MILLENNIUM
CHALLENGE CORPORATION

UNITED STATES OF AMERICA

Fiscal Year 2011
Congressional Budget Justification

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For more information, please contact:
Millennium Challenge Corporation's
Department of Congressional and Public Affairs
(202) 521-3850

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Executive Summary

(in $ millions)	FY2009 Appropriated	FY2010 Enacted	FY2011 Request
Compacts	**698**	**915**	**1,071**
Threshold	**43**	**--**	**--**
Due Diligence/Compact Development (609g)	**36**	**90**	**102**
Administrative Expenses	**93**	**95**	**102**
Inspector General/Audits	**5**	**5**	**5**
Total appropriations/request	**875**	**1,105**	**1,280**

By providing grants to countries implementing good economic, political, and social policies, the Millennium Challenge Corporation (MCC) works to fight poverty by removing barriers to economic growth. MCC's partner countries are currently developing program proposals that will provide more water, better sanitation, reliable power, improved roads; help fight corruption while increasing government revenues; and improve access to markets for millions of impoverished people in these countries.

The President has requested $1.28 billion from Congress to fund the agency in Fiscal Year 2011. This figure represents a slight increase in funding for MCC from the amount provided by Congress in FY 2010.

Since its creation in 2004, MCC has pursued a country-led and results-focused approach to development assistance through five-year compacts designed to maximize sustainable poverty reduction by fostering economic growth. MCC coordinates with other U.S. Government and international donors to avoid costly duplication, and considers the role of gender and the impact on the environment as integral components of compact programs.

> **The Millennium Challenge Corporation is an essential partner as we work to combat global poverty -**
>
> President Barack H. Obama
>
> November 6, 2009

MCC has launched 20 compacts and 21 threshold agreements, committing nearly $7.5 billion to worldwide poverty reduction through results-driven programs built on measureable and transparent objectives. MCC development programs have trained more than 102,000 farmers to boost productivity and food security, and have supported the ongoing construction of more than 1,200 kilometers of roads to facilitate access to markets, schools, and health clinics.

In FY2010, MCC has signed a compact with **Moldova,** and will sign compacts with **Jordan** and **Philippines**. Additionally, the agency is working with **Malawi, Indonesia,** and **Zambia** to develop compact proposals, and anticipates signing compacts with these partners, as well as a second compact with **Cape Verde**, in FY2011. These investments will achieve their full potential if Congress authorizes MCC to enter into compacts concurrently and allows the agency to fund some projects that last longer than five years.

In determining eligibility for MCC funds, the agency evaluates a country's performance on 17 independent and transparent policy indicators. Once a country is eligible, they are principally responsible for identifying and prioritizing their own barriers to poverty reduction and economic growth and conducting extensive public consultation. Such engagement bolsters democratic practices and transparency and allows the country to take ownership of its development progress. Placing countries in charge of their development—country ownership—can be difficult at times due to capacity constraints, but is the best way to achieve sustainable results.

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

MCC emphasizes results and transparency throughout compact development and implementation. MCC does benefit-cost analysis by developing economic rate of return (ERR) estimates for all of the compact projects it considers funding and posts ERRs for funded projects on its website. MCC also works with partner countries to develop detailed monitoring and evaluation (M&E) plans for compacts, and tracks the progress of compact programs against defined benchmarks and outcomes, which are also available on MCC's website. Additionally, MCC has begun to post the detailed results of impact evaluations of its programs as well, starting with Burkina Faso's Threshold Program evaluation.

Going forward, MCC has committed to focusing on three overarching priorities:

- Fostering innovation,
- Deeping partnerships with the private-sector and other donors, and
- Delivering results with impact.

Summary of Program Results at a Glance

(as of September 30, 2009)

MCC's investments are designed to reduce poverty or improve policies

- $7.1 billion of compact funds committed to fighting poverty
- 70 percent of MCC compact funds support investments in Africa
- 22 percent of MCC compact funds invested in agriculture
- 38 percent of MCC compact funds invested in transportation
- 25 percent of MCC compact funds invested in health, education, water and sanitation, energy, and enterprise development.
- $470 million in threshold programs supporting policy improvements
- More than half of MCC threshold program funding supports activities to fight corruption
- 36 partner countries worldwide (compacts and threshold programs)

MCC partnerships are reducing poverty through growth

- 45 million people expected to benefit from MCC programs
- $9 billion increase in income for beneficiaries expected over the life of current MCC investments
- $1.4 billion in cumulative program-related disbursements
- $2.2 billion in cumulative contract commitments for compacts

Training farmers increases productivity, income-making potential, and food security

- 102,000 farmers trained
- 1,500 agribusinesses assisted with developing their business plans
- 15,500 hectares of land under production through MCC support
- $38 million made in agricultural and rural loans
- $133 million contracted for irrigation system construction

Roads allow citizens to reach markets, schools, and health centers, saving money and time

- 1,200 kilometers of roads under construction
- 4,200 kilometers of roads being designed
- 80kilometers constructed and being used

Secure property tenure promotes access to credit, investment, and market opportunities

- 122,500 stakeholders reached and informed about the value of secure land tenure
- 14,300 personnel trained in land registration, surveying, land use planning, and conflict resolution
- 1,069,000 rural hectares mapped
- 49,680 rural hectares of land formalized
- 2,450urban parcels formalized

Investing in health & education fosters a skilled workforce

- 65 schools renovated or under renovation in Ghana, with hundreds more to be built
- 400 'girl-friendly' classrooms in Burkina Faso, where nearly 16,700 students (55% girls) learn
- 5 million children vaccinated for measles and DPT3 in Indonesia
- 139 primary health centers are targeted to be renovated in Lesotho
- 2,000 isolated homes benefitting from the first 115 km of rural electrification lines constructed and the first 450 solar panel systems installed in El Salvador (as of December 31, 2009)
- 1,000 scholarships for the 2010 school year awarded in El Salvador

Compact Programs in Development

Request (in $ millions)	FY2009 Appropriated	FY2010 Enacted	FY2011 Request
Total MCC	875	1,105	1,280
Compact Program	**698**	**915**	**1,071**

MCC has a strong pipeline of six eligible partner countries with anticipated compacts in FY2010 and FY2011. The compact development process is well advanced in **Jordan, Malawi**, and **Philippines**, where project designs will be completed in FY2010. Compact signing for the Philippines compact is expected in early/mid 2010, and the other two in late calendar year 2010.

MCC is expecting to receive project proposals from **Zambia** in February 2010 and from **Indonesia** in April, and sign compacts in FY2011. In December 2009, MCC's Board of Directors selected **Cape Verde** as eligible for a second compact, also to be funded in FY2011.

Table 1 - Compact Country Pipeline (in $ millions)

Country Partner	Signed with FY2009 funds	FY2010 estimated	FY2011 requested
Senegal	**540**		
Moldova *	**262**		
Philippines		**435**	
Jordan		**275**	
Malawi **		**200**	**100**
Zambia***			**350**
Indonesia ****			**521**
Cape Verde *****			**100**

* Moldova was signed in January 2010 using funds provided by Congress primarily in FY2009.
** Malawi is expected to be signed in early FY2011 using funds provided by Congress in FY2010 and FY2011 with total compact funding in the range of $250-300 million, depending on feasibility studies and MCC's final appraisal.
*** Zambia compact funding is expected to be in the range of $300-350 million.
**** Budget request assumes concurrent compact authority that would allow MCC to split compact funding for Indonesia over two years; total funding is expected to be in the range of $700-800 million.
***** Please see page 51 for a discussion of second compact eligibility.

These countries represent real opportunities to provide tangible assistance for poverty reduction through economic growth in Africa, Asia, and the Middle East. They include some of the most populous **(Indonesia** and **Philippines**), poorest (**Malawi** and **Zambia**), and lower middle income countries with significant populations living in poverty that the MCC compact will target (**Jordan, Philippines, Indonesia,** and **Cape Verde**).

Table 2 - Profile of Current Compact Eligible Countries

Country	**Population** (millions)	**GNI per capita** (US$)	**Population <$2/day** (percent)	**Population <$2/day** (millions)	**Human Develop-ment Index**	**Adult Literacy** (% ages 15 & above)	**Infant Mortality** (per 1,000 live births)
Cape Verde	0.5	3,130	40	0.2	121	84	24
Indonesia	228.2	2,010	54	122.8	111	92	25
Jordan	5.9	3,310	3	0.2	96	91	21
Malawi	14.3	290	90	12.9	160	72	71
Philippines	90.3	1,890	45	40.7	105	93	23
Zambia	12.6	950	82	10.3	164	71	103

Together these countries account for over five percent of the world's population (about 350 million people) and over seven percent (more than 185 million people) of those living under $2 a day. They have been selected as MCC partners because their sound policies provide a solid foundation for growth and measurable development results.

Status of FY2011 Compact Countries

For FY2011, the President's requested funding level would enable MCC to fully fund its compact with **Malawi** and sign compacts with **Zambia, Indonesia, and Cape Verde**.

By late 2009, both **Zambia** and **Indonesia** had completed an analysis of key constraints to growth and poverty reduction, which will inform the choice of sectors for the future compacts.

- **Zambia's** analysis identified infrastructure (especially power, road transport, and water supply); investment climate (including macroeconomic policies); market failures and market coordination; and human capital (especially skilled labor).

- **Indonesia's** analysis suggests four potential investment areas: (i) education and human capital development, (ii) infrastructure, (iii) governance (especially judicial reform and anticorruption efforts related to the business environment), and (iv) environmental sustainability (especially strategies for climate change adaptation and green growth).

- **Zambia and Indonesia** have both commenced public consultations on these findings. Zambia has already solicited and vetted a number of investment proposals. The respective national teams are expected to submit project concept papers to MCC in February 2010 and April 2010, respectively.

- In December 2009, the MCC Board of Directors selected **Cape Verde** to be the first country eligible for a second compact. Detailed discussions with the national government have not yet begun.

In the absence of concept papers, we have estimated budget requirements for these compacts based on consideration of several broad factors, including total population, population living below national poverty lines, absorptive capacity, and with respect to Cape Verde, performance in compact implementation. Final compact sizes will be based on the budget amount available, and on the quality and scope of projects submitted.

On that basis, MCC requests $1.071 billion of the total FY2011 request for compacts, divided between first compacts for Indonesia (est. $700-800 million, which would be funded over two fiscal years with enactment of concurrent compact authority) and Zambia (est. $300-350 million) and a second compact for Cape Verde (est. $100 million). Additionally, MCC may use some funds for the Malawi compact currently under development.

Colombia, which "graduated" to Upper Middle Income Country status last year, was not a compact candidate country for Board consideration at its December 2009 meeting. However, with the new legislative authority, MCC's Board of Directors may consider Colombia later in 2010.

Projected Compact size, Compact Development Process, and Areas of Potential Assistance

Zambia

There is positive correlation in past compacts between **compact size and poverty incidence** (*in Figure 1*) that supports MCC's overall mission of reducing poverty through economic growth. Based on poverty incidence, MCC believes a substantial program in the range of $300-$350 million with Zambia, where 82 percent of its population living on less than $2 per day, is appropriate.

Over 80 percent of Zambia's population live on less than $2 per day and more than 15 percent of the adult population are HIV/AIDS positive, which has a devastating impact on productivity and the livelihoods of affected families. In the past two years, the Government of the Republic of Zambia has generally improved its performance on democracy, social investments and economic freedom indicators, providing a foundation for further growth and poverty reduction.

Selected as a threshold country in FY2006, Zambia completed its program in February 2009 which focused primarily on the control of corruption indicator. Zambia passed the control of corruption indicator for the first time on its FY2009 scorecard, and was selected as compact eligible by the board in December 2008. For FY2010, Zambia passed all indicators except for primary school expenditures and was reselected as an eligible country.

Over the past year, MCC has traveled to Zambia on several occasions to discuss MCC's guidance with the country team, as well as governmental officials, opposition leaders, parliamentarians, business leaders, and civil society. Zambia submitted a study on the constraints to economic growth in late 2009 that identified the primary constraints to growth as: infrastructure, especially power, road transport, and water supply; investment climate, including macroeconomic policies; market failures and market coordination; and human capital, especially lack of skilled labor. As a result of the findings of this study, the Zambian country team is focused on developing compact proposals to achieve more inclusive and broad-based growth that is less reliant on copper production.

Zambia commenced public consultations on the findings of these analyses through a series of sector-focused meetings that included representatives from the government, private sector, and civil society. Following these consultations, the country team solicited and vetted a number of investment proposals through a public-private technical committee. These proposals currently focus on:

- increasing hydropower generation including rural electrification;
- strengthening skilled labor through improvements in primary, secondary, tertiary, and vocational education;
- supporting wildlife conservation through tourism infrastructure and capacity building;
- improving key transport routes though reinforcing and expanding roads; and
- improving water and sanitation supply in urban areas.

