oversight

Costs include implementing unit's administrative expenses for procurement, fiscal agents, and audit functions.

* expected

Fiscal Year 2009 Budget Request

Congress's support for funding the President's FY 2009 request of $2.225 billion enables MCC to address existing priorities *only*. This level of funding allows MCC to work with countries currently in the pipeline for compacts and threshold programs. The Millennium Challenge Corporation's request for FY 2009 funding is summarized in the following table:

Table 5: Budget Request

(in millions)	FY 2007 Estimate	FY 2008 Projection	FY 2009 Request
Compacts	$1,452	$1,357	$1,880
Threshold Programs	$145	$150	$150
Due Diligence/609(g)	$70	$90	$90
Administrative Expenses	$81	$88	$100
Inspector General Audit	$4	$5	$5
Deficit/gap		***-$146***	
Total Appropriation/Request	$1,752	$1,544	$2,225

As indicated in the above table, MCC has a projected shortfall of $146 million in FY 2008. MCC is currently reassessing the effect of this shortfall on its compact and threshold programs and developing alternatives to close the gap.

Support for Compacts

Table 6: Support for Compacts Budget Request

(in millions)	FY 2007 Estimate	FY 2008 Projection	FY 2009 Request
Compacts	$1,452	$1,357	$1,880

MCC is requesting **$1.880 billion** for compact programs in FY 2009. This is the amount necessary to complete compacts with the five to six countries that are most likely to be ready for compact signing.

Beginning in FY 2007, MCC set out and accomplished an aggressive agenda to complete larger, more transformative compacts. In FY 2007 alone, MCC signed five compacts worth nearly $2.5 billion. By the first quarter of FY 2008, MCC's Board of Directors had approved a total of 16 compacts totaling $5.5 billion. By the end of FY 2008, MCC will have 18 approved compacts totaling more than $6.4 billion. This commits ***all*** available MCC compact funding.

Concurrent Compacts

MCC has sought and will continue to seek authority to enter into more than one compact with a country at a time. The Millennium Challenge Act currently allows only one compact at a time with a country. Concurrent compacts would intensify competition among current compact countries as they seek a second compact. Selection of countries for a concurrent compact would be based on their performance on the indicators and on their progress toward fully implementing their current compacts.

As a result, the MCC effect of providing incentives for reform and performance would extend to countries in the midst of implementation and would substantially motivate countries to push even harder in their own policy reform and development efforts. This will maximize the effectiveness of initial MCC investments. Moreover, MCC is reaching the limit of additional countries capable of meeting eligibility requirements. Concurrent compacts will allow MCC to enhance the incentive effect and continue pursuing its mission of poverty reduction through sustainable economic growth without sacrificing its commitment to sound policy performance among partner countries.

In addition, because of the experience gained through implementation and the existence of fully staffed counterparts in partner countries with current compacts, negotiations and entry-into-force for concurrent compacts are likely to proceed significantly faster than initial compacts. MCC has improved engagement with eligible countries and is providing more guidance earlier in the process, including peer-to-peer training through an annual MCC University and targeted "colleges" focusing on procurement, monitoring and evaluation, and environmental and social assessments.

FY 2009 funding for compacts at $1.880 billion would allow MCC to work with countries in MCC's existing pipeline that are engaged and developing viable compacts, including Malawi, which was newly selected compact eligible by the Board of Directors in December 2007.

With the momentum established in FY 2007, MCC will commit all prior year appropriations and all new appropriations provided in FY 2008. Yet, MCC still has more countries seeking compacts and can accomplish more with countries in the pipeline and best performing countries interested in second and concurrent compacts.

With an appropriation above this level, MCC not only would ensure adequate resources for countries in the pipeline, but also could work with countries that have demonstrated exceptional commitment in developing their existing compact and demonstrated sufficient success for the negotiation of second compacts—either concurrent or sequential—***if*** MCC has the legislative authority to do this. (See "*Concurrent Compacts*" textbox for more information.)

NGO support for compact development and implementation

The success of MCC's compacts depends on the active participation of NGOs worldwide. *For a partial list of NGOs that work with MCC on compact development and implementation, see Appendix 5.*

Infrastructure projects in compacts

MCC's commitment to country ownership means that MCC supports projects that partner countries prioritize, as long as the projects promote poverty reduction through economic growth and deliver promising economic and social rates of return. In many cases, MCC partners have identified inadequate infrastructure as a major constraint to domestic and foreign investment, job creation, and growth.

Improvements in rural roads lower transportation costs for farmers and provide improved access to non-farm employment, primary health care, and education. Water and sanitation infrastructure reduce the incidence of dis-

Table 7: Number of Compacts, Total Commitments, and Average Compact Size

by fiscal year, all figures in millions of U.S. dollars

Country	Year of Compact Signing				Total Entering FY 2009†
	FY 2005	FY 2006	FY 2007	FY 2008*	
Madagascar	$110				
Honduras	$215				
Cape Verde	$110				
Nicaragua	$175				
Georgia	$295				
Vanuatu		$66			
Benin		$307			
Armenia		$236			
Ghana		$547			
Mali			$461		
El Salvador			$461		
Mozambique			$507		
Lesotho			$363		
Morocco			$691		
Mongolia				$285	
Tanzania				$698	
Namibia				$350	
Burkina Faso				$620	
Number of Compacts	**5**	**4**	**5**	**4**	**18**
Total Value	**$905.2**	**$1,155.6**	**$2,482.8**	**$1,953****	**$6,496.6**
Average Compact Size	**$181.0**	**$288.9**	**$496.6**	**$488.3**	**$360.9**

* With the exception of Mongolia, amounts for FY 2008 are notional. Tanzania's compact is subject to the availability of funds. Projected compact totals for Namibia and Burkina Faso are also subject to the availability of funds and represent proposal amounts that may change during negotiations.

† Countries that remain in the compact pipeline from prior selection rounds include: Bolivia, Jordan, Moldova, Senegal, Sri Lanka, Timor-Leste, and Ukraine as well as Malawi, which was selected compact-eligible by the Board of Directors in December 2007.

** The total shown for compacts to be signed in FY 2008 is higher than the amount for FY 2008 compact funds on page 35 because funding for these compacts includes carryover from FY 2007 as well as funds appropriated in FY 2008.

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eases, to the benefit of individual workers and overall economic productivity. Reliable electricity makes it dramatically easier for the poor to start businesses and is a basic condition for many foreign investments. Improvements in energy infrastructure allow the poor to waste much less of their labor—their most valuable asset—searching for fuel.

> *"Civil society in partner countries tends to be quite supportive of MCC investments in sticky areas like infrastructure…For example, in Tanzania NGOs are extremely supportive of MCC plans to invest in infrastructure for energy, water, and transportation…The same is true in Ghana, where NGOs are broadly supportive of an MCA plan that focuses on private sector development and infrastructure investments."*
>
> *—Tanzania Field Report, MCA Monitor, Center for Global Development*

MCC invests in infrastructure because the poor, NGOs, and governments in partner countries have identified improvements in infrastructure as a priority for poverty reduction. For instance, a 2006 study of MCC field operations by an independent policy research organization highlighted that NGOs in MCC partner countries are strong supporters of infrastructure investment. Stakeholders' emphasis on infrastructure is mirrored by a number of regional and global studies that document the widening gap between public infrastructure needs and public finance in developing countries.

Infrastructure projects naturally have a gradual disbursement ramp-up

The first two years of infrastructure projects are generally used to conduct feasibility studies and to prepare final engineering designs. As part of this, project managers conduct consultations, complete resettlement and land acquisition processes, and assess and plan to mitigate environmental impacts. In addition, a competitive procurement process is required to ensure fair and reasonable prices and high quality work. Chart 3 (opposite page) captures an infrastructure project cycle.

All of these essential steps must occur prior to the start of construction, but do not imply big expenditures. For this reason, the rate of spending ramps up once construction begins. See the following indicative disbursement projections for the Tanzania energy project.