MCC expects that Zambia will submit project concept papers in February 2010 for projects that address a subset of key constraints to growth. To enhance the impact of MCC's assistance and to ensure the sustainability of these investments, the country team intends to leverage MCC funding through public-private sector partnerships (PPPs) to the maximum extent possible. During the project appraisal phase, MCC will emphasize not only the technical and environmental feasibility, but also the institutional capacity of the implementing organizations and the likelihood of making necessary policy reforms to reinforce sustainability. This appraisal phase will be conducted during the first half of calendar year 2011, with the anticipation that MCC will sign a compact with Zambia in late FY2011.

Indonesia

There is also a relatively strong correlation between **compact size and total population** across past compacts, with the four most populous countries also getting the largest total investment (*in Figure 2*).

As the fourth most populous country in the world, with more than 100 million people living on less than $2 per day, an Indonesian compact amount far in excess of probable funding levels could be justified. A total compact in the range of $700-800 million, which would be funded over two fiscal years with enactment of concurrent compact authority, would permit MCC to have an impact in a defined geographic area, presumably with relatively higher poverty incidence.

MCC has been working in Indonesia since 2006, helping to improve governance, fight corruption, and enhance public health through the MCC threshold program. Indonesia became compact eligible in December 2008, and MCC has been working with the government over the past year to develop a five year development program that will bring large additional resources to the effort to fight poverty through economic growth.

In line with MCC's core principle of host country ownership, the decision about how these funds will be used is ultimately up to the Indonesian government, with input from civil society and the private sector. MCC has helped the government establish a core team to identify the critical constraints to economic growth and poverty reduction, to lead the public consultation process for developing proposals, and to undertake the initial technical and design work for project concept notes. This team has overseen an analysis that identified four constraints to economic growth and poverty reduction in Indonesia:

- weaknesses in governance and institutions,
- infrastructure,
- education, and
- environmental sustainability.

Based on these findings, the government established a multi-agency steering committee with strong representation from civil society and the private sector to oversee the compact development process. The steering committee has drafted a document to guide the public consultation process, has identified an NGO umbrella group to implement consultations in different parts of the country, and has established a timeline and work schedule for the consultative process. It also has established rules for submitting, reviewing, and selecting proposals, along with a timeline. Preparations for public consultations are underway and are expected to begin in late January 2010, and project concept papers are anticipated to be submitted by the end of February 2010.

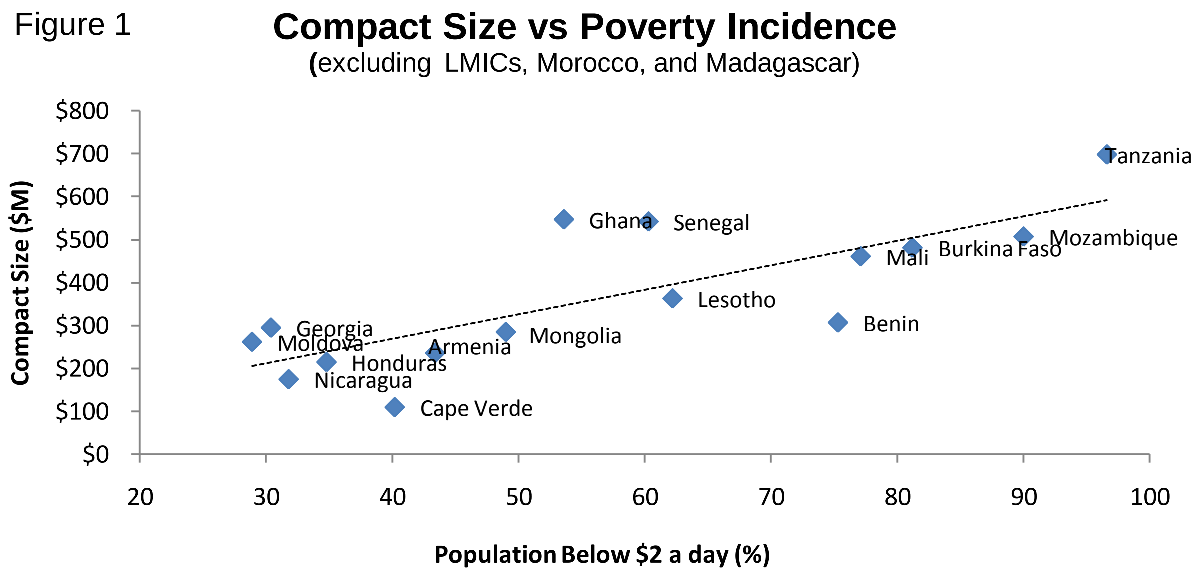
While Indonesia is still in the early stages of developing its compact, the constraints analysis has helped guide the process of identifying specific proposals. The analysis pointed to the urgent need for bureaucratic reform. Weak and ineffective public institutions encourage a climate of corruption in public office and a culture within the bureaucracy of seeking personal income from official interactions with the private sector. This burden, long referred to in Indonesia as the "high cost economy," is a major impediment to private investment. MCC's threshold program began to address a part of this problem inside the Indonesian judiciary, and the government has indicated a possible interest in continuing governance reforms under the MCC compact program.

The constraints analysis also identified inadequate infrastructure as a major impediment to economic growth. Lack of power generation and transmission capacity, bad roads, underdeveloped ports and shipping, and inadequate public water and irrigation supply are well known problems in Indonesia. Other possible proposals center around helping Indonesia address environmental problems that constrain growth and poverty reduction. The fourth constraint, education, is being addressed by the Indonesians through their own resources.

Given Indonesia's geography and immense population, initial indications from the government, civil society and the private sector suggest that MCC's resources might be most effective if focused on one or two provinces, rather than spread across the entire country. The challenge is to set selection criteria that could be accepted by local governments and the public.

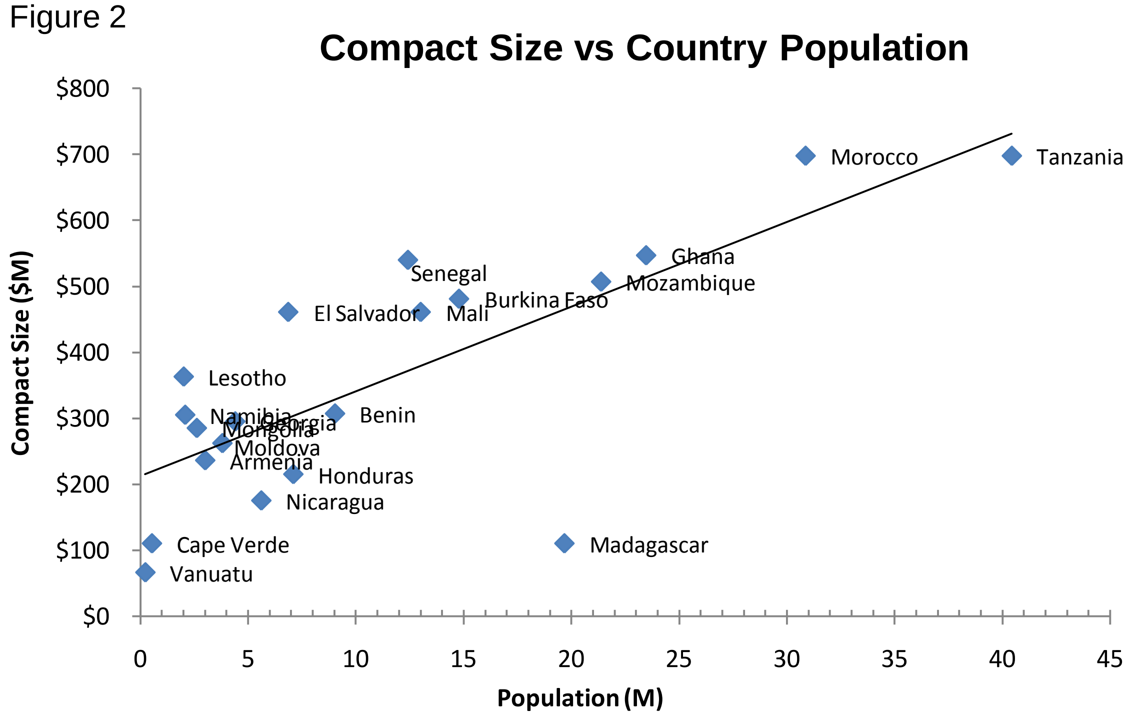
Ultimately, the decision about how to use MCC funds will be made by Indonesia through a public consultation process. This careful consultative process will help ensure strong country ownership and smoother implementation, thereby increasing the likelihood of successful completion within a five year time horizon.

Figure 1



The table excludes two outliers: Morocco, an LMIC with low poverty incidence and a large compact, and Madagascar, now terminated but which had high poverty incidence but a smaller compact (MCC's first).

Figure 2



Update on FY2010 Countries

For FY2010, the appropriated level of $1.105 billion will enable MCC to sign compacts with **Jordan and Philippines** and partially fund a compact with **Malawi.** MCC is working with the respective national teams on detailed feasibility studies and environmental assessments, appraisals, and implementation preparations. The proposed investments cover a wide range of activities designed to stimulate growth and reduce poverty, as summarized below and detailed in the tables following this section.

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

In **Philippines**, the MCC compact will tackle corruption and enhance transparency and accountability by (i) improving tax collection and strengthening the investigation of fraud allegations in the Department of Finance, and (ii) decentralizing resource utilization and empowering local communities to develop and implement small-scale infrastructure projects that support economic development. Improvements in tax administration should create additional fiscal resources for health and education expenditures, two areas that have suffered under fiscal austerity measures. The second project is designed to make local governments more responsive to community needs, and it will reach some 30 percent of the poorest municipalities (roughly 4,000 villages). A third project will improve access to markets through rural road rehabilitation.

In **Malawi**, MCC will also fund a single-sector program, focused on increasing access to reliable supplies of electricity and addressing policy and institutional reforms required for attracting future investments in the power sector, which is a critical constraint to private sector growth and impedes the quality of life in one of the world's poorest countries.

Millennium Challenge Corporation - Compact Development Pipeline

29-Jan-10

<table>
<tr><th>Country/ 1st Year Eligible (FY)</th><th>Threshold Program</th><th>Prior Years</th><th colspan="4">FY 2008</th><th colspan="4">FY2009</th><th colspan="4">FY2010</th><th colspan="4">FY2011</th><th>Potential Compact Size</th></tr>
<tr><td>Jordan (2006)</td><td>Completed</td><td colspan="3">Consultations</td><td colspan="5">Country proposal, MCC assessment</td><td colspan="4">Feasibility and design</td><td>Signing</td><td colspan="4">Implementation</td><td>$275</td></tr>
<tr><td>Malawi (2008)</td><td>Completed</td><td></td><td></td><td colspan="2">Consultations</td><td colspan="4">Country proposal, MCC assessment</td><td colspan="4">Feasibility and design</td><td>Signing</td><td colspan="4">Implementation</td><td>$250-300m</td></tr>
<tr><td>Philippines (2008)</td><td>Completed</td><td></td><td></td><td colspan="2">Consultations</td><td colspan="4">Country proposal, MCC assessment</td><td colspan="3">Feasibility and design</td><td>Signing</td><td colspan="5">Implementation</td><td>$435</td></tr>
<tr><td>Indonesia (2009)</td><td>Ongoing</td><td></td><td colspan="4"></td><td colspan="2"></td><td colspan="2">Consultations</td><td colspan="3">Country proposal, MCC assessment</td><td colspan="4">Feasibility and design</td><td>Signing</td><td>$700-800m*</td></tr>
<tr><td>Zambia (2009)</td><td>Completed</td><td></td><td colspan="4"></td><td colspan="2"></td><td colspan="2">Consultations</td><td colspan="3">Country proposal, MCC assessment</td><td colspan="3">Feasibility and design</td><td>Signing</td><td></td><td>$300-350m</td></tr>
<tr><td>Cape Verde</td><td></td><td></td><td colspan="4"></td><td colspan="4"></td><td></td><td>Consul-tations</td><td colspan="2">Country proposal, MCC assessment</td><td colspan="3">Feasibility and design</td><td>Signing</td><td>$75-100m</td></tr>
</table>

Details:

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

* Indonesia compact would be split across two fiscal years with concurrent compact authority.

Detail of Potential Projects and Beneficiaries

The tables below summarize the status of compact development for FY2011 countries, and update the project details, expected impacts and beneficiaries provided in last year's CBJ for FY2010 countries. Since last year MCC has commenced detailed technical and economic feasibility studies and environmental and social impact assessments, utilizing 609(g) funding. Our negotiations with Philippines, Jordan and Malawi have advanced considerably, resulting in much more focused compact proposals.

FY2011 Countries

Malawi	
Proposed project & objective	*Potential benefits & beneficiaries**
Energy Sector Rehabilitation, Expansion, and Reform **Objective*:*** Increased access to reliable and quality power for economic use. **Outcomes:** Increase availability of reliable and quality power, increase access to power for un-served areas, and improve management and service delivery in the power sector	***Benefits:*** • 14-18 percent Economic Rate of Return (ERR). • *Expanded access to electric power:* Increased opportunities for income generating activities including agricultural, agro-processing, and manufacturing; improved communication and connection to markets; reduced reliance on diesel generators and wood fuels. Up to 10,000 households and small businesses are expected to benefit from network expansion; the number of rural beneficiaries from the off-grid public-private partnership pilot program has not yet been calculated. • *Reliable and quality energy supplies:* Increase network reliability and quality for nearly 1 million people who currently have access to electricity, about 7 percent of the population; reduced sales losses and equipment replacement costs; improved business environment. • *Social Services:* Improved delivery of health and education services. ***Beneficiaries:*** • Peri-urban and rural households • Small medium enterprise and micro-enterprises in urban and rural areas • Manufacturing plants • Farmers engaged in irrigated agriculture • Mining & tourism companies • Social services (schools, clinics, etc.)

* ERRs and beneficiary estimates are preliminary and subject to revision based on final project designs.

Zambia	
Proposed project & objective	
A subset of the following proposals: (i) increasing hydropower generation including rural electrification; (ii) strengthening skilled labor through improvements in primary, secondary, tertiary, and vocational education; (iii) supporting wildlife conservation through tourism infrastructure and capacity building; (iv) improving key transport routes through reinforcing and expanding roads; and (v) improving water and sanitation supply in urban areas.	Project Proposals are expected to be submitted by the partner country in February 2010. MCC will provide an update to Congress in June 2010, after project proposals have undergone internal and external peer review, preliminary economic analyses, reviews of technical feasibility, environmental and social risks, sustainability and government capacity.

Indonesia	
Proposed project & objective	
The Indonesia country team has overseen an analysis that identified four constraints to economic growth and poverty reduction in Indonesia: (i) weaknesses in governance and institutions; (ii) infrastructure; (iii) education; and (iv) environmental sustainability. Based on these findings, the government has established a multi-agency steering committee with strong representation from civil society and the private sector to oversee the compact development process. The steering committee has identified an NGO umbrella group to implement consultations in different parts of the country, and has established a timeline and work schedule for the consultative process.	Project Proposals are expected to be submitted by the partner country in April 2010. MCC will provide an update to Congress in June 2010, after project proposals have undergone internal and external peer review, including preliminary economic analyses, reviews of technical feasibility, environmental and social risks, sustainability and government capacity.

Cape Verde	
Proposed project & objective	
Cape Verde was selected by MCC's Board in December 2009 as compact eligible to work on a second compact. Concept papers have not yet been developed.	Cape Verde will be required to adhere to the same compact development procedures as first compact countries, including an analysis of constraints to growth, public consultations, preparation of project concept papers, and technical studies.

FY2010 Countries

Philippines	
Proposed project & objective	*Potential benefits & beneficiaries**
Comprehensive and Integrated Delivery of Social Services **Objective***:* Increased incomes in rural areas through small-scale, community driven development projects. Strengthened community participation in development and governance activities at the village and municipal level. Improved responsiveness of local government to community needs. **Outputs:** Participatory community development organizations and processes working effectively with local government to prioritize and implement investment projects; small-scale infrastructure and other public goods in more than 4,000 villages.	***Benefits:*** • Approximately 13 percent Economic Rate of Return (ERR). • *Empowerment of communities:* Project provides participatory identification of constraints to development, and participatory planning, implementation, and management of local development activities designed to address these constraints. • *Improvements to local governance:* The project embeds community participation, transparency, and social accountability within project activities to encourage local governmental and non-governmental institutions to become more socially inclusive, accountable, and responsive. • *Poverty reduction through grants for community investment*: Project grant resources are geared to secure additional "matching" local resource mobilization, develop effective community ownership of investments, and train communities to use locally-available resources to manage and maintain such investments, thereby promoting their long-term sustainability. ***Beneficiaries:*** *Poor households:* Project aims over five years to benefit 6.98 million rural dwellers within the poorest half of the provinces of the Philippines.
Secondary National Road Development Project **Objective**: to increase the net incomes of those living near the roads through time savings and lower vehicle operating costs. **Outputs:** Expanded and improved 278km of secondary national roads in the provinces of Eastern and Western Visayas and Bicol. Improved road safety measures.	***Benefits:*** • Approximately 14 percent ERR. • *New and improved roads*: Expansion and improvement of selected secondary roads that are expected to shorten time spent traveling, reduce vehicle operating costs, lower road maintenance costs, and improve access to markets and social services. • *Environmental protection*: Reduced soil erosion; increased resilience to natural disasters. ***Beneficiaries:*** • *Broad reach*: The project has an estimated 543,000 beneficiaries. The poverty incidence (according to the Filipino poverty line) is between 10 and 66 percent in targeted municipalities.
Revenue Administration Reform Project **Objective***:* Increased fiscal space for public good investments and social spending, and reduced opportunities for corruption in tax administration. **Outputs:** Increased revenue collection; increased efficiency and effectiveness of revenue administration.	***Benefits:*** • Approximately 40 percent ERR. • *Expansion of the tax base:* The project's investments in improved business processes, data warehousing, tax audits, and automation are intended to narrow the gap between potential and actual collections, improve the predictability and impartiality with which revenue laws and regulations are enforced, and reduce opportunities for tax evasion and corruption. • *Improved investment climate*: While improved tax revenue administration constitutes only one element of the enabling environment for business, administrative reforms and automation investments in the Bureau of Internal Revenue's internal audit and investigation unit are expected to improve perceptions of the control of corruption, and hence, increase private investment flows. ***Beneficiaries:*** • *Broad reach:* Higher revenues would enable the government to finance key infrastructure and social services on a sustainable basis, fueling economic growth and poverty reduction nationwide. • By 2020, expected incremental GDP growth of 0.025 percent (equivalent to an estimated $88.5 million ($2009)) per year will allow the government to increase expenditures on public goods. These benefits are experienced on a national scale as benefits of public expenditures and incremental economic growth. Conservatively, assuming that 85 percent of the population benefit, this would amount to some 125 million people by 2030.

*ERRs and beneficiary estimates are preliminary and subject to revision based on final project designs.

Jordan	
Proposed project & objective	*Potential benefits & beneficiaries**
Water Conservation in Zarqa Governorate **Objective:** To reduce the quantity of non-revenue water (NRW), or water lost through the combination of physical leaks and administrative mismanagement. **Outputs:** (i) Improved groundwater management and enhanced operational and energy efficiency of local groundwater wells, (ii) reduced leaks in the transmission and distribution network, (iii) improved household water connections, and (iv) strengthened administration of the water network including the introduction of commercial principles and private sector participation through performance management contracts.	***Benefits:*** • The Economic Rate of Return (ERR) for the proposed rehabilitation of the Zarqa water distribution network is presently estimated at 15 percent (ERRs for the proposed investment in groundwater wells and to financing water utility performance management contracts are not yet defined). • *Water availability:* Up to 12 million cubic meters of water saved for use by some 90,000 urban households (or about 500,000 people), as well as businesses and industries. • *Cost savings:* Additional water may help poor households save 2-3 percent of their annual income by avoiding the need to buy expensive bottled water. • *Health benefits:* Additional water allows poor households to improve their basic sanitation levels. • *Improved service:* Steep reductions in the 10,000 leaks and supply interruptions reported each year. • *Energy conservation:* From more efficient pumps at supply wells, reduced pressure in the distribution network when retooled for gravity-fed delivery. • Increased cost recovery and improved management of infrastructure assets for water supply and delivery. ***Beneficiaries:*** • *Poor households:* Nearly a quarter of the population in Zarqa is below the national poverty line of $3.35 per day (compared to 13 percent on average nationwide). • *Low consumers:* Studies suggest that 3 in 10 households in Zarqa consume 75 liters per capita per day of water, less than the 100 liters considered the minimum for personal hygiene and food safety. A beneficiary study, currently underway, will inform the final design of the proposed project to target poor households for increased water availability.
Collection, Treatment and reuse of wastewater **Objective:** To increase the quantity of wastewater collected and treated to high-quality standards so that it may be used in agriculture, thereby freeing up limited freshwater supplies for use in populous urban areas. **Outputs:** (i) Expanded and reinforced wastewater collection system in Zarqa Governorate and (ii) increased wastewater treatment capacity at As-Samra Wastewater Treatment Plant under a build-operate-transfer scheme.	***Benefits:*** • The ERR for expanding the wastewater collection system in Zarqa is presently estimated at 15 percent. • The ERR for expanding the wastewater treatment capacity at As-Samra Wastewater Treatment Plant in Zarqa is presently estimated at 13 percent. • *Improved service:* Expansion of sewer network to connect another 18 percent of the population of Zarqa, mostly in poor neighborhoods. • *Environmental protection:* Reduced over-flow from overloaded sewers into the severely polluted Zarqa River Basin. • *Cost and risk sharing*: Private sector participation through the build-operate-transfer (BOT) scheme for expanding the wastewater treatment plant leverages substantial private sector investment, allows for optimal operational efficiency, and transfers implementation risk from the government to the private sector. • *Water availability:* Exchange of treated wastewater will permit the “freeing up” of another 10-12 million cubic meters of fresh water for households, businesses, and industries. Up to 100,000 households potentially will benefit from additional freed up water supplies and/or improved sewerage services. ***Beneficiaries:*** • *Broad reach:* Links in the water network mean that the benefits of additional water could be distributed across a region with a combined service population of more than 3 million people. • *Poor households:* To ensure that the poor benefit, Jordan is funding a beneficiary study looking into water use among poor households. The study will inform the final design of the proposed projects.

* ERRs and beneficiary estimates are preliminary and subject to revision based on final project designs.

Phases of Compact Development

1. Start up and Preliminary Analyses | **2. Project Definition** | **3. Project Development and Appraisal** | **4. Compact Negotiation and Compact Signing** | **5. Pre-Entry into Force Activities**

Implementation Preparations | **6. Implementation**

1. *Getting started:*

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

2. *Identifying priorities:*

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

3. *Developing the program:*

- Country further develops projects that appear promising for potential investment
- MCC disburses 609(g) funding and assists with needed preparatory studies –feasibility studies, environmental impact assessments, framework resettlement plans, preliminary designs, etc.
- Country consults stakeholders on project design and sustainability
- At an appropriate time, MCC prepares and submits Congressional Notification to commence negotiations*
- MCC conducts formal appraisal of developed projects, including second "peer review"

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

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

5. *Getting ready for implementation:*

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

6. *The clock starts:*

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

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

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

Focus on Innovation in Compact Development

MCC is committed to finding innovative ways to achieve poverty reduction through economic growth – both in the kinds of projects it will fund and in how these projects will be implemented – drawing from its experience to date and engaging a broad set of stakeholders, domestically and in MCC partner countries, to identify and test new ways to assist countries in their development. This can be seen in the following compacts being developed now:

Philippines

Kalahi-CIDSS, an exciting project to support community-driven development, will be part of the Philippines compact that MCC expects to sign in FY2010. The project, which builds on a program piloted by the World Bank, will enable local communities to undertake small-scale infrastructure projects that improve services and the quality of life in poor, rural areas. The program operates on the principles of local empowerment and community ownership, participatory governance, decentralization of planning and execution, and increased transparency and accountability in resource utilization.

The effort begins with mobilizing communities to identify and prioritize their most significant needs for assistance, and includes training to strengthen their capacity to design and implement actual projects. These typically range from $20,000-50,000 each, and frequently include rehabilitation of rural roads, development of local water systems, and construction of school buildings, day care centers, and health clinics. Up to 5,000 small projects will be undertaken in some of the poorest regions of the Philippines.

Because this is a new assistance modality for MCC, the agency is developing new approaches to model risk, including:

- Classifying the kinds of infrastructure that can and cannot be undertaken and identifying when outside assistance should be provided to the local communities to ensure effective design and implementation;
- Conducting random technical and financial audits to flag any specific sub-project-level problems and also to identify general risks that need to be redressed in the course of rolling out the program;
- Funding a competitive grants program to test and implement new gender integration activities.