Infrastructure projects are subject to cost re-estimations

MCC, as well as other donors, governments, and the private sector are facing increasing construction costs for several reasons. First, the world is experiencing a construction boom. The increased demand for construction services pushes up the costs of these services. Second, the costs of many

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Chart 3: Indicative Disbursement of Typical Large Infrastructure

Cumulative Distribution

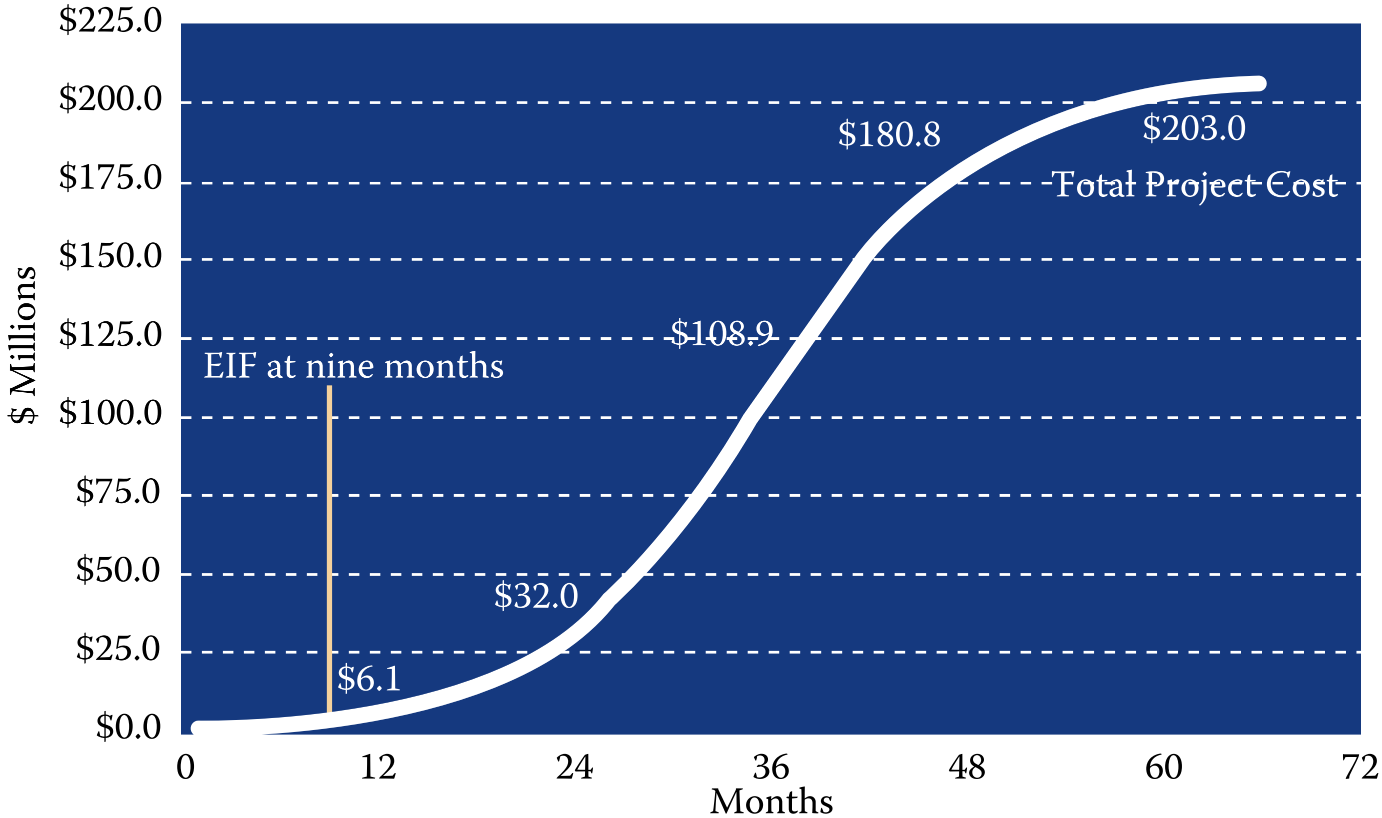
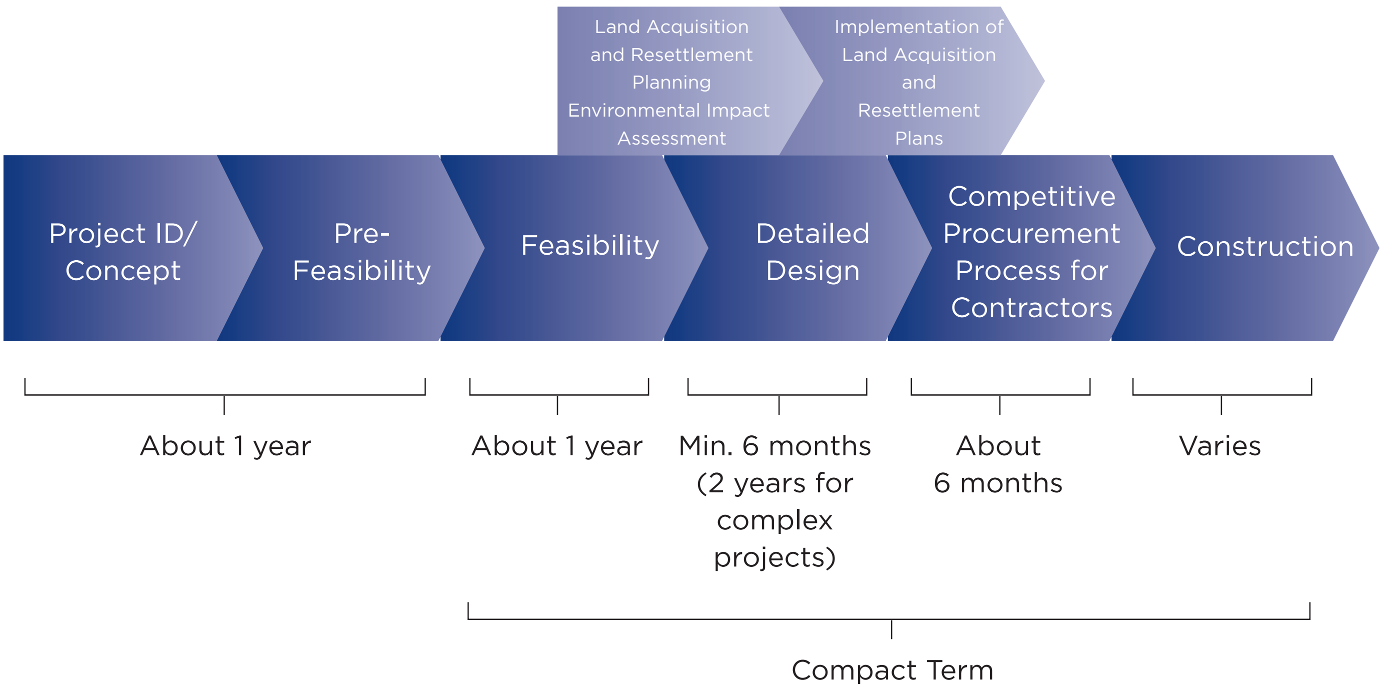


Chart 4: Infrastructure Project Cycle



construction inputs (such as oil and steel) are rising. Third, cost re-estimation is common in the project cycle as project managers refine designs based on technical studies, design upgrades, and enhanced environmental mitigation measures. These factors, combined with fluctuating currency exchange rates, mean that MCC partner countries are facing higher costs than initially projected for some infrastructure projects.

MCC itself is not liable for the increased costs of the projects as its obligation is the fixed amount of financing specified in the compact. MCC is nonetheless working with partner countries to meet these challenges. Pos-

Table 8: External Factors on Costs

Cost Category	Change in Costs, January 2005 to July 2007
Energy	67%
Metals	120%
Other Construction Inputs	14%
Bidder Country Exchange Rates	15%
Partner Country Exchange Rates	6%

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sible options include revision of the project scope, increasing the amount of partner country contribution, or bringing other donors into a given project.

Major infrastructure investments depend on committed funding up-front

MCC is committed to complying with international standards and procedures for infrastructure investments. For example, MCC applies the World Bank's Operational Policy 4.12 in cases where resettlement or land acquisition is necessary for construction. MCC also operates in accordance with international standards on all aspects of project management, such as contracting, procurement, and technical specifications. For large works, MCC uses standard contracting conventions developed jointly by the International Federation of Consulting Engineers (FIDIC), multilateral development banks, and other donor institutions. These conventions require that MCAs submit "reasonable evidence that financial arrangements have been made and are being maintained" that will enable the MCAs to make all payments on construction contracts. Using these conventions gives contractors the confidence that MCAs follow international standards, thereby attracting more international bidders and keeping prices down by reducing risk for bidders.

Economic Analysis

For each project proposed, partner countries conduct a preliminary Economic Rate of Return (ERR) analysis to demonstrate that improvements in household incomes justify the anticipated costs. MCC uses independent evaluators and internal staff to review and, as necessary, revise this analysis to ensure that the findings meet international standards. Final ERR results guide MCC investment decisions, and are included in public statements, including those to Congress.