Additionally, while MCC has heavily invested in improving anti-corruption efforts through the Threshold Program, the Philippines compact will be the first compact program to fund efforts project to improve governance and combat corruption in revenue collection. The *Revenue Administration Reform* project will re-engineer business processes in the Bureau of Internal Revenue to reduce “discretion” in tax collection and it will support the work of an internal integrity division in the Ministry of Finance to investigate and prosecute, as warranted, any allegations of corruption in tax and customs collections.

Jordan

The Jordan compact is unique in that all projects are linked together and in the same sector – from water conservation to sewerage, treatment and reuse. It will be comprised of complementary projects that improve water delivery and conservation, as well as expand wastewater collection and treatment.

For the wastewater treatment project, MCC will apply a new design and implementation mechanism new to MCC, using a "build-operate-transfer (BOT)" arrangement, where half the funding and all the technical expertise will come from a private sector partner. This approach shifts many of the risks traditionally borne by government to the private sector, which will be incentivized to complete construction on time and to specification, and to deliver a contracted level of service over the life of the agreement.

Malawi

The Malawi compact will address a critical constraint to growth – the lack of reliable, quality power. Much of the investment will focus on improving power supply and distribution on the current grid. The current grid is over-taxed and provides access to power to only 1 percent of the rural poor. MCC will experiment, therefore, with new ways to provide off-grid power to small enterprises, schools, hospitals, and consumers in un-served rural areas.

The agency is examining the viability of small-scale solar systems and mini-generation systems. MCC is also considering the use of an Output-based Aid (OBA) approach that would shift actual design and implementation of these innovative schemes to the private sector.

Indonesia

MCC expects to receive Indonesia's compact proposal in the near future. The country provides excellent opportunities for innovation in the kinds of projects we would fund, including possible support as expressed by senior Indonesian officials for climate change adaptation investments, and emissions reductions including carbon offsets through clean alternative energy.

Indonesia's size and complexity make it a good candidate for concurrent compact authority – both in support of innovation and to ensure that only those projects truly ready for implementation are included in a compact, without constraining access to resources such an important country may merit. MCC also is looking to broaden its financing modalities within the Indonesia compact, including the potential for using making resources available directly to NGOs and civil society.

Compact Development - 609(g) Assistance and Due Diligence

Request (in $ millions)	**FY2009 Appropriated**	**FY2010 Enacted**	**FY2011 Request**
Total MCC	875	1,105	1,280
Total for compact development	**36**	**90**	**102**
609(g) assistance	13	40	45
Due Diligence	23	50	55
M&E Initiatives			2

For FY 2011, MCC requests $55 million for due diligence funds, $45 million for 609(g) grants and $2 million for Evaluation Initiative.

MCC's commitment to country ownership means helping partner countries gain the capacity to implement programs themselves, but to the standards to which MCC is accountable. To this end, MCC has focused on increasing the level and intensity of engagement during the compact development phase, and more fully preparing for implementation prior to signing, often using funds available under Section 609(g) of MCC's authorizing statute. This approach reduces overall investment risk and makes it possible to work effectively with poor countries that have the greatest capacity constraints.

To date, MCC has provided, or will soon provide, 609(g) funds to assist with compact development and preparing programs for implementation to the national teams in Malawi, Jordan, and Philippines. These grants are used for feasibility studies, environmental and social impact assessments, and detailed engineering designs on approved project concepts, to determine the final suitability and scope of investments, costs, implementation risks, and mitigation measures. These front end investments are expected to contribute to speedier and more predictable disbursements once the compact is underway.

In order to fully realize the benefits of this increased compact development investment, 609(g) funding for countries under MCC's newly instituted compact development process, beginning with Moldova and Senegal, has increased. With this comes the expectation of a corresponding decrease in the amount of compact development activities funded in the compact itself. For these countries, the amounts of specific 609(g) grants have ranged from $11 million to $15 million. MCC will fund most compact development requirements for FY 2011 compact countries (Malawi, Zambia, Indonesia, and possibly Cape Verde) from FY 2010 compact development funds. For FY 2011 compact development funds, MCC has used this range to calculate funding needs for 3-4 new or second compact countries that the Board may select in December 2010, and that would likely be ready for signature in FY 2012. This yields a total request for 609(g) funding of $45 million.

Due diligence funds will be needed to ensure that proposed compacts meet technical, economic, fiscal, procurement, environmental, legal and other standards. These funds also support compact development and early implementation activities in new partner countries to address issues related to the country's strategy for economic growth and poverty reduction, and fund independent impact evaluations for both compacts and threshold agreements.

As part of the Administration's government-wide initiative to strengthen program evaluation, MCC's request includes $2 million to enhance selected project evaluations, conduct cross-country evaluations of agriculture investments, and standardize quality and public access to MCC gathered data.

MCC's evaluation initiative is one of 23 evaluation proposals specifically approved by the Office of Management and Budget for 2011 to strengthen the quality and rigor of Federal program evaluation. To ensure the study is well designed and implemented, MCC will work with evaluation experts at OMB and the Council of Economic Advisers during the planning, design, and implementation of the study. MCC is committed to promoting strong, independent evaluation that can inform policy and program management decisions and will post the status and findings of this and other important evaluations publicly available online.

Threshold Programs in Development

Request (in $ millions)	FY2009 Appropriated	FY2010 Enacted	FY2011 Request
Total MCC	875	1,105	1,280
Threshold Program	**43**	**--**	**--**

The Threshold Program is intended to provide assistance to countries that do not yet meet MCC's eligibility criteria but that are committed to reform. No funding is being requested for the Threshold Program for FY2011.

FY2010 Programs

MCC will use up to $27 million of FY2009 funds for two Threshold Programs in development; Liberia and Timor-Leste. Both countries submitted proposals at the end of calendar year 2009, and MCC is seeking Board approval of these proposals in early 2010.

- **Liberia** has proposed reforms targeting three of MCC's eligibility indicators: Land Rights and Access, Trade Policy, and Girls' Primary Education Completion Rates.
- **Timor-Leste** proposed reforms targeting two of MCC's eligibility indicators: Control of Corruption and Immunization Rates.

Threshold Program Review

MCC's Threshold Program has invested in 21 programs in 19 countries around the world, with a total of roughly $470 million in programming. As of December 31, 2009, ten programs have concluded. During FY2009, MCC began an in-depth review of the Threshold Program and after consultations with the CEO, will make a recommendation to the Board regarding the program's future direction.

Administrative Budget Request

Request (in $ millions)	FY2009 Appropriated	FY2010 Enacted*	FY2011 Request
Total MCC	875.0	1,105.0	1,280.0
Total Admin Budget	**91.6**	**96.0**	**102.4**
Salaries & Benefits	46.0	52.5	54.0
Training	0.6	0.9	0.6
Contracted Services	10.2	8.6	8.4
Rent, Leasehold & Improvements	7.6	7.5	7.6
Information Technology	11.6	7.4	8.3
Overseas Operations	11.2	13.7	18.2
Travel	4.4	5.4	5.3

(*) Includes $1M in carryover from FY2009

For FY2011, MCC has requested an administrative limitation of $102.4 million, an increase of $6.4 million or 7 percent above the FY2010 level.

Since its creation in 2004, MCC has worked to control administrative costs as it put into place the structural components of an independent agency: a high-performing staff, a financial management system, dependable information technology, and fully competitive procurement and hiring practices, shifting in the process from a start-up mode of rapid expansion to a focus on compliance, effectiveness, and efficiency.

Focus on Compact Implementation and Development

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

- Approximately 45 percent of the FY2011 administrative expense request is for salaries and benefits, overseas expenses, travel, and other direct costs of compact implementation, while another 10 percent is for the direct costs of compact development.
- Of MCC's authorized level of 300 staff in Washington, 175 work directly on compact implementation and another 41 on compact development.
- Nearly 40 percent of MCC staff are technical experts who help MCC ensure that its programs are well designed, responsibly implemented, and objectively evaluated, including:

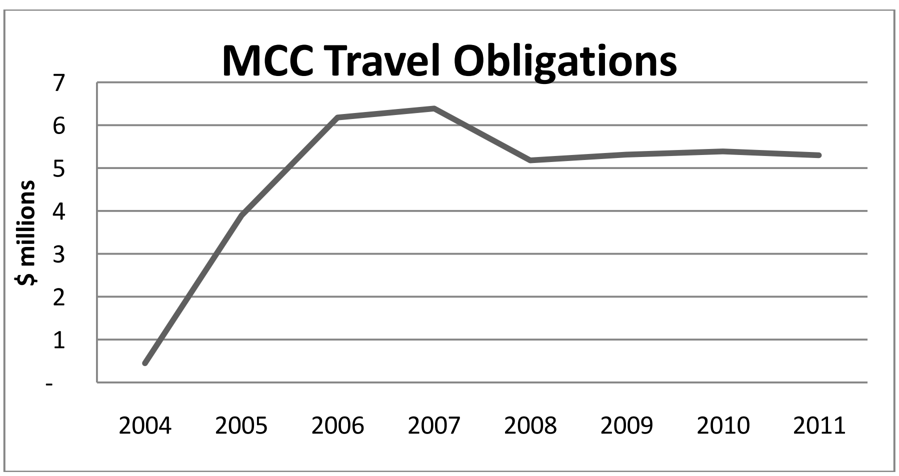
- 19 economists and experts in monitoring and evaluation;
- 30 engineers and infrastructure experts;
- 27 technical experts in agriculture, land rights, financial sector development, health and education;
- 19 environment and social assessment experts; and
- 21 experts overseeing compact finance and procurement activities.

Focus on Controlling Costs

MCC has instituted the following salary cost controls, particularly in upper pay bands. These controls include:

- Freezing existing Vice Presidents' and Deputy Vice Presidents' salaries for another year in 2010.
- Implementing lower merit increases for salaries in the higher pay bands.
- Maintaining caps on all pay bands, thereby limiting increases in base salaries to no more than the cap and freezing all salaries already at (or above) the cap.
- Salaries for most new hires are limited to the midpoint of the relevant pay band.

Additionally, despite travel times of up to 20-30 hours to some partner countries, MCC has significantly limited business class travel. As a result of the decline in business class travel usage, even though MCC is working in more countries, total MCC travel obligations have fallen over the past few years.

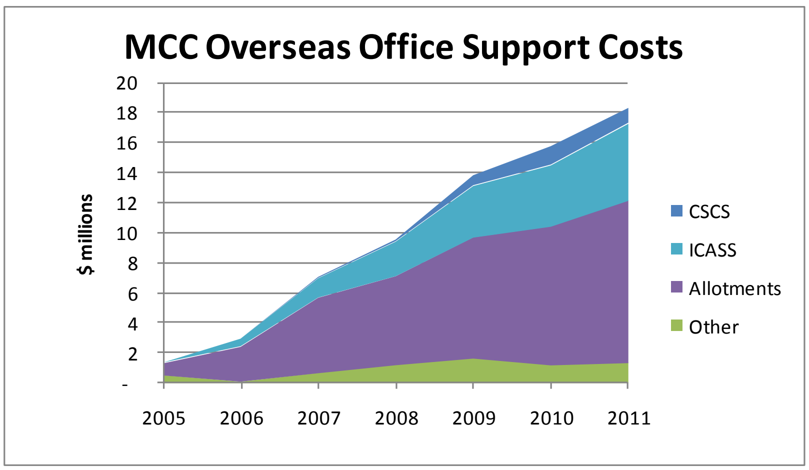


MCC has pursued outsourcing of administrative services, such as financial management and information technology, wherever possible in order to focus its limited staff resources on its core mission of poverty reduction. At the same time, MCC has looked for more efficient outsourcing options, and eliminated non-essential contracted services. As a result, MCC's costs for contracted services will remain steady in FY2011.

Focus on Primary Cost Driver – Overseas Support Cost

MCC has worked to control administrative costs, including human capital costs which account for over 50 percent of the FY2011 Administrative Request. However, **overseas support costs** continue to increase, accounting for over 70 percent of the increase from FY2010 to FY2011.

MCC's overseas support costs have almost doubled since 2007 and will increase by another projected $4.6 million (34 percent) over the FY2010 operating level in FY2011. While MCC maintains a very small footprint of only two direct hire staff in each compact country, the costs of maintaining this staff are increasing at a rapid rate. The key components of these increases are costs associated with International Cooperative Administrative Support Services (ICASS) and the overseas procurement services that the U.S. embassies provide for MCC, referred to as Country Allotments. This increase is a result of the addition of new compact countries and an average five percent inflation cost for existing compact countries.



Detail of Administrative Expenses

Salaries and Benefits: This request includes $54 million for salaries and benefits in FY2011, a 3 percent increase over the FY2010 level. The request represents the resources needed to maintain an average FTE headcount at 285 for Washington-based staff, as well as four new overseas positions in FY2011. The request assumes a 1.4 percent pay increase requested by the President; the additional increase is due to a lower vacancy rate (5 percent) that MCC has targeted for 2011. Maintaining staffing at the authorized level is critical to ensuring MCC has the professionals needed to provide adequate oversight of its 20 compacts in implementation and prepare the six new compacts we expect to sign later in FY2010. MCC recently adjusted its existing pay bands to more closely align with current SES and GS pay scales.

Training: The budget request includes $600,000 for training and staff development programs in FY2011. In FY2011, the majority of the training budget will be used to sustain key central programs, including language skills, project management, and management/leadership training. MCC is also adding new initiatives for a Learning Management System, Frontline Supervisor

Skills Training, Individual Development Plans, Succession Planning Training, and Steady Workforce Development Program Evaluation.

Contracted Support: MCC's procurement division has outsourced for procurement/contracting staff to supplement the direct hire procurement staff. Contractor staff performs all pre-award, awards, and post-award contract support services except those that are inherently governmental, such as making management decisions and executing contracts. In FY2011, the cost of this support will decrease due to the requested conversion of three contractor positions to U.S. direct hires.

Rent, Leasehold and Improvements: The budget request includes $7.6 million for rent in FY2011, the same level as in FY2010. MCC lease costs are below the equivalent cost per square foot that new commercial clients are paying in these buildings.

Information Technology: The budget request includes $8.3 million for information technology in FY2011, a 12 percent increase over the FY2010 level, to support:

- **MCC Integrated Data Analysis System (MIDAS):** MIDAS combines financial, performance, and procurement data into a single administrative data store, enabling MCC to generate compact-specific and MCC-wide reports to inform management, the MCC Board, Congress, partners, other stakeholders. This request includes $332,000 for ongoing operations and maintenance, including adding new countries and $247,000 for continued refinement of reporting capabilities.

- **Shared Services and IT Security:** MCC reorganized its information technology management structure in FY2008. In FY2009, MCC implemented new technologies and policies to improve the stability and security of the MCC IT infrastructure including a shared-service IT platform through CSC Corporation resulting in a more stable network environment at a reduced cost. MCC independently contracted with an IT Security and Oversight contractor which allowed MCC to address all of the FISMA audit findings from the Inspector General from FY2008, and new IT capabilities including, improved network access for overseas Resident Country Missions. The FY2011 request includes $2.7 million for the shared-service IT platform through CSC Corporation. Meeting the increasingly-stringent FISMA and OMB security requirements has required significant investment on the part of MCC, and the agency requests $1.1 million for IT security, compliance, and oversight, as well as $3.7 million to renew software licenses, provide vital communication services to employees, and cover other IT support costs.

- **Enterprise Content Management (ECM):** The goal of this effort is to provide organized storage, enterprise search, portals, business intelligence, and ultimately electronic collaboration with MCC partners to improve the efficiency and maturity of the organization. MCC has requested $250,000 to complete this effort in FY2011.

Overseas Operations: The budget request includes $18.3 million for Overseas Operations in FY2011, a 34 percent increase over the estimate for FY2010. As mentioned above, MCC's overseas support costs have almost doubled since 2007 and will increase by another projected $4.6 million (34 percent) over the FY2010 operating level in FY2011. While MCC maintains a very small support footprint of only two direct hire staff in each compact country, the costs of maintaining this staff are increasing at a rapid rate, of which the fastest growing portions is the International Cooperative Administrative Support Service (ICASS). ICASS costs are particularly significant in posts where there are fewer agencies. For example, in Burkina Faso, MCC has its standard footprint of two U.S. direct hires and three local staff (one of which has not been filled). MCC's ICASS costs for Burkina Faso in FY2009 were $324,271. These costs will increase to $550,000 in FY2011, a 70 percent increase.

MCC has requested $985,933 for Capital Security Cost Sharing (CSCS) costs for FY2011, a 20 percent decrease over the projected cost for FY2010. In order to reduce costs, MCC has requested and has received approval from State not to incur CSCS costs where MCC is not currently located - and will never be located- within the embassy compound.

As a result of these and other inflexible costs of supporting MCC staff overseas, the average total cost to maintain an MCC employee housed at the U.S. embassy is approximately $400,000 per year. Such costs include office space, support services, pay differentials, educational allowances, and security. MCC is working with OMB to develop options for reducing these significant costs.

Travel: MCC is requesting $5.3 million for travel in FY2011, the same level as FY2010. In order to ensure the country ownership that underlies the MCC model, a significant portion of the work involved in compact development and due diligence must take place in MCC partner countries. 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. The majority of FY2011 request for travel is for activities that are directly related to compact development and implementation oversight.

Critical Legislative Changes

The President's FY2011 budget request for MCC is linked to a forthcoming legislative proposal that will include the following changes to MCC's current authorities:

- Concurrent compact authority, which will allow MCC to sign separate innovative compacts with a country based on the specific timing requirements of, and appropriate partners for, each individual project rather than as part of a multi-project package driven by a single timeline.

- Longer compact authority, which will give MCC partner countries up to seven years in select circumstances, and subject to board approval to complete complex projects, such as infrastructure or public-private partnerships.

- Reforms aimed at ensuring changes in a countries' income categories do not prevent MCC from working with that highest performing countries that have large populations living in extreme poverty.

These changes are based on lessons learned since MCC's creation in 2004 and will provide the needed flexibility to maximize the impact of MCC programs through more innovative approaches to the provision of assistance.

Concurrent Compacts

MCC's authorizing legislation currently restricts MCC to a single compact with each partner country at a time. MCC's request for FY2011 assumes concurrent compact authority in order to sign a compact with Indonesia in 2011. Concurrent compacts would improve the ability to manage the compact pipeline with greater predictability, serve as an added incentive for ongoing policy reforms in partner countries, and help address MCC's unobligated balances.

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

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

Longer Projects

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

Compact Partner Selection

Sudden graduation shifts and the growing number of MCC partners in the lower middle income category (LMIC) category pose serious policy and structural issues for MCC. A substantial and increasing number of compact-eligible countries are now in the LMIC category. Each year, many countries abruptly graduate from one income category to another with no transition period, impacting whether they can be candidates for MCC assistance at all and changing both the policy performance standards against which they are measured and the levels of funding which they can receive. MCC is considering reforms aimed at ensuring abrupt changes in income categories do not prevent the Agency from working with high-performing countries.

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

Appendix A

Current Compact Status and Results

- **Compacts in Implementation**
  Focus on Disbursements
- **Focus on Program Results**
  Long Term Impacts
  Interim Impact Results
  Output Results to Date
  Results by Sector
- **Programmatic Restructuring, Re-allocations and Other Revisions**
- **Compact Closure and Post-Compact Planning**
- **Building on Experience: Implementation Progress**
- **Selecting Partner Countries for a Second Compact**

Focus on Disbursements

Every compact has financial projections for disbursements and contracting, intended to ensure that compact activities are completed within the term of the compact and that MCC management has an effective mechanism for tracking performance against projections. The projections are translated into specific financial targets against which the implementation teams report on a regular basis. As of the end of FY2009, MCC compact countries had cumulative disbursements of $889 million and contract commitments of $2.2 billion as reported by the local MCA.

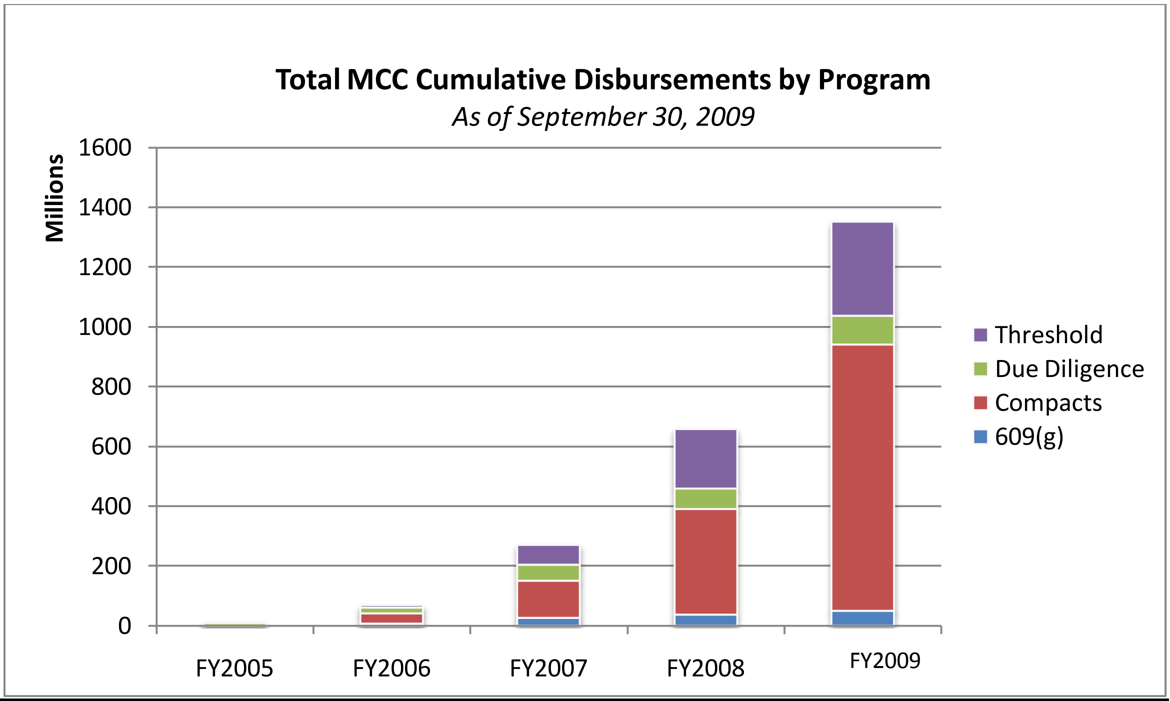
As compacts move through the implementation cycle, MCC has increased its financial targets in order to ensure that teams focus aggressively on achieving program outcomes. Although contract commitments tend to flatten out after the early implementation stages (from $945 million in FY2009 to $995 million targeted for FY2010) the disbursement targets typically rise significantly as implementation hits its stride (nearly doubling between FY2009 and FY2010, for example, from $475 million to $800 million).

As a result, MCC expects almost 50,000 hectares of agricultural land to be under production. MCC also anticipates achievements in water and sanitation investments ($63 million in works contracts signed by end-FY2010), educational facilities ($30 million in contracts to support construction and equipping by end-FY2010), and land training, mapping, and rights formalization, including formalization of almost half a million hectares of rural land. MCC estimates that the long term impact of the compacts signed to date - including people in Madagascar, where the Compact was terminated early - will equal over $9 billion in increased income over the life of the investments and will increase the incomes of over 45 million people.

Performance Against FY2009 Financial Targets (in millions)							FY2010 Targets
	FY2009 Targets	FY2009 Actuals	FY2009 Performance on Targets	Cumulative Targets through FY2009	Cumulative Actuals through FY2009*	Cumulative Performance	
Contract Commitments	$945	$1,275	135%	$1,800 - 2,000	$2,220	117%	$995
Compact Disbursements	$475	$535	112%	$745-850	$889	111%	$800

*Contract commitment figure of $2.22B represents projections submitted by MCA Accountable Entities

Upward trends in MCC's financial target projections also reflect the effectiveness of systems established within MCC to absorb implementation setbacks, develop solutions, and implement them within an extremely short time frame. (Refer to tables on page 44-45.)



As of September 30, 2009

(in $)

	FY 2009 Quarter 4 Obligations	Obligations in FY 2009	Cumulative Obligations Through FY 2009 Quarter 4	FY 2009 Quarter 4 Disbursements	Disbursements in FY 2009	Cumulative Program Disbursements Through FY 2009[1]		Cumulative Disbursements Through FY 2009	
FUND Grouping						Actual	Projected	Actual	Projected
609(g)[2]	26,618,112	32,766,768	92,440,551	4,821,499	13,827,885	50,327,055	*56,499,170*	50,327,055	*56,499,170*
ADMINISTRATIVE	25,454,941	88,536,188	371,897,434	25,592,716	88,570,088			344,628,897	*341,058,809*
AUDIT	0	2,743,893	12,871,380	1,551,181	3,792,544			11,739,690	*11,447,146*
COMPACTS[3]	754,753,264	855,042,374	6,423,069,612	229,887,281	535,807,155	889,409,987	*853,602,831*	889,409,987	*853,602,831*
DUE DILIGENCE	15,312,017	40,248,637	157,338,540	10,319,087	28,456,152	97,957,369	*94,501,216*	97,957,369	*94,501,216*
THRESHOLD[4]	101,557	34,574,447	486,292,743	29,860,440	121,713,706	313,418,902	*381,608,794*	313,418,902	*381,608,794*
Total	822,239,891	1,053,912,307	7,543,910,260	302,032,204	792,167,530	1,351,113,313	*1,386,212,011*	1,707,481,900	*1,738,717,966*

[1]Program Disbursements include all fund groupings, except administrative and audit expenses.
[2]The fund grouping "609(g)" includes funds under section 609(g) of the Millennium Challenge Act of 2003, as amended, other than Compact Implementation Funding.
[3]The fund grouping "Compacts" includes Compact Implementation Funding, Compacts, and other grants except those made using threshold program and 609(g) fund groupings.
[4]All data for the threshold program are provided by USAID, except for the Sao Tome and Principe threshold program, which is administered by U.S. Department of Treasury. USAID's data for this report are from its General Ledger by country rather than its Threshold Country Programs report. USAID is working to rectify discrepancies between these two data sources.