In 2006, GAO began a review of MCC's approach to economic analysis. GAO provided helpful suggestions that already have been incorporated into MCC's technical approach. For instance, MCC has made consistent its standards on anticipated benefit streams from induced economic activity and has significantly expanded its use of sensitivity analysis. Further, MCC has reinforced its expectation of country collaboration in ERR analyses and has shared all final results with partner countries. MCC is in the process of developing user-friendly versions of its ERR analysis that will be posted to the public website in 2008 to facilitate transparency and encourage public comment.

Support for Threshold Programs

Table 9: Support for Threshold Programs

(in millions)	FY 2007 Estimate	FY 2008 Projection	FY 2009 Request
Threshold Programs	$145	$150	$150

MCC plans to allocate up to **$150 million** in FY 2009 for implementing and administering the threshold program.

Threshold programs are with countries that are close to passing and are committed to improving their performance on MCC's eligibility criteria. Countries in MCC's threshold program are enacting the reforms necessary to address specific areas for improvement.

The threshold program budget depends on which countries are selected, which indicators these countries need to address, and which policy reforms must be implemented.

Three key assumptions justify funding the threshold program at $150 million in FY 2009.

- ***Second threshold programs:*** Several threshold programs will successfully conclude in 2008 with countries that have not yet become eligible for a compact. For threshold countries not selected by MCC's Board of Directors as compact-eligible during the FY 2008 or FY 2009 selection processes, MCC may decide to continue to engage with them in a second (Stage 2) threshold program in order to keep them engaged and sustain the momentum of policy reform. MCC will make this decision based upon the country's indicator performance and trends, the results obtained under the initial threshold program, and the country's commitment and vigor in implementing major reforms.

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Table 10: FY 2009 Threshold Programs Notional Budget Breakdown

FY 2009 (in millions)	Program Cost	Admin. Fee	Total MCC
New Country 1	$15.0	$1.1	$16.1
New Country 2	$30.0	$2.1	$32.1
New Country 3	$40.0	$2.8	$42.8
Threshold Stage 2	$40.0	$2.8	$42.8
Threshold Stage 2	$12.0	$0.8	$12.8
Monitoring and Evaluation	$3.0	$0.0	$3.4
Total			**$149.6**

- *Natural resource indicators:* With the inclusion of natural resources and land rights indicators, countries may have to address additional policy deficiencies. This is likely to increase demand for threshold program assistance on, for example, environmental issues.

- *Monitoring and evaluation:* Beginning with threshold programs approved in late FY 2007, MCC has incorporated more vigorous monitoring and evaluation activities, which have budget implications. All threshold programs already include performance monitoring, and all programs approved in late FY 2007 include funding for independent program evaluations. Whether country-specific, activity-specific, or multifaceted, these evaluations will provide MCC—and the development community more generally—with les-

Key Threshold Program Results

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

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

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

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

In **Jordan**, legislation to reform municipal governments passed. Changes brought about by this law allow for the election of municipal mayors and council members, the reduction of the voter eligibility age from 19 to 18, and the establishment of a 20 percent quota for women in municipal councils.

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

sons learned as well as information on the impact of threshold program activities. A critical area for increasing evaluation efforts is in anticorruption programming, where MCC is now one of the largest donors. MCC intends to compare the impact of its anticorruption programs across countries to identify the types of interventions that are most and least successful. Funding for these evaluations will come from the threshold program allocation.

For a partial list of key NGOs that contribute to the success of MCC's threshold program, see Appendix 6.

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Support for Due Diligence/609(g) Funding

Table 11: Support for Due Diligence/609(g) Funding

(in millions)	FY 2007 Estimate	FY 2008 Projection	FY 2009 Request
Due Diligence/609(g)	$70	$90	$90

MCC plans to allocate **$90 million** for due diligence and 609(g) funding.

Due diligence

MCC uses due diligence resources to carry out a detailed review of each country's compact proposal. Due diligence addresses technical, economic, and environmental feasibility as well as implementation issues and sustainability for each component of the proposal. Due diligence also focuses, among other things, on the country's strategy for economic growth and poverty reduction; the consultative process; any policy reform plans; how progress will be measured; fiscal accountability; monitoring and evaluation; donor coordination; and environment and social, including gender, resettlement, and indigenous people safeguards. Thorough due diligence helps ensure that MCC makes sound investments of U.S. tax dollars in partner countries.

609(g) funding

MCC uses its 609(g) authority to provide grants:

- to help countries develop a compact and
- to help countries implement a compact after it is signed.

Such 609(g) funding serves to improve the compact development process and helps reduce the time between compact signing, entry into force, and first disbursement, allowing the partner country to begin working sooner on implementation.

Support for Administrative Expenses

Table 12: Support for Administrative Expenses

(in millions)	FY 2007 Estimate	FY 2008 Projection	FY 2009 Request
Administrative Expenses	$81	$88	$100

MCC is requesting **$100 million** for administrative expenses in FY 2009.

MCC is committed to utilizing administrative funds efficiently and strategically. MCC's managerial cost accounting framework will be piloted in FY 2008 to identify resource allocation by country and to analyze variations across countries. MCC's administrative expenses cover both direct and indirect expenses required to assess compact proposals and oversee compact implementation.

Direct expenses include:

- salaries and benefits of MCC staff who are directly engaged with partner countries,
- overseas operation expenses,
- travel costs, and
- *MCC University* and other training conferences for participants from MCC partner countries.

Indirect expenses include such items as:

- salaries and benefits for support staff,
- training costs, including language, procurement, and transaction team training,
- contracted services for financial management, travel, contract management, and security,
- rent,

- information technology services, and
- human resources.

Administrative expenses also provide the resources for MCC to fulfill its obligations to ensure that MCA funds are spent properly. This includes oversight of funds for implementation that have been obligated already to existing compacts and for completion of additional compacts. Key activities that are funded by administrative expenses include:

- managing the country selection process,
- providing countries with guidance and technical assistance during the compact development process,
- conducting due diligence on compact proposals to ensure that they will yield outcomes and have proper program design,
- helping countries with the initial start up of the local MCA entity that will implement the compact program, and
- providing oversight of implementation once compacts have entered into force.

Table 13: Administrative Budget

	FY07 Estimate	FY08 Projected	FY09 Request
Salaries and Benefits	$42,759,213	$50,259,229	$55,183,251
Contracted Services	$11,008,481	$7,557,161	$8,940,814
Rent, Leasehold and Improvements	$7,036,723	$6,195,876	$7,574,218
Information Technology	$6,906,625	$8,628,500	$9,128,012
Overseas Operations	$6,357,432	$9,859,234	$12,923,705
Travel	$7,739,720	$5,500,000	$6,250,000
Totals	**$81,808,194**	**$88,000,000**	**$100,000,000**

Salaries and Benefits

MCC is requesting $55.2 million for salaries and benefits in FY 2009, a 9.8 percent increase over the FY 2008 estimate.

In FY 2008, MCC will complete its aggressive hiring process to fill remaining slots, and staffing at MCC's Washington headquarters approach the authorized level of 300. This Washington staffing level will be maintained in FY 2009, although due to the continued ramp-up during 2008, the average level of full-time staff will be slightly higher in 2009. In addition, in FY 2008 and 2009, MCC will continue to hire resident country directors and deputy resident country directors for countries that sign compacts. This is consistent with MCC's practice of having a small staff footprint in each compact partner country. These small increases in average staffing levels in Washington and overseas account for about half of the FY 2009 increase for salaries and benefits. MCC continues to attract and hire top notch individuals from the public and private sector and was listed among the 2007 *Best Places to Work* within the U.S. government. Attracting top candidates is in keeping with MCC's original intended design of having a lean and talented staff. MCC's FY 2009 request for salaries and benefits will help retain employees and promote high job satisfaction, while also ensuring that structural pay increases and incentive payments are strictly tied to performance, and the cost of living and merit salary increase accounts for about half of the total increase requested for this area. The overall level of merit pay increases and bonuses has been reduced in the FY 2009 request in order to focus bonuses and merit increases more directly on individual performance. The FY 2009 request also includes ongoing support to attract and hire a diverse workforce, including recruitment through a wide variety of minority-focused educational and professional fora. Finally, the request funds a comprehensive training program that will include a curriculum of core technical skills to help MCC staff support the shift in focus to compact implementation.

Contracted Services

MCC is requesting $8.9 million for contracted services in FY 2009, an 18 percent increase over the estimate for FY 2008.

MCC has applied to the maximum extent possible the President's competitive sourcing initiative. The National Business Center, one of the U.S. government's *Centers of Excellence*, provides MCC's financial management, human resources, payroll, and travel services. MCC has also partially or fully competitively sourced other administrative requirements, including contracting staff and information technology. It uses inter-agency agreements (IAAs) to provide other key services, such as an IAA with the Department of State for security services. The increase in the contracted service line item is not to begin new contracts or activities, but to maintain funding for contract that are able to use prior year funds in FY 2008. The FY 2009 request for contracted services is a 20 percent decrease from the FY 2007 level.

Rent, Leasehold and Improvements

MCC is requesting $7.6 million for rent and related expenses in FY 2009, a 22 percent increase over the estimate for FY 2008.

In FY 2006, MCC executed lease agreements for the permanent space required for the full staff of 300. In addition to the existing long-term lease for the 2nd through 5th floors of the Bowen Building at 875 15th Street, Northwest, MCC has signed a lease for the 6th floor of the Bowen Building and a permanent space for the Department of Administration and Finance (A&F) at 1401 H Street, Northwest. The increase in rent costs for FY 2009 is due to the exhaustion during FY 2008 of rent credits negotiated by MCC for the space in both buildings. Beginning in late FY 2007, the USAID Inspector General, which serves as MCC's Inspector General, has co-located the staff of the Assistant Inspector General for MCC with A&F at the H Street location. MCC will provide space for approximately 18 full-time Inspector General staff. The Inspector General will reimburse MCC for this space on a square footage basis.

Information Technology

MCC is requesting $9.1 million for information technology in FY 2009, a 6 percent increase from FY 2008.

The FY 2009 request includes funding for two critical investments, a business intelligence and data storage system, and a fully integrated financial system. In both cases, in keeping with its overall outsourcing approach, MCC plans to contract with service providers, rather than to acquire and attempt to directly manage these complex systems. MCC will continue to outsource its underlying information technology platform, and will recompete these services in FY 2008, moving to a shared services environment. In addition, MCC is consolidating much of its ongoing software acquisition through a single Microsoft Enterprise agreement, which will cover most desktop and laptop program requirements. MCC plans to acquire business process management software that will work with Microsoft Sharepoint to automate and streamline necessarily complex internal review and approval processes. The increase requested in FY 2009 for information technology is to fund a fully-integrated financial system, as required by the Federal Financial Manager Integrity Act (FFMIA). Absent this cost, other IT funding decreases in FY 2009 as MCC realizes increased efficiencies, and we anticipate total IT costs

Business Intelligence and Data Storage

MCC functions in a challenging business environment resulting from a host of highly variable conditions, including:

- multiple partnerships with key implementing agencies, contractors and stakeholders,
- global geographic coverage,
- diverse portfolio of projects and component activities, and
- variable levels of counterpart institutional and technological capacity.

The Business Intelligence and Data Storage (BIDS) system is a centralized institution-wide data environment and integration platform which will link financial management and performance data. BIDS functional capabilities are designed to make compact-related information readily accessible through an integrated view of business processes and financial and performance data, while reducing the burden of financial and performance reporting on MCA counterpart personnel as well as on MCC headquarters and field operations staff. BIDS achieves these outcomes efficiently by building on prevailing MCC information technology infrastructure and software assets.

BIDS will better enable MCC to more effectively monitor progress, link performance and disbursement data, and better manage risk through a comprehensive set of powerful business intelligence analytical and reporting tools based on an institution-wide centralized and integrated data environment. Using these tools, MCC will be able to provide timely and detailed reports on the actual milestones and outcomes that MCC compact countries are achieving on the ground.

to drop back below the FY 2009 request level after 2010, once an integrated financial system is fully functional.

Overseas Operations

MCC is requesting $12.9 million for overseas operations in FY 2009, a 31 percent increase over the estimate for FY 2008.

The FY 2009 budget request for overseas operations reflects the resources that will be required for MCC to incorporate the growing role of compact implementation oversight into MCC's core operations. At the beginning of FY 2007, MCC had established a presence in eight eligible countries and this number grew to 13 at the beginning of FY 2008. This number will continue to grow to at least 18 countries in FY 2008 and 22 or more countries in FY 2009 as MCC continues to sign compacts. While overseas operations are a growing part of MCC's administrative budget, the modest cost per overseas post reflects MCC's determination to maintain a small overseas footprint and allow countries to maintain ownership over compact implementation.

Travel

MCC is requesting $6.3 million for travel in FY 2009, a 14 percent increase over the estimate for FY 2008.

To support country ownership, a significant portion of the work involved in compact development and due diligence must take place in MCC partner countries. 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 2009 request for travel is for activities that are directly related to compact development and implementation oversight. In response to the GAO audit of government premium class travel, MCC, which does not authorize first class travel, has revised the portions of its travel policy that affect business class travel. Specifically, the revised policy encourages the use of rest stops rather than business class travel wherever feasible, as this significantly reduces airfares, and requires a separate business class travel justification that is based on a specific business requirement. The new policy is designed to be responsive to GAO's findings while continuing to support to the greatest extent possible the efficient and effective achievement of MCC's mission. The expected reduction in business class travel underlies the reduction in the estimated travel budgets for FY 2008 and 2009 from the FY 2007 level. Although there is a modest increase in FY 2009 over FY 2008 to account for increasing airfares and travel to additional eligible or threshold countries that may be selected by the MCC Board, the FY 2009 request for travel is still over 20 percent below the FY 2007 level.

Support for Audit Expenses

Table 14: Support for Audit Expenses

(in millions)	FY 2007 Estimate	FY 2008 Projection	FY 2009 Request
Inspector General Audit	$4	$5	$5

MCC is requesting **$5 million** for its audit expenses in FY 2009.

The USAID Office of the Inspector General conducts financial and performance audits and reviews of MCC and MCA country entity activities and oversees and reviews the annual external audit of MCC. MCC continues to receive an unqualified audit opinion. This is a particularly important accomplishment given the expanded resource pool under MCC's management and the increased complexity associated with an expanding overseas presence as more countries enter into compact implementation.

Conclusion

MCC represents the most innovative approach to U.S.-supported development assistance since the Marshall Plan. In four short years, MCC has created a new model for foreign assistance based on country ownership, accountability, and economic growth. Indeed, this new model has shifted the paradigm of how rich countries interact with poor countries.

More than a development agency, MCC has become an important component of U.S. foreign policy: incentivizing major government reform, building serious local capacity, luring private sector investment, and attracting non-MCC countries to make the necessary changes so they too can receive MCC's "stamp of approval."

The impact of MCC's programs transcends the development projects underway. Indeed, as this report describes, MCC funding leverages a significant change in the developing world, enhances U.S. national security, and contributes broadly to U.S. foreign policy objectives. MCC is an important component of American "smart power" that should be fully funded by Congress in order to deliver on its crucial role in U.S. foreign policy.

Appendix

Appendix 1

List of existing accountable entities in partner countries as of December 17, 2007.

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Table 15: Accountable Entities

Country		Name	Web Site
	Armenia	MCA-Armenia	http://www.mca.am/new/enversion/index.php
	Benin	MCA-Benin	http://www.mcabenin.bj/
	Cape Verde	MCA-Cabo Verde	http://www.mca.cv/
	El Salvador	FOMILENIO	http://www.mca.gob.sv/fomilenio/index.php
	Georgia	MCG	http://www.mcg.ge/
	Ghana	MiDA	http://www.mida.gov.gh/
	Honduras	MCA-Honduras	http://www.mcahonduras.hn/
	Madagascar	MCA-Madagascar	http://www.mcamadagascar.org/
	Mali	MCA-Mali	http://www.mcamali.org/
	Nicaragua	Cuenta Reto Del Milenio	http://www.cuentadelmilenio.org.ni/
	Vanuatu	MCA-Vanuatu	http://www.governmentofvanuatu.gov.vu/mca-vanuatu/Home/tabid/54/Default.aspx

Appendix 2

Table summarizing the planned and ongoing evaluations for a sample of nine MCA countries, highlighting expected timelines for interim and final results.