Focus on Program Results

Long Term Impacts

Over the long term (typically 20 years) MCC's signed commitments of $7.1 billion in 20 countries will help raise the incomes of an estimated more than 45 million individuals by about $8.8 billion as the improved infrastructure, agricultural systems and practices, and other public services spur investment and raise local incomes. The table below shows the number of expected beneficiaries.

Compact	Entry-Into-Force	Estimated Number of Beneficiaries (rounded to thousands)	Compact Funds (in millions)
Armenia	Sept 29, 2006	428,000 (1)	$235.65
Benin	Oct 6, 2006	13,421,000	$307.30
Burkina Faso	July 31, 2009	1,181,000	$480.90
Cape Verde	Oct 17, 2005	385,000	$110.08
El Salvador	Sept 17, 2007	901,000	$460.94
Georgia	April 7, 2006	4,592,000 (2)	$395.30
Ghana	Feb 16, 2007	1,217,000	$547.01
Honduras	Sept 29, 2005	1,818,000 (1)	$215.00
Lesotho	Sept 17, 2008	1,041,000	$362.55
Madagascar	*July 27, 2005*	463,000 (1)	$88.77
Mali	Sept 17, 2007	2,837,000	$460.81
Moldova	*To be determined*	426,000	$262.00
Mongolia	Sept 17, 2008	2,600,000 (3)	$284.91
Morocco	Sep 15, 2008	973,000	$697.50
Mozambique	Sept 22, 2008	4,445,000	$506.92
Namibia	Sept 16, 2009	1,063,000	$304.50
Nicaragua	May 26, 2006	108,000 (1)	$113.52
Tanzania	Sept 15,2008	5,425,000	$698.00
Senegal	*4th quarter FY10*	1,662,000	$540.00
Vanuatu	April 28, 2006	15,000	$65.69
Total		**45,001**	**$7,137.35**

Footnotes

(1) These estimates do not include beneficiaries of projects or activities that have been terminated or suspended by MCC.
(2) This estimate is still preliminary and subject to further adjustment.
(3) This estimate does not include beneficiaries from the rail project, which was part of the original compact but has since been discontinued at the partner country's request. Additional beneficiaries from compact re-scoping options currently under review are not reflected in the estimate.

Interim Impact Results by Sector

MCC's programs are yielding important early results that will increase incomes over time by creating jobs and improving access to credit, as well as increasing capacity, productivity, and access to markets. These impacts by sector include:

Farmer Training

Over 100,000 farmers and 1,500 agribusinesses have been trained in business plan development, access to credit, financial planning, production techniques, and/or linking to markets. Due to farmer training and other interventions, over 15,000 hectares are under production with MCC support.

Irrigation and watershed management

Construction of irrigation systems is underway in three countries with a contract value of over $133 million.

Access to credit

Over $38 million in agricultural and/or rural loans have been disbursed in six countries.

Land Tenure

Over 122,000 stakeholders have been touched through land and property rights activities. Over 1,000,000 hectares of rural land have been mapped with MCC support, and almost 50,000 hectares have been formalized. These early results are expected to reduce transaction costs, increase tenure security and improve access to land. This, in turn, will result in increased transactions, increased investment in land and property, and higher land productivity and value.

Transportation

Over $525 million in contracts for roads works have been signed and the construction of over 1,200 km of roads in 9 countries is underway. Over 80 km of roads have been completed and 450 km are expected to be completed by the end of FY2010.

Selected Interim Impact Results by Country

Cape Verde

- Irrigation and watershed management: Over 100 farmers have received drip irrigation loans. The increased income from the use of surface water catchment infrastructure (reservoirs and control dikes) and drip irrigation is estimated to be $700,000 by the end of the compact. All 28 reservoirs will have a total capacity of 627,500 cubic meters of water to deliver improved irrigation to over 100 hectares for almost 350 farmers.
- Access to credit: A total of $450,000 was disbursed by four participating microfinance institutions to farmers and agribusinesses in three agricultural intervention zones with an on-time repayment rate of 99 percent.
- Infrastructure:

- The estimated number of roads and bridge project beneficiaries on the Santiago and Santo Antão Islands is 73,600. The estimated annual savings on transport costs from upgraded roads and bridge improvements at end of compact is equivalent to $1.9 million.
- Four bridges were completed in October 2009. The bridges were functional during 2009's long and heavy rainy season, reducing the average annual number of days key riverbeds that were impassable from 8 to zero.
- Approximately 95 percent of the 40.5 km of three rural roads were upgraded and now connect coastal and inland villages with larger population centers and markets.
- The estimated number of beneficiaries for the Port project will be 347,000 with an estimated $4.1 million increase of income at the end of the compact (for Phase I and Phase II).

Madagascar

- Land Tenure: Four Land Tenure Reform and Framework laws have been developed and ratified. Also, 540,835 land paper titles were inventoried, 258,469 restored, and 266,963 titles digitized. Eight regional land administration offices have been rehabilitated or constructed. Nearly 24,000 land certificates delivered by commune land offices to 13,344 recipients, securing 20,828 hectares.
- Finance Reform: Rural savings in the implementation zones increased by $14 million (from $15 million to $29 million); while the value of rural loans increased by $1 million in the implementation zones.
- Agricultural Business Investment: Six Agricultural Business Centers were opened in 6 regions. Nearly 9,650 farmers are employing productivity improving technical packages. Over 1,800 farm and rural enterprise business plans were developed. Over 490 farmer cooperatives were created and are registered with the government; and 837 commodity contracts were negotiated.

Honduras

- Farmer Training: In Honduras, it is reported that more than 3,200 farmers have begun harvesting high-value crops, on more than 5,900 hectares, with average earnings of about $3,300 per hectare.
- Transportation: Approximately 600 km of roads are under contract for construction. These roads will provide rural communities with improved access to markets, social services, and main road networks. It is expected that increased access to markets and decreased travel time will increase the incomes of beneficiaries living near the roads, as well as the number of businesses along the roads, generating further income and jobs.

Georgia

- Farmer Training: Household net income of all farmers participating in the Agribusiness Development Activity is reported to have increased by $1.65 million since the inception of the activity, and farm income of agribusinesses receiving support has increased by $1.65 million as of the end of FY2009. This will mean a directly improve the lives of about 2,100 farmers and their employees.
- Access to Credit: Over $9 million in agricultural loans have been disbursed to agribusiness enterprises working in poultry production, vegetable canning, hazelnut processing and fish catching and processing.

Armenia

- Farmer Training: Over 30,000 farmers had received training and technical assistance in better on-farm water management techniques by the end of FY2009. Nearly 10,000 have already adopted these practices. As a result of MCC interventions, real income from agriculture in rural Armenia is expected to increase by 5% by the end of the compact term.
- Irrigation and watershed Management: Just over 6 km of tertiary canals were completed before the 2009 irrigation season. As a result, farmers were able to water their fields more often and grow higher value crops.

Nicaragua

- Farmer Training: To date, a total of 8,829 beneficiaries have received technical assistance and grants. Examples of successful agriculture producers include plantain producers who increased production by 70 percent, cassava producers who increased production by 76 percent, and milk producers who increased production by 30 percent.

Morocco

- Irrigation and watershed management: Improved irrigation systems are expected to contribute to increasing the production of olives in irrigated areas from 28,000 to 37,000 tons at the end of the compact. This is expected to help average agricultural revenue per farm in rain-fed areas to increase 13 percent per year at the end of the compact.

Ghana

- Access to credit: Farmers and/or agribusinesses have received more than $13 million dollars in short- and medium-term agricultural loans since implementation of the MCC compact commenced.

Output Results to Date

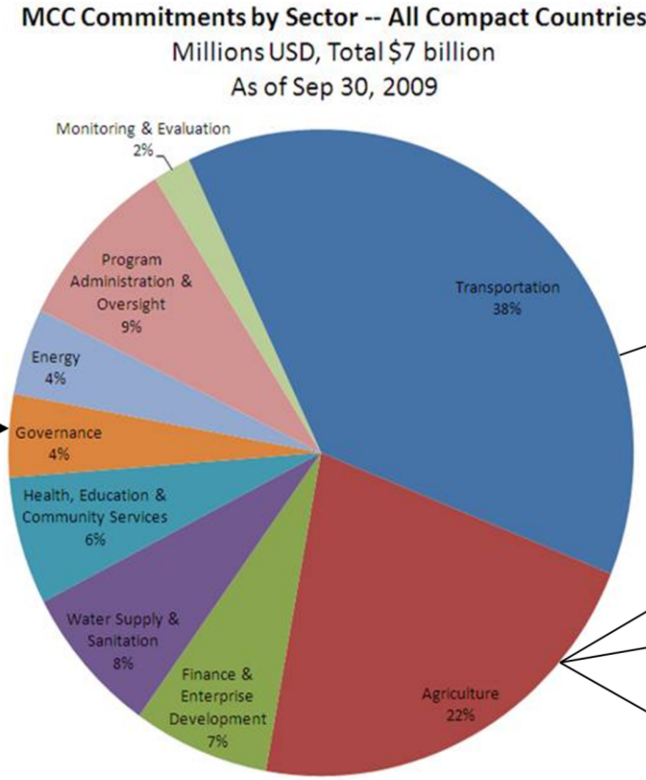
While the income effects of MCC compact activities are projected over the long term, compact countries are now starting to produce tangible results on the ground as programs mature and countries move further into the compact implementation process. All program results targets established by MCC at the corporate level for FY2009 were either met or substantially exceeded as shown below.

FY2009 Program Results (selected indicators)

Sector	Indicators	FY2009 Cumulative Targets	FY2009 Cumulative Actuals	FY2009 Performance (Result/ Target Average)
Roads	Value of Works Contracts	$380-460 M	$526 M	125%
	Kilometers of Works Contracts	1,180-1,450 km	1,200 km	91%
Irrigation	Value of Works Contracts	$80-98 M	$133.2 M	149%
Agriculture	Number of Farmers Trained	59,700-73,000	102,181	153%
	Value of Agricultural and Rural Loans	$15-18 M	$38 M	230%

In addition to achieving the targets for these indicators, substantial progress has been made toward the ultimate goal of increasing beneficiary incomes. More detailed country-by-country performance data relative to country targets are available on MCC's website (http://www.mcc.gov/mcc/panda/activities/mande/country/index.shtml).

MCC Compact Program Results



Roads

- $96.5 million, contracts for feasibility ,design, supervision and/or program management contracts
- 48% disbursed, contracted feasibility, design, supervision and/or management contracts
- 4,170 kilometers of roads under design
- $526 million, contracts for roads design and/or works
- 1,200 kilometers of road under works contracts
- 50% disbursed, road works contracts
- 80.4 km of roads completed

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

Agriculture

- 102,181 farmers trained
- 1,499 agribusinesses assisted
- 15,570 hectares under production with MCC support
- $38 million in agricultural and rural loans

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

Property Rights and Land Policy

- 14,307 stakeholders trained in land registration, surveying, conflict resolution, land use planning, land legislation, land management and/or new technologies
- 49,680 rural hectares formalized
- 2,454 urban parcels formalized
- 122,519 stakeholders reached
- 8 legal and regulatory reforms adopted

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

Irrigation

- $43 million, contracts for feasibility , design, supervision and/or program management contracts
- 39% disbursed, contracted feasibility, design, supervision and/or management contract for canals, pipes, and other water conveyance systems
- $133.2 million, contracts for irrigation system construction
- 32% disbursed, irrigation system works contracts

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

Results data are preliminary as of September 30, 2009, and subject to adjustment.