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Table 16: Sample Summaries of Planned and Ongoing Project Evaluations

Country	Project	Evaluation Purpose	Interim and Final Results
Armenia	Water-to-Market	To measure the impact of on-farm water management training on agricultural productivity and rural income.	The first follow-up survey of beneficiaries will be completed in early 2009, and will provide initial information on technology adoption, agriculture productivity, and income changes. These findings can be used to adjust and improve project implementation. Other survey rounds will be conducted in 2010 and 2011 to assess the sustainability of early impacts.
Benin	Access to Land	To measure the impact of land reform on increasing household income and investment in targeted land parcels.	Rural land plan activities will be rolled out in 300 villages over the life of the compact, accompanied by ongoing surveys to gather information on households' land tenure type, investment in land, and income levels. Results from the first set of interventions should be available by late 2008, and final results in 2010.
Burkina Faso	Threshold Program: Increasing girls' education	To measure the impact of school construction and other comple- mentary interventions on primary school enrollment and completion rates. The evaluation will assess not only education outcomes, but also food consumption and resource allocation within households.	The evaluation is gathering data at the household level, focused mainly on schools and school-aged children. Data collection and preliminary evaluation results should be completed by mid-2008.

Country	Project	Evaluation Purpose	Interim and Final Results
El Salvador	Education and Training	To measure the impact of scholar- ships on student enrollment, completion, employment, and wages.	The interim results of the 2009 scholarship round will be available in mid-2010. Final results on the impact of scholarships on employment and wages should be available in 2011.
Georgia	Agribusiness Development	To measure the impact of grants to farmers and agribusinesses on increases in household and firm income and employment at the farm, firm, and community level.	Initial interim results on income and employment are expected in early 2009 after data on the first beneficiaries to complete a full agricultural cycle becomes available. Final results will be available in 2011, after the project ends. The evaluation will help to determine the project's impact on poverty at both the household and the community level and will provide more detailed identification of beneficiaries, including by gender.
Ghana	Agricultural Productivity	To measure the impact of farmer training on a variety of key outcomes such as skill development, technology adoption, land use, access to social services, and incomes.	The results of the evaluation will inform new and increasing investment in the agriculture sector in Ghana, which has been identified as a key driver of economic growth and poverty reduction in the country. Data will be collected yearly and will be used in 2008-2011 to assist implementers and project managers in tracking program progress on variables such as yields, income, and adoption. Final results will be available in 2012.
Honduras	Farmer Training and Development	To measure the impact of technical assistance to farmers in production and marketing of high-value horticultural crops on increases in income and employment.	Some limited interim results will be available in 2008 on the initial groups of trainees, followed by more robust interim results in 2010, and final results in 2011. The baseline and follow-up surveys will play a key role in identifying beneficiaries for the services.

Country	Project	Evaluation Purpose	Interim and Final Results
Morocco	Enterprise Support	To measure the impact of training of entrepreneurs on the performance of credit and grant programs for micro and small businesses.	Final results are expected after a two-year pilot phase of the project (End of 2010). Results will determine whether the project should be expanded to full-scale implementation.
Nicaragua	Business Training, Better Farming Practices, and Property Rights	To measure both the individual and combined impact of property regularization (land tenure) and rural business support services on beneficiary household income and other measures of well-being. Support services include technical assistance and financial support to rural businesses and agriculture.	The household surveys will include approximately 1600 rural households and 600 urban households, as well as community profiles. Interim results will be available from a mid-term beneficiary survey in 2009 and final results in 2011.

Appendix 3

Media coverage on MCC.

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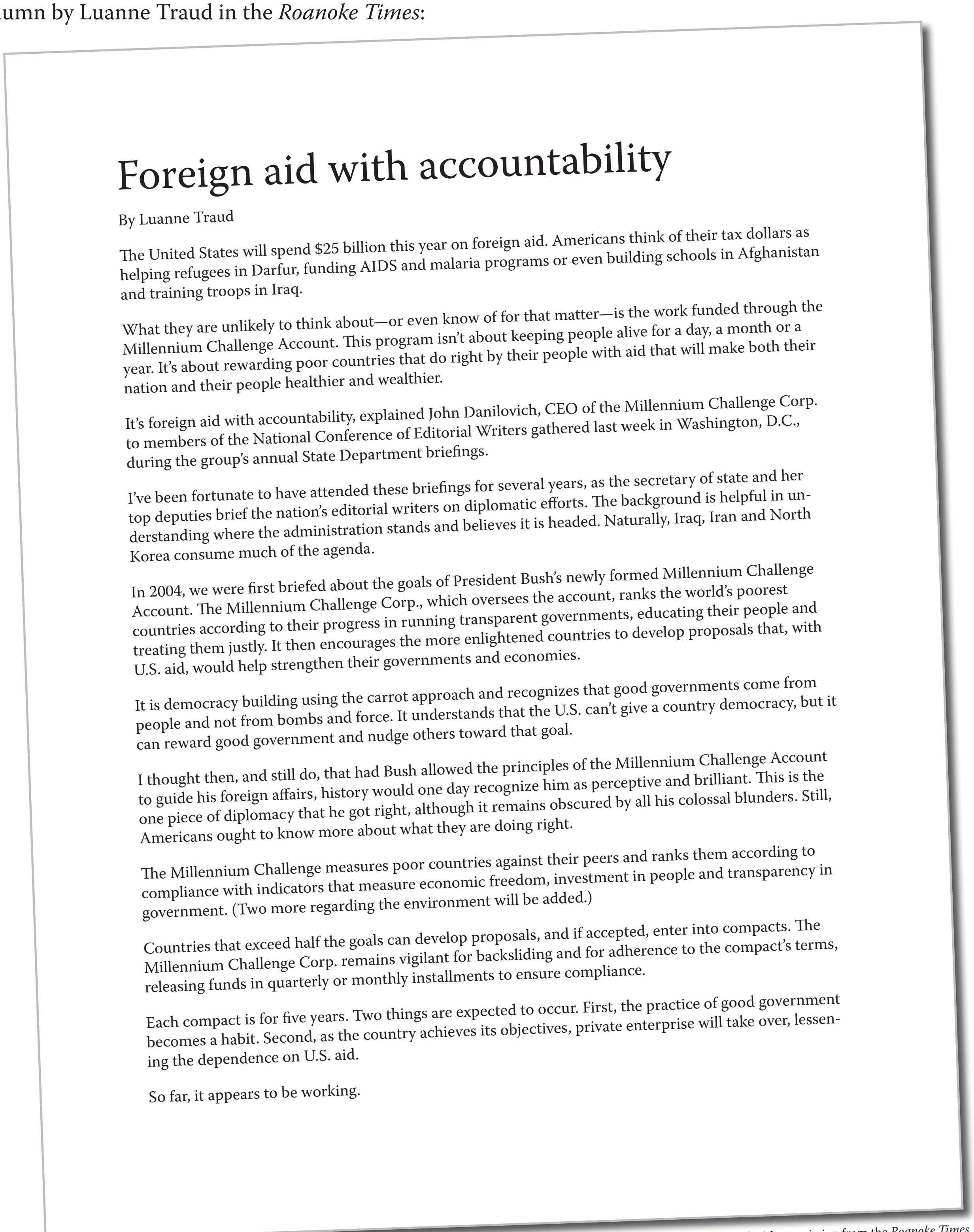
Column by Luanne Traud in the *Roanoke Times*:



Foreign aid with accountability

By Luanne Traud

The United States will spend $25 billion this year on foreign aid. Americans think of their tax dollars as helping refugees in Darfur, funding AIDS and malaria programs or even building schools in Afghanistan and training troops in Iraq.

What they are unlikely to think about—or even know of for that matter—is the work funded through the Millennium Challenge Account. This program isn't about keeping people alive for a day, a month or a year. It's about rewarding poor countries that do right by their people with aid that will make both their nation and their people healthier and wealthier.

It's foreign aid with accountability, explained John Danilovich, CEO of the Millennium Challenge Corp. to members of the National Conference of Editorial Writers gathered last week in Washington, D.C., during the group's annual State Department briefings.

I've been fortunate to have attended these briefings for several years, as the secretary of state and her top deputies brief the nation's editorial writers on diplomatic efforts. The background is helpful in understanding where the administration stands and believes it is headed. Naturally, Iraq, Iran and North Korea consume much of the agenda.

In 2004, we were first briefed about the goals of President Bush's newly formed Millennium Challenge Account. The Millennium Challenge Corp., which oversees the account, ranks the world's poorest countries according to their progress in running transparent governments, educating their people and treating them justly. It then encourages the more enlightened countries to develop proposals that, with U.S. aid, would help strengthen their governments and economies.

It is democracy building using the carrot approach and recognizes that good governments come from people and not from bombs and force. It understands that the U.S. can't give a country democracy, but it can reward good government and nudge others toward that goal.

I thought then, and still do, that had Bush allowed the principles of the Millennium Challenge Account to guide his foreign affairs, history would one day recognize him as perceptive and brilliant. This is the one piece of diplomacy that he got right, although it remains obscured by all his colossal blunders. Still, Americans ought to know more about what they are doing right.

The Millennium Challenge measures poor countries against their peers and ranks them according to compliance with indicators that measure economic freedom, investment in people and transparency in government. (Two more regarding the environment will be added.)

Countries that exceed half the goals can develop proposals, and if accepted, enter into compacts. The Millennium Challenge Corp. remains vigilant for backsliding and for adherence to the compact's terms, releasing funds in quarterly or monthly installments to ensure compliance.

Each compact is for five years. Two things are expected to occur. First, the practice of good government becomes a habit. Second, as the country achieves its objectives, private enterprise will take over, lessening the dependence on U.S. aid.

So far, it appears to be working.

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"We want to see tangible results of our money," Danilovich said, noting that "we haven't yet encountered malfeasance or corruption."

Yes, but what of so-called democratic countries known for corrupt ways? They don't qualify. If they are serious about doing away with corruption, they can—as Uganda and Kenya have—become threshold countries and sign pacts to combat corruption. The same goes for countries that treat their citizens poorly or their women as chattel. Those issues must be addressed before gaining compact-eligible status.

To date, the U.S. has entered into compacts worth $3 billion with 11 countries, and has committed $300 million to 13 threshold programs. The program has become so successful, he said, that there is increasing competition among countries to become millennium challenge countries whether or not there is U.S. money to fund their compacts.

"It's being looked on almost as a bond rating," he said. "There is huge competition to become eligible and get in the front of the line." The seal certifies that a government is stable and just, making it attractive to foreign investors.

To learn more, visit www.mcc.gov. Read about what countries are doing, especially those that are for the first time granting land to people.

"We're handing out land titles with GPS diagrams," Danilovich said. "People are not wearing shoes, but they have a satellite image of their land." Their land, their stake in investing in their country.

Traud is a member of The Roanoke Times editorial board.

Op-ed by Michael Gerson in *The Washington Post*:

The Washington Post

One Tool America Needs

By Michael Gerson
Wednesday, August 1, 2007; A17

Having stepped out of the warm bath of global affection that followed the Sept. 11 attacks, Americans are feeling shivery and exposed.

Anti-Americanism, as measured by the Pew Global Attitudes Project, has risen since 2002 in much of the world, particularly in the predominantly Muslim societies of the Middle East and Asia -- though the American brand remains fairly strong in places such as India, Japan, Latin America and Africa. A nation whose founding document urges a "decent respect to the opinions of mankind" is naturally anxious when those opinions sour.

Some of this damage is self-inflicted, resulting from the obscenities of Abu Ghraib and the apparently permanent limbo of Guantanamo Bay. American support for Israel is a source of global anger, especially in societies that believe the Jewish state should be located at the bottom of the Mediterranean. World opinion is impatient, not only for America to abandon Iraq but for America and NATO to leave Afghanistan. And some of this resentment reflects a very different historical moment from 2002. It is easy for a nation to gain sympathy as a victim, harder when acting in its own interests.

Whatever the causes, anti-Americanism makes it more difficult to gather support for a range of policies, from opposing the proliferation of weapons of mass destruction to protecting civilians in Darfur. There is an urgent need for American initiatives that build trust and respect in the world.

Yet Congress has chosen this moment to gut one of the most innovative and effective American outreach efforts since the Peace Corps.

The Millennium Challenge Corp. is grown-up foreign aid. Under this three-year-old program, a board certifies countries that are likely to use assistance wisely -- nations committed to democratic and free-market reform and fighting corruption -- and works with them as partners on projects to combat poverty and encourage economic growth. Nations that backtrack on reform and good governance have their "compacts" cut off, causing humiliation and occasional repentance. After a slow start, the MCC has made agreements with 13 nations.

But at a recent breakfast, Ambassador John Danilovich, who heads the program, was in a state of dignified bewilderment. The Senate Appropriations Committee, demonstrating bipartisan shortsightedness, had just reduced funding for the MCC from the administration's $3 billion request to $1.2 billion, throwing future compacts into question. "Why," he asked, "do they want to undermine a foreign policy lever which is actually working?"

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Danilovich was fresh from a meeting with America's traditional Nicaraguan nemesis, President Daniel Ortega. Venezuelan dictator Hugo Chávez has been courting Ortega and his leftist Sandinista comrades with elaborate (and so far unfulfilled) promises of aid. But Danilovich found Ortega enthusiastic about Nicaragua's MCC compact, which helps increase the income of rural farmers. The MCC is the main counterweight to Chávez's influence in that country, allowing America to maintain ties with the Nicaraguan people even as political relations with the government grow complicated.

This program also provides tangible rewards for reform in the Islamic world. A compact with Morocco is due to be announced late this month. Jordan is working toward its own agreement. And when Yemen was suspended from the MCC in 2005, it undertook a series of anti-corruption reforms in order to be reinstated.

Danilovich calls this "the MCC effect." Since the global competition for compacts is vigorous, nations are willing to make major changes to receive them.

In Lesotho, parliament has granted married women the right to own land -- previously they were considered legal minors -- in order to qualify for MCC aid. In Georgia, the government fired 15,000 corrupt policemen. When I worked at the White House, the finance minister of an African country seeking MCC funds once said to me: "I keep telling others in my government that we've got to do better fighting corruption. We've got to compete."

The same Pew survey that shows growing anti-Americanism reveals something more hopeful: Eight of the 10 countries most favorable to the United States in the world are in sub-Saharan Africa. It is not a coincidence that American bilateral assistance to African countries over the past six years -- to fight AIDS, malaria and poverty -- has quadrupled. As a rule, people do not hate you when you save their children.

Congressional reductions in MCC funding would bite agreements on the African continent first. Tanzania could have its compact reduced significantly. Burkina Faso might be cut off entirely. Then Jordan and Bolivia could have their agreements delayed indefinitely. And our country would forgo a great deal of goodwill.

America needs tools of influence other than the tools of war. And when we have them, they should not be carelessly discarded.

michaelgerson@cfr.org

Lead editorial in *The Washington Post*:

The Washington Post

The Millennium Challenge

The president's foreign-aid innovation needs time and money before it can be judged.

Monday, July 16, 2007; A14

WHEN PRESIDENT Bush announced the Millennium Challenge initiative in 2002, it sounded like a promising new approach to foreign aid. The idea was to supply U.S. taxpayer dollars only to governments that could meet strict standards of efficiency and accountability. The proposal would do so based on the countries' own expressed needs, not development fads or political fealty to the United States. Money would be provided in substantial amounts, over substantial periods, so as to make a genuine impact on poverty. And the whole project would be administered outside the traditional aid bureaucracy, by a congressionally established Millennium Challenge Corp. (MCC). Typical of the Millennium Challenge approach is the five-year compact signed Friday with Mozambique. It will supply $507 million to help one of Africa's poorest countries build much-needed roads and improve access to safe drinking water.

It's still a sound concept. But the Millennium Challenge may be approaching an institutional crossroads. Mr. Bush originally said that he hoped to be sending $5 billion a year to poor countries by 2006, a pledge that never came close to being realized. Congress took two years to pass legislation setting up the program. Since then, the administration's annual budget requests have never reached $5 billion, and Congress has consistently shaved them even further. Most of the roughly $6 billion that has been appropriated so far has been committed to specific countries. But budget-cutters on Capitol Hill note that only about $71 million has actually been spent. The slow rate is an unfortunate consequence of the MCC's sensible policies: It won't write a check until recipients can document their capacity to use it appropriately, and for many poor countries making reforms and dealing with the MCC's paperwork take time -- a lot of time. Meanwhile, urgent and expensive new U.S. overseas priorities -- from securing U.S. embassies to fighting HIV-AIDS -- keep coming up.

The administration asked for $3 billion for the MCC in its fiscal 2008 budget. House appropriators have cut that to $1.8 billion, about what the MCC got last year, while Senate appropriators have gone even lower, to $1.2 billion, a figure that the MCC says will cripple its ability to make new agreements with countries that have recently qualified for its programs. One benefit of the Millennium Challenge is that it creates an incentive for poor countries to improve their practices and procedures, but that could be lost if the impression spreads that the United States is pulling the plug.

Given the intense competition for foreign-aid resources, impatience with the Millennium Challenge is understandable and even helpful, if it forces the MCC to fix its sometimes burdensome procedures. But it is too early to start slashing a program that has been in business for only three years and still deserves a chance to show what it can do.