Results in Agriculture by Country

	Capacity Building of Farmers		Other Support to Farms & Agribusiness (irrigation, inputs, credit, and marketing support)		Growth in Agricultural Sector & Employment Generation
Indicator Type	Output	Output	Output	Output	Outcome
Progress Indicators	Number of farmers trained	Number of enterprises assisted	Value of agricultural and rural loans	Number of hectares under production with MCC support	**Increase in income**
Totals	102,181 farmers trained	1,499 agribusiness assisted	$38.2 million in agricultural and rural loans	15,571 hectares under production	Income increase attributable to MCC activities will be measured by impact evaluations
Currently implementing	**Armenia** (30,150) **Cape Verde** (83) **El Salvador** (3,751) **Ghana** (19,667) **Honduras** (5,997) **Madagascar*** (35,123) **Nicaragua** (7,410)	**Armenia** (106) **El Salvador** (38) **Georgia** (188) **Ghana** (413) **Honduras** (416) **Madagascar*** (338)	**Armenia** ($4.228 million) **Cape Verde** ($.252 million) **Georgia**** ($9.613 million) **Ghana** ($13.105 million) **Honduras** ($9.90 million) **Madagascar***** ($1.08 million)	**El Salvador** (3,392 hectares) **Honduras** (6,000 hectares) **Nicaragua** (6,174 hectares) **Cape Verde** (4.5)	MCC investments in agriculture aim to increase incomes by creating jobs in the agriculture sector; increasing farmers' capacity, productivity, and access to markets; improving access to credit; and strengthening agribusiness.
Pending Implementation	Mali Morocco Mozambique	Cape Verde Morocco Mozambique	Burkina Faso Mali	Armenia Burkina Faso Ghana Mali Morocco Mozambique	

All program data are as of September 30, 2009. Data are preliminary and are subject to adjustment.

*MCC's compact with Madagascar has been terminated. Final project numbers are not available yet. ** This number has been revised downward to rectify an error in last quarter's reporting on Value of Agriculture Loans (Georgia) ***The "value of loans" indicator for Madagascar includes both agricultural and non-agricultural rural loans.

Results in Irrigation by Country

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (6 to 12 months)		Procurement for Works (4 to 8 months)	Construction (1 to 5 years)	Expected Outcomes (up to 15 years)
Indicator Type	Process	Process	Process	Process	Outcome
Progress Indicators	Value of signed contracts for feasibility, design, supervision, and program mgmt contracts	% disbursed for contracted studies	Value of signed contracts for works for irrigation systems	% contracted irrigation works disbursed	Expected upon completion of works
Totals	$43 million in studies contracted	39% disbursed for contracted studies	$133.2 million in works contracted	32% of contracted irrigation system works disbursed	Expected upon completion of works
Currently implementing	Armenia ($7.67M) Burkina Faso ($0.3M) Ghana ($7M) Mali ($8.4M) Morocco ($18.95M) Nicaragua ($0.7M)	Armenia (38%) Burkina Faso (78%) Ghana (9%) Mali (3%) Morocco (5%) Nicaragua (100%)	Armenia ($47.8M) Cape Verde ($6M) Mali ($79.4M)	Armenia (4%) Cape Verde (80%) Mali (12%)	MCC investments in irrigation include the construction and rehabilitation of irrigation systems and watershed management systems. They aim to increase income and productivity of agricultural producers.
Pending Implementation			Burkina Faso Ghana Morocco Nicaragua	Burkina Faso Ghana Morocco Nicaragua	

All program data are as of September 30, 2009. Data are preliminary and subject to adjustment.

Results in Roads by Country

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (12 to 36 months)		Procurement for Construction Contractors (6 to 9 months)		Construction (1 to 3 years)		Expected Outcomes (up to 15 years)
Indicator Type	Process	Process	Process	Process	Process	Output	Outcome
Progress Indicators	Value of signed contracts for feasibility, design, supervision, and program mgmt contracts	% disbursed for contracted studies	Value of signed contracts for road works	Kilometers (km) of roads under works contracts	% of contracted roads works disbursed	Kilometers (km) of roads completed	Expected upon completion of works
Totals	$96.5 million in studies contracted	48% of contracted studies disbursed; 4,170 km of roads under design	$526 million in works contracted	1,200 km of roads under works contracts	50% of contracted roads works disbursed	80.4 km of roads completed	Expected upon completion of works
Currently implementing	**Armenia** ($3.06M) **Burkina Faso** ($3.8M) **Cape Verde*** ($3.2M) **El Salvador*** ($8.3M) **Georgia** ($12.1M) **Ghana** ($17.1M) **Honduras** ($8.3M) **Mozambique** ($13.4M) **Nicaragua** ($6.9M) **Tanzania** ($18.5M) **Vanuatu**** ($1.8M)	**Armenia** (90%; 892km) **Burkina Faso** (145km) **Cape Verde** (83%*; 62.2km) **El Salvador** (36%; 150km) **Georgia** (63%; 253km) **Ghana** (33%; 1,186km) **Honduras** (68%; 200km) **Mozambique** (416km) **Nicaragua** (87%; 384km) **Tanzania*** (4%; 363km) **Vanuatu**** (63%;119km)	**Armenia***** ($4.7M) **Cape Verde** ($22.7M) **El Salvador** ($50.2M) **Georgia** ($166.1M) **Ghana** ($42.2M) **Honduras** ($107.7M) **Mali** ($34.8M) **Nicaragua** ($41.1M) **Vanuatu****($56.3M)	**Armenia***** (24.5 km) **Cape Verde** (40km) **El Salvador** (43.5km) **Georgia** (219km) **Ghana** (6km) **Honduras** (599km) **Mali** (81km) **Nicaragua** (68km) **Vanuatu** (119 km)	**Armenia** (100%) **Cape Verde** (87%) **El Salvador** (18%) **Georgia** (34%) **Ghana** (12%) **Honduras** (44%) **Mali** (25%) **Nicaragua** (69%) **Vanuatu** (59%)	**Armenia** (24.5km) **Cape Verde** (26.9km) **Vanuatu** (29km)	MCC investments in roads aim to reduce transportation costs, improve access to basic services, increase farm to market access, and facilitate trade.
Pending Implementation			Burkina Faso Mozambique Tanzania	Burkina Faso Mozambique Tanzania	Burkina Faso Mozambique Tanzania	Burkina Faso El Salvador Georgia Ghana Honduras Mozambique Nicaragua Tanzania	

All program data are as of September 30, 2009. Data are preliminary and subject to adjustment. *Additional studies associated with compacts have been funded by the governments in El Salvador and Tanzania, and by another donor in Cape Verde. **Design-Build contract, where the value of design work is included in the value of the works contract. Contract amount listed in first column is a supervision contract only.***Due to the operational hold on the roads project in the Armenia and Honduras compacts, MCC will no longer be funding additional works contracts that were previously reported.

Results in Property Rights and Land Property by Country

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

	Regulatory, Legal and Other Work	Public Outreach	Institutional Upgrading and Capacity Building	Clarification and Formalization of Land Rights	Expected Outcomes (up to 20 years)
Indicator Type	**Output**	**Output**	**Output**	**Output**	**Outcome**
Progress Indicators	**Preparatory Studies Completed; Legal and Regulatory Reforms Adopted**	**Stakeholders Reached**	**Buildings Built or Rehabilitated; Equipment Purchased; Stakeholders Trained**	**Rural Hectares (Ha) mapped/formalized; Urban Parcels mapped/formalized**	**Effective Property Rights System**
Totals	**39 studies completed; 8 legal and regulatory reforms adopted**	**122,519 Stakeholders Reached**	**122 buildings built/rehabilitated; $7.52 million in equipment purchased; 14,307 stakeholders trained**	**1,069,116 rural hectares mapped; 49,680 rural hectares formalized; 2,454 urban parcels formalized**	
Currently implementing	**Benin** (16 studies; 0 reforms) **Burkina Faso** (0 studies; 1 reform) **Ghana** (4 studies; 1 reform) **Lesotho** (1 study; 0 reforms) **Madagascar** (8 studies; 4 reforms) **Mali** (0 studies; 2 reforms) **Mongolia** (5 studies; 0 reforms) **Mozambique** (1 study; 0 reforms) **Nicaragua** (4 studies; 0 reforms)	**Benin** (38,960) **Ghana** (5,458) **Lesotho** (125) **Madagascar** (unavailable) **Mali** (614) **Mongolia** (7,921) **Mozambique** (406) **Nicaragua** (69,035)	**Benin** (0 bldgs; $0.88 mil; 62 trained) **Ghana** (0 bldgs; $0.07mil; 83 trained) **Madagascar** (114 bldgs;$4.8 mil;12,216 trained) **Mongolia** (0 bldgs, $0.00 mil, 308 trained) **Mozambique** (0 bldgs; $0.06 mil; 28 trained) **Nicaragua** (8 bldgs; $1.69 mil; 1,610 trained)	**Ghana** (3,501 rural Ha mapped) **Madagascar** (46,392 rural Ha mapped and formalized) **Mongolia** (988,334 rural Ha mapped) **Nicaragua** (30,889 rural Ha mapped; 3,288 rural Ha formalized; 2,454 urban parcels formalized)	Reduced Transaction Costs Increased Tenure Security Improved Allocation of Land Increased Transactions and Investment in Land and Property Increased Land Productivity and Value
Pending Implementation	Senegal	Burkina Faso Namibia Senegal	Burkina Faso Lesotho Mali Senegal	Benin Burkina Faso Lesotho Mali Mozambique Namibia Senegal	

All program data are as of September 30, 2009. Data are preliminary and subject to adjustment.

Program Restructuring, Re-Allocations and Other Revisions

MCC has introduced and reinforced a number of mechanisms for managing projects that face potential restructuring including:

- Quarterly portfolio reviews of all compacts;
- Early identification of high risk projects;
- Partner country collaboration in the development of restructuring plans; and
- Approval of restructuring plans at the appropriate MCC level.

MCC has integrated these experiences into its compact development process to ensure that programs can be adequately structured to respond to future completion risk, currency fluctuation, and variable construction costs.

Last year, MCC and MCAs worked together to formally restructure projects in three countries (Armenia, Mongolia, and Ghana). These projects were prompted by currency fluctuation, higher than expected construction costs, and host country driven withdrawal of a project. Each solution was customized and included project scope revision, re-allocation of program funds, and securing parallel financing from other donors.

Restructuring and re-allocation exercises for ongoing compacts will inevitably remain a reality in the upcoming years. MCC will continue to work to identify issues early and to manage these issues in a timely and cost-effective manner.

As a result, MCC has been forced to put projects on operational hold and in three cases ultimately to terminate projects. While it is difficult to predict the kinds of political developments which emerged in Armenia, Nicaragua, Honduras, and Madagascar, MCC has established a clear track record of taking action in these cases.

Summary of Project Restructurings and Re-Allocations in 2009

Country	Project	Cause	Solution Implemented
Armenia	Irrigation Infrastructure	Dollar depreciation Increased input costs	Project re-scoped to reduce the number of components to be repaired, focusing on irrigation infrastructure with high ERRs that can be completed within the compact term.
	Roads	Pattern of actions inconsistent with the criteria used by MCC to determine eligibility for assistance.	As a result of the June 2009 MCC Board of Directors meeting, funding will not resume for any further road construction under the compact. Approximately $59 million of compact funds will not be disbursed.
Mongolia	Rail Project	Unable to complete the financial audit of the UBTZ Railroad (the major condition precedent to the project) the Government of Mongolia notified MCC in April 2009 that it must withdraw the rail component from the compact.	Re-allocated funding from rail project to the expansion of the three remaining projects (Health, Education, and Property Rights) and developed new projects ensuring MCC investment criteria are maintained. New projects include rehabilitation of approximately 192 km of the major North-South road and a critical bridge, as well as an energy and environment project focused on energy efficiency, air quality, and alternative energy. At this time, no funds are projected to be deobligated.
Ghana	Transportation, Agriculture, and Rural Development	Increased project costs	Re-allocation of funds among projects from the agriculture and community services project to the transport project to cover cost increases on the N1 Highway and Ferry. All activities planned to continue.