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Article by Michael Phillips in *The Wall Street Journal*:

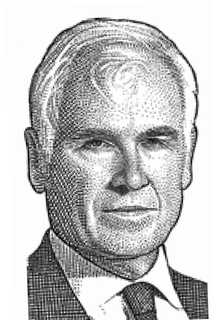
WSJ.com THE WALL STREET JOURNAL. ONLINE

Bush's Aid Policy Prods Countries

Yemen and Lesotho Embrace Overhauls; The Gambia Balks

By MICHAEL M. PHILLIPS
March 14, 2007; Page A6

WASHINGTON -- In 2005, on his first day as head of President Bush's signature foreign-aid program, John Danilovich's to-do list included the unpleasant task of telling Yemen's president that his reform efforts had slipped so badly that the country was being cut off.



John Danilovich

Last month, Mr. Danilovich phoned Yemeni President Ali Abdallah Saleh with better news: Yemen was back on the list of countries eligible for grants from the Millennium Challenge program.

What happened during those 15 months is evidence of the potential ripple effects of the high-profile aid program -- and the power of the threat to publicly shame countries that veer off the path of economic and political overhaul. Mr. Saleh implemented changes aimed at, among other things, battling corruption, reducing a budget deficit and cleaning up the court system.

"There are many, many countries that want to be part of the Millennium Challenge account, and the competition is stiff, and the elbows are getting sharper," says Mr. Danilovich, a former oil-shipping executive and Republican activist. "If Country X doesn't want to participate, there are many other countries that do want to participate."

When he announced the initiative in 2002, Mr. Bush promised it would be an effective way to fight poverty and disease overseas. The grants would be big enough to jolt a country into economic growth but would go only to nations that met criteria for open markets, social spending and honest, democratic government. So far, the Millennium Challenge Corp., which runs the program, has approved grants valued at $3 billion to 11 countries. Another 11 countries have gotten "threshold" grants aimed at improving their scores on the 18 eligibility criteria. Altogether, 40 countries -- from Nicaragua to Madagascar -- perform well enough to compete for aid.

Mr. Danilovich says the program creates an incentive for countries to make sometimes-painful policy changes, and points to Lesotho as proof. Traditionally, married women in the southern African country had the same legal rights as children; they couldn't buy land or borrow money without permission from their husbands. With the Millennium Challenge Corp. pressing for changes, the Lesotho Parliament passed a law in November putting married women on equal legal footing with their husbands.

"We were very instrumental in getting that bill into Parliament," says Sophia Mohapi, the Millennium Challenge Corp.'s representative in Lesotho. The country is now negotiating a $360 million aid package.

Only twice has the Millennium Challenge Corp. suspended a country that had already qualified to apply for aid, and the results were sharply different.

In June, the program suspended the Gambia, a sliver of a country in West Africa. The U.S. ambassador in Banjul, the Gambia's capital, delivered the news to President Yahya Jammeh, who came to power in a military coup in 1994, then won elections in 2001 and 2006.

In a letter to Congress, the corporation cited "evidence of growing human-rights abuses, increased restrictions on political rights, civil liberties and press freedoms, as well as deteriorating economic policies and anticorruption efforts." One incident that contributed to the suspension was the 2005 murder of a prominent Gambian journalist, gunned down on his way home from work.

The Gambians took umbrage at the suspension and, instead of motivating reform, it has become a point of friction.

"I'm not claiming we're saints; we do have our hiccups now and then," says Dodou Bammy Jagne, the country's ambassador in Washington. "But there was nothing new...that could have triggered this situation."

The Gambians suspect that they were being punished for having invited the leaders of Iran and Venezuela -- the bêtes noires of U.S. foreign policy -- to an African Union summit that took place in Banjul just days after the suspension was announced.

Mr. Danilovich says the suspension had nothing to do with foreign-policy tensions and everything to do with the Gambia's increasingly dictatorial regime. "We're not a reward program for countries that support the United States," he says. "If the Gambia becomes close with whomever they become close with, that's the Gambia's business."

The Gambia Journal, a Banjul newspaper, reported that Iranian President Mahmoud Ahmadinejad again visited Banjul in January. "President Jammeh became well disposed to the anti-American camp after the Gambia was suspended" from the aid program, the paper said. So far, Gambian officials have shown no interest in taking steps that the U.S. deems necessary to re-enter the program.

Grants for Growth

Millennium Challenge CEO John Danilovich, right, shakes hands at a grant-signing ceremony in November with Mali's foreign minister, Moctar Ouane, as President Amadou Touré, center, looks on. A look at the 11 grants approved so far:

Getty Images

Country/amount	Project
Armenia $235.65 million	Improve water supply, irrigation
Benin $307 million	Increase small-business access to banking
Cape Verde $110 million	Shift aid to high-value farm products from low-value crops
El Salvador $461 million	Expand access to education
Georgia $295.3 million	Rehabilitate gas pipeline
Ghana $547 million	Improve ferry service on Lake Volta
Honduras $215 million	Improve road connecting Atlantic and Pacific ports
Madagascar $110 million	Computerize land titles
Mali $460.8 million	Renovate Bamako airport
Nicaragua $175 million	Upgrade Pacific Corridor highway
Vanuatu $65.7 million	Improve roads, wharves, warehouses, airstrip

Source: Millennium Challenge Corp.

Yemeni officials, by contrast, sought reinstatement from the moment Mr. Danilovich delivered news of the suspension to President Saleh in November 2005. Yemen's performance had worsened so sharply that it passed just two of the Millennium Challenge criteria. Mr. Danilovich describes the talk with Mr. Saleh as "strong and stern."

Another U.S. official described the Yemeni leader as "very upset" by the decision. Nonetheless, at President Saleh's request, U.S. and Yemeni officials met immediately to discuss how Yemen could get back into the program.

In the following months, the Yemenis embraced sweeping overhauls. The president fired the cabinet ministers thought to be most corrupt. He removed himself from the highest court. By November, the World Bank, the Persian Gulf states and other donors were willing to pledge $4.7 billion in assistance to Yemen through 2010. Last month, the Millennium Challenge Corp. board unanimously voted to reinstate Yemen.

"Countries care really deeply about this seal of approval of good governance," says Sheila Herrling, a senior policy analyst at the Center for Global Development, a Washington think tank. She gives the Millennium Challenge Corp. "full credit" for Yemen's about-face.

Appendix 4

Business Council for International Understanding advertisement in support of MCC's approach

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American Business Proudly Supports the Millennium Challenge Corporation and Its Innovative Approach to Economic Development Assistance

American business supports the efforts of the Millennium Challenge Corporation (MCC) to stimulate lasting development progress through economic assistance to the developing world that rewards good governance, economic freedom, investment in people, and transparent, participatory country ownership.

This approach is strengthening democratic and market freedoms and opportunities in the developing world in ways that all Americans can be proud of. We in the business community have already begun to see candidate countries increase their efforts to fight corruption, to engage and protect the rights of their own citizens, to spur growth and job creation through market-oriented economic policies, and to open their markets to U.S. goods, services, and technologies. These policies create sustainable economic growth and opportunity for those struggling for better lives in the developing world as they create trade and investment opportunities for U.S. workers and companies. MCC programs also help create stronger foundations for stability — accountability, responsibility, and results — and project the generosity and partnership of the American people. An investment in the MCC is an investment in prosperity, peace and friendship. It is a very small price to pay.

The Business Council for International Understanding and its members and supporters urge the Congress to support this groundbreaking new program and provide full funding for the Millennium Challenge Corporation.

AES Corporation
A.M. Dear & Associates, Inc.
Alcoa Inc.
American Express Company
Amgen Inc.
Azumano Travel Service*
Bechtel Corporation
Bristol-Myers Squibb Company
Business Development Services Associates
Cargill, Inc.
Caterpillar Inc.
CH2M Hill
Citigroup*
Cummins, Inc.*
Diageo
Development Finance International, Inc.
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Fluor Corporation
GE
GlaxoSmithKline
Guardian Industries Corp.
HaloSource, Inc.*
Hess Corporation
Hewlett-Packard Company
Honeywell International Inc.
Human Resources Development Institute, Inc.
Initiative for Global Development
Instantstream, Inc.
InterPlan Consulting Inc.
J. Ray McDermott
Jay International
Kearsarge Global Advisors
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**Initiative for Global Development (IGD) members*

BCIU

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Appendix 5

List of NGOs partnering with MCC

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In Washington:

- Catholic Relief Services
- Center for Global Development
- Center for International Private Enterprise (CIPE) Nature Conservancy
- Education Policy and Data Center
- Freedom House
- Human's Right Watch
- InterAction
- International Republican Institute
- Nature Conservancy
- National Democracy Institute
- Open Society Institute
- Women's Edge Coalition
- World Wildlife Fund

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In compact countries:

Table 17: Examples of NGOs Serving on MCA Boards of Directors and Stakeholder Committees

MCA Country	NGO Parnter	NGO Type	Project Name	Nature of Parntership
Armenia	Association of Municipal Councilors of Armenia NGO	Local		Member of Steering Committee, delegate to MCA Governing Council
	"Azatan" Community Center of Azatan NGO	Local		Member of Steering Committee representing a stakeholder community
	"National Union of Farmers" NGO	Local		Member of Steering Committee, delegate to MCA Governing Council, representing Armenian farmers' organizations
Cape Verde	Plataforma das ONG (NGO Platform)	Local	Implementation	Member of Steering Committee and MCA Board
El Salvador	Salvanatura	Local	Program Governance	Member of Board of Directors representing conservation and environmental interests
	Consejo Nacional de Desarrollo (National Development Council)	Local	Program Governance	Member of MCA Advisory Council supporting public consultation, outreach, and citizen participation.
Georgia	EcoAlliance	Local	N/A	Member of Stakeholder Committee representing environmental issues

MCA Country	NGO Parnter	NGO Type	Project Name	Nature of Parntership
Ghana	GAPVOD (Ghana Association of Private Voluntary Organizations in Development)	Local	MiDA Board	Member of Board of Directors
Honduras	National Anticorruption Council	Local	Program Governance	Member of Board of Directors
	Poverty Reduction Strategy Council	Local	Program Governance	Member of Board of Directors
Mali	Coordination des Associations et ONG Féminines du Mali (CAFO) (Coordination of Women's Associations and NGOs)	Local	On MCA board	Member of Board of Directors, federation of women's groups
Tanzania	World Wildlife Fund, Tanzania	International		Member of Board if Directors
	Community Development and Environmental Conservation in Zanzibar (CODECOZ)	Local		Member of Board of Directors and Executive Committee
Vanuatu	VANGO - Vanuatu Association of Non-Government Organizations	Local		Member of Steering Committee

Table 18: Examples of NGOs Partnering with MCAs to Implement Compact Projects

MCA Country	NGO Partner	NGO Type	Project Name	Nature of Partnership
Armenia	ACDI/VOCA	International	Water-to-Market Project Component	Implementation partner for Water-to-Market Project
Cape Verde	Morabi (Founded and managed by local women)	Local	Infrastructure; Implementation	Implementation partner, delivers HIV/AIDS awareness services in road construction project
Ghana	OICI (Opportunities Industrialization Centers International)	US	Agriculture Project	Implementation partner on Agriculture Project
Honduras	ACDI/VOCA	US	Rural Development	Implementation partner, trains rural financial institutions and banks to improve farmer access to credit
	Instituto Hondureño del Café (IHCAFE)	Honduras	Rural Development	Implementation partner on Rural Development Project
	CHF International Honduras	US	Rural Development	Implementation partner on Rural Development Project, irrigation and farmer training services

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MCA Country	NGO Partner	NGO Type	Project Name	Nature of Partnership
Madagascar	Vovonan'ny Fikambanan'ny Tantsaha Vakinankaratra (VFTV)	Local	Land Tenure Project	Implementation partner on Land tenure Project, conducted project awareness-raising in target communities
	World Food Organisation (WFO)	International	Agricultural Business Investment Promotion Project (ABIP)	Implementation partner in Agriculture Business Investment Project, provides technical assistance to farmer beneficiaries
	Adventist Development and Relief Agency (ADRA)	International	Agricultural Business Investment Promotion Project (ABIP)	Implementation partner in Agriculture Business Investment Project,coordinates agriculture project activities with MCA and Ministry of Agriculture
	CARE	International	Agricultural Business Investment Promotion Project (ABIP)	Implementation partner in Agriculture Business Investment Project, delivers technical assistance to farmers, collaborates with MCA to assist women farmers in business plan development

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Table 19: NGOs Parntering with MCAs to Plan and Monitor Program Implementation

MCA Country	NGO Partner	NGO Type	Project Name	Nature of Parntership
Georgia	Economic Policy Research Center (EPRC)	Local	Monitoring of Millennium Challenge Program	Members of NGO Coalition For Transparency of Public Finances that monitors Compact program
	Open Society-Georgia Foundation (OSGF)	Local	Monitoring of Millennium Challenge Program	
	Georgia Association of Young Lawyers (GYLA)	Local	Monitoring of Millennium Challenge Program	
	Association of Young Economists of Georgia (AYEG)	Local	Monitoring of Millennium Challenge Program	
	Transparency International – Georgia (TI)	Local	Monitoring of Millennium Challenge Program	
Nicaragua	Consejo de Mujeres de Occidente (CMO) (Council of Women of the Western Region)	National	Rural Business Project	Worked with MCA on project design and creation of gender strategy, monitors implementaiton of gender strategy

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MCA Country	NGO Partner	NGO Type	Project Name	Nature of Partnership
Nicaragua	Technoserve	US	Rural Business Project	Implementation partner, Rural Business Project
	Save the Children	US	Rural Business Project	Implementation partner, Rural Business Project, coordinates Business Rounds Tables and support to sesame and vegetables producers
	FUNDAPADELE	Local	Rural Business Project	Implementation partner, Rural Business Project, coordinates implementation of business plans for vegetables and irrigation crops
	Ayuda en Acción	International	Rural Business Project	Implementation partner, Rural Business Project, coordinates implementation of business plans for vegetables and irrigation crops

MCA Country	NGO Partner	NGO Type	Project Name	Nature of Parntership
Tanzania	WaterAid	International	Water	Worked with MCC during program due diligence, is a fellow member of the development partners water working group
	Research on Poverty Alleviation (REPOA)	Local		Member of Compact Development Steering Committee and Technical Team, hosts Women's Macro Working Group active in Compact program design
	Association of NGOs in Zanzibar (ANGOZA)	Local		Member of Compact Development Steering Committee and Technical Team
	Tanzanian Association of NGOs (TANGO)	Local		Member of Compact Development Steering Committee and Technical Team

Appendix 6

List of key NGOs that contribute to the success of MCC threshold programs:

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Table 20: NGOs Contributing to the Success of MCC Threshold Programs

Alphabetical by NGO.

NGO	Country
Academy for Educational Development	Moldova
Asia Foundation	Philippines
Campaign for Good Governance	Tanzania
Catholic Relief Services	Burkina Faso
Commercial Law Center	Ukraine
Plan	Burkina Faso
Transparency International	Indonesia Yemen Zambia
Women in Law and Development	Tanzania

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ter in **Lesotho.** Improves potable water access in **El Salva**
Create agricultural business centers in **Madagascar.** Assis
ncrease drip irrigation usage in **Cape Verde.** Expand finar
ancial services in **Benin.** Strengthen public sector procure
ement capacity in **Ghana.** Construct a new airport passer
nger terminal in **Mali.** Farmer and enterprise training for
commercial agriculture in **Ghana.** Construct small and me
edium irrigation infrastructure in **Morocco.** Rehabilitate w
water treatment plants in **Tanzania.** Install animal shelters
in **Mongolia.** Provide technical assistance to farmers in **El**
l Salvador. Modernize the commercial legal system in **Les**
Promote legal and regulatory reform in **Madagascar.** Rep
Decentralize land registration in **Benin.** Improve access to
o financial and market information in **Mali.** Designs, const
tructs, and rehabilitates secondary roads in **El Salvador.**
Provide support and training to promote gender equality
in **Lesotho.** Provides technical assistance to fish vendors
n **Morocco.** Increase rail traffic in **Mongolia.** Lay a subma
rine electric transmission cable in **Tanzania.** Construct wa
vater reservoirs in **Cape Verde.** Rehabilitate a primary roa
in **Nicaragua.** Improve rural land tenure security in **Mada**
Construct a weight control system in **Mongolia.** Expand t
a water treatment plant in **Honduras.** Strengthens superv
vision of microfinance institutions in **Benin.** Expand irriga
tion infrastructure in **Mali.** Increase electricity coverage i
in **El Salvador.** Provide technical skills to youth and unem
mployed persons in **Mongolia.** Help financial institutions
loans in **Benin.** Expand total area under irrigation produc
erty through growth. **Millennium Challenge Corporation.**

Millennium Challenge Corporation

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2008-01-001-004-01-BAB