Summary of Project Holds, Suspensions, and Terminations in 2009

Country	Project	Cause	Solution Implemented
Armenia	Roads	Due to a pattern of actions by the Government of Armenia inconsistent with the criteria used by MCC to determine eligibility for assistance, the MCC Board decided to place an operational hold on the project, leading MCC to fully disengage from the road project as of September 2009.	MCC funded designs for all planned kilometers and rehabilitated 25 kilometers; World Bank is funding up to 150 kilometers of the remaining originally targeted roads, and existing road works contracts have been transferred to the Government of Armenia.
Nicaragua	Property Regularization	Pattern of actions by the country inconsistent with the criteria used by MCC to determine eligibility for assistance. Electoral irregularities were reported surrounding the November 2008 municipal elections.	Funding for all activities in this project was terminated.
	Transportation		Terminated funding for road works not yet contracted, including upgrading a major stretch of the *Pacific Corridor Highway*, and technical assistance to the Government of Nicaragua. Continuing with upgrading 18 kilometers of highway and 50 kilometers of rural secondary roads.
Honduras	Transportation	Pattern of actions by the country inconsistent with the criteria used by MCC to determine eligibility for assistance. The manner of the removal of the President and the failure to reestablish democratic order in Honduras are contrary to sound performance on MCC's eligibility criteria, which require countries to demonstrate a commitment to "just and democratic governance."	In September 2009, MCC's Board voted to terminate assistance for the vehicle weight control activity, representing approximately $5 million. Additionally, MCC placed a hold on funding related to the Tegucigalpa to Villa de San Antonio section of highway CA-5, jointly financed with the Central American Bank for Economic Integration.
	Rural Development		In September 2009, MCC's Board voted to terminate assistance for approx. 93 kilometers of farm to market roads, representing approximately $5 million.
Madagascar	Compact terminated	Undemocratic transfer of power.	MCC's Board decided in May 2009 to terminate the compact. Termination was effective August 31, 2009 with administrative closure completed in December 2009.

Compact Closure and Post-Compact Planning

MCC published its *Guidelines for the Program Closure of Millennium Challenge Compacts* in September 2009 to ensure compact programs will be closed in an efficient and responsible manner. The Madagascar program termination in August 2009 provided important lessons that informed these guidelines.

MCC and partner governments must agree in writing on a program closure plan, focusing on both proper close-out of activities undertaken during the compact and ensuring to the extent possible the sustainability of the objectives achieved by the program during the compact term. The plan is intended to cover: wind-up or continuance of the MCA (the entity that implements the compact); closure of each project; and disposition of program assets. The plan also will include provisions for the communication to stakeholders of the closure of the program and the completion of budgeting, auditing, and reporting responsibilities of the MCA or the government after the compact ends. The plan also lays out the required tasks during a brief (up to 120 day) administrative closeout period following the compact closure date.

Sustaining MCC-Funded Activities after the Compact Ends

Compact programs must be completed within five years and the agency's view of sustainability focuses on sustaining ***results*** rather than sustaining ***activities***. In all cases, compacts are designed to generate benefits beyond the end of the five-year program. In some cases, the initial investment alone will generate adequate benefits over its lifetime, but in many cases, the expected continued stream of benefits is predicated on local expenditures in the upkeep of structures and institutions put in place with MCC funds. The program closure plans maintain this focus on sustainability and describe how activities are being closed-out in a manner that promotes continued achievement of project objectives.

Assessing Impact and Implementation of the Compact Program

In FY2010, MCC will finish development of a systematic strategy for the assessment of compacts upon completion. MCC will assess whether the MCA met compact objectives and established the technical and management related lessons learned from its implementation. The set of reports will assess the compact from a variety of perspectives, including, but not limited, to methodology, cost-benefit analysis, sustainability, program management, factors that cut across multiple compacts, detailed project performance, quality of implementation, and program outcomes. This assessment process will be applied to compacts closing out in FY2010 and beyond.

Building on Experience: Implementation Progress

MCC is continuing its ongoing effort to identify and address obstacles to efficient and effective program implementation. Critical requirements for achievement of both process and impact outcomes include:

- Effective target-setting for effective management
- Reasonable country capacity
- Access to appropriate skill sets within and external to MCC
- Smart project design (especially in mitigating restructuring risk)
- High-performing intermediaries (e.g., procurement and fiscal agents, project managers)
- Quality control of contractor performance
- Flexible and responsive procurement planning
- Anticipation and management of financial problems
- Management of completion risk
- Anticipation and management of political change
- Early and decisive intervention for trouble-shooting
- Early and ongoing social assessments, including gender and environmental assessments

These issues are being addressed systematically as they have emerged, and MCC is taking pro-active steps to incorporate past experience in order to maximize results and minimize risks. For example, a major focus has been on tightening target-setting standards, aligning targets for both MCC in Washington and the MCAs, and enforcing discipline for meeting targets. MCC has also been focused on accounting for deviations and utilizing quarterly portfolio reviews as a primary mechanism for reporting. There has also been a major ramp-up of training programs and working conferences designed to significantly upgrade MCA, MCC, and professional (procurement agent and fiscal agent) capacity in critical areas, including procurement, contract management, fraud and corruption awareness, communications, and reporting.

MCC is also striving to improve work planning and sensitivity analysis around key project drivers in order to ensure effective early warning of performance, completion, or financial risks to permit effective intervention, if needed. Key procurements are being designed to take advantage of past experience in terms of balancing flexibility and scale-ability with optimal bidding competition to maximize value for money as well as adaptability in the face of changing conditions on the ground. Technical expertise is being accessed through more flexible hiring mechanisms at both MCA and MCC.

MCC is also liaising closely with the State Department, USAID, and others to anticipate and manage potentially significant political changes in partner countries, as well as ensuring that open dialogue is maintained with all major political actors in partner countries. Operating budgets are being specifically designed to reinforce critical initiatives, with the objective of maximizing funding for primary operational targets and the achievement of results.

Selecting Partner Countries for a Second Compact

In FY2010, MCC selected Cape Verde as the first country eligible to begin development of a subsequent, also known as second, compact. If approved by MCC's Board of Directors, Cape Verde's second compact would not start until after the current compact ends. Second compacts are in keeping with MCC's mission, allowing MCC to make deeper investments in poverty reduction and economic growth. MCC's authority to enter into a second compacts once the first is concluded is spelled out in the Millennium Challenge Act of 2003, but a country's eligibility is not automatic. Eligibility is achieved after demonstrated continuation of a country's policy performance, effective implementation of the first compact, and progress on achieving results.

Eligibility for a second compact, therefore, is more difficult than for a first compact. A country seeking a second compact must meet higher standards for policy performance because the MCC indicator criteria have become more difficult to pass, particularly due to the addition of new indicators in 2008. Moreover, many current compact partners have graduated to the lower-middle income group during implementation of their first compact and now face higher standards than when first selected.

In addition, MCC assesses how well a country has implemented its first compact when determining eligibility for a subsequent one. The country being considered for a second compact must demonstrate capacity to implement a compact well, maintain a strong and effective partnership with MCC, and adhere to MCC's core policies and standards (such as for fiduciary oversight and for social and environmental guidelines).

The candidate country also must show strong progress on achieving compact results. While MCC cannot yet measure final compact outcomes for programs still under implementation, MCC closely measures interim progress toward compact goals.

MCC does not intend to have open-ended commitments with partner countries. MCC will assess the appropriate duration and nature of each partnership by assessing sustainability of development outcomes, and countries' ability to attract and leverage diversified public and private resources in support of development.

Appendix B

Current Threshold Program Status and Results

Current Threshold Program Status and Results

Since its inception in 2004, MCC has funded threshold program agreements worth close to $470 million with 19 partner countries in Africa, Asia and the Pacific, Eastern Europe, the Middle East, and Latin America. By the end of 2009, ten threshold programs had concluded.

These ten programs, in Albania, Burkina Faso, Jordan, Malawi, Paraguay, Philippines, Tanzania, Uganda, Ukraine, and Zambia, valued at $217 million, have contributed to significant improvements in partner government practices to increase government transparency and efficiency, expose and deter corruption, and invest in their people.

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

Countries	Signing Date	Expected Completion	Program Funds (in millions)
Albania*	4/3/2006	11/15/2008	$13.85
Albania Stage II	9/29/2008	2/28/2011	$15.73
Burkina Faso*	7/22/2005	9/30/2008	$12.90
Guyana	8/23/2007	2/23/2010	$6.71
Indonesia	11/17/2006	12/31/2010	$55.00
Jordan*	10/17/2006	8/29/2009	$25.00
Kenya	3/23/2007	6/30/2010	$12.72
Kyrgyz Republic	3/14/2008	6/30/2010	$15.99
Liberia	Eligible		
Malawi*	9/23/2005	9/30/2008	$20.92
Moldova	12/14/2006	2/28/2010	$24.70
*Niger***	*3/17/2008*		*$23.07*
Paraguay*	5/8/2006	8/31/2009	$34.65
Paraguay Stage II	4/13/2009	10/31/2011	$30.30
Peru	6/9/2008	1/31/2011	$35.59
Philippines*	7/26/2006	5/29/2009	$20.69
Rwanda	9/24/2008	12/31/2011	$24.73
Sao Tome & Principe	11/9/2007	1/31/2010	$7.36
Tanzania*	5/3/2006	12/30/2008	$11.15
Timor-Leste	Eligible		
Uganda*	3/29/2007	12/31/2009	$10.45
Ukraine*	12/4/2006	12/31/2009	$44.97
Zambia*	5/22/2006	2/28/2009	$22.74
			$469.20

* Completed Threshold Programs
**Suspended Threshold Program

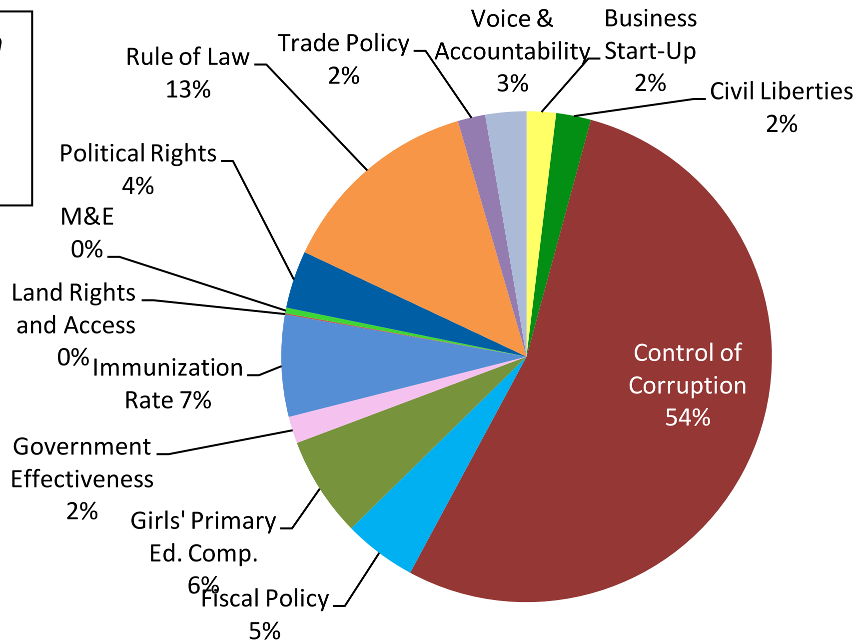
The majority of MCC's threshold program funding has been dedicated to anti-corruption and rule of law reforms. Significant funding has also been applied to improving primary girls' access to education and increasing immunization rates.

These programs have been implemented in partnership with USAID, the Department of Treasury, and the Department of Justice.

Niger's threshold program was suspended by MCC's Board of Directors in December 2009 because of the Government of Niger's recent actions that are inconsistent with MCC's eligibility criteria.

Threshold Program Funding by Indicator

As of December 15, 2009



Examples of Threshold Program Success Stories

Guyana's threshold program has made significant gains in improving fiscal policy and business registration. The program supported a complete restructuring of the Guyana Revenue Authority along functional lines, comprehensive staff training (420 officials), and implementation of the VAT. All of these activities led to improved revenue collection while improving taxpayer services, including an 86 percent reduction in tax arrears since 2007.

Jordan's threshold program upgraded 14 customs centers with an integrated risk management system and implemented the "Single Window" customs procedures in five locations to help decrease the possibilities of corruption and improve efficiency. In addition, the average time to complete the custom clearance process was reduced by 50 percent in four targeted MCC customs centers. The threshold program also strengthened the performance of community representatives in municipal planning and local governance, including improving the performance and participation in community planning of locally elected women officials.

In **Tanzania**, a parliamentary investigation of irregularities discovered by an MCC-funded procurement audit contributed to successful calls for the resignation of the Prime Minister and the dissolution of the Cabinet. Uncovering of non-compliance with procurement laws through 20 threshold program supported audits led to several grand corruption investigations by the Prevention and Combating of Corruption Bureau (PCCB). Donors have applauded the audits because they provide a diagnostic on how their assistance can be utilized more effectively.

Ukraine's threshold program supported several civil society networks that led to 114 advocacy campaigns and resulted in 127 reforms, including 10 at the national level. The threshold program also supported the creation of standardized testing for higher education admissions, which is now used across the country and has reduced corruption in the admission's process.

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

875 Fifteenth Street NW
Washington, D.C. 20005

www.mcc.gov