FY 2012

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL BUDGET JUSTIFICATION FISCAL YEAR 2012

The Millennium Challenge Corporation

Congressional Budget Justification

FY 2012

Executive Summary

(in $ millions)	FY 2010 Appropriated	FY 2011 CR Rate Annualized	FY 2012 Request
Compacts	**915**	**915**	**912**
Threshold	**0**	**0**	**0**
Due Diligence/Compact Development (609g)	**90**	**90**	**102**
Administrative Expenses	**95**	**95**	**106**
Inspector General/Audits	**5**	**5**	**5**
Total Appropriations/Request	**1,105**	**1,105**	**1,125**

The President has requested $1,125,100,000 to fund the Millennium Challenge Corporation (MCC) in Fiscal Year 2012. The request assumes passage of legislative changes needed to maximize the impact of MCC assistance through more innovative approaches to development assistance.

MCC anticipates using FY 2011 and FY 2012 appropriations to fund, all or partially, compacts with Malawi, Zambia, Cape Verde, and Indonesia and is working with newly selected countries Ghana and Georgia to develop compact proposals.

Established with strong bipartisan support in 2004, MCC's mission is to reduce poverty through investments promoting economic growth in poor countries that create and maintain sound policy environments. To date, MCC has signed large-scale grant agreements, or "compacts," with 22 countries, totaling approximately $7.9 billion.

There is bipartisan consensus that MCC's approach maximizes aid effectiveness by focusing on selectivity, country ownership, accountability, results and sustainability. MCC's investments help foster stability in partner countries and create opportunities to focus on sound policy reform. In determining eligibility for MCC funds, the agency evaluates whether a country has created the policy environment for sustained economic growth through 17 independent and transparent policy indicators that measure a country's commitment to ruling justly, economic freedom and investing in its own people. Once a country is selected as eligible to work with MCC, it is responsible for identifying key constraints to growth and conducting extensive consultations within its civil society.

MCC defines the responsibilities of partner countries in its compacts, including financial accountability and transparent procurement practices. MCC compacts specify measurable results to ensure that MCC assistance is used responsibly and effectively. To measure results, MCC completes benefit-cost analyses by developing economic rate of return (ERR) estimates for all compact projects and develops detailed monitoring and evaluation (M&E) plans.

To maximize returns on its investments, the MCC approach requires committing multi-year funding upfront, in contrast to other aid programs that obligate their appropriated funds each year. This flexibility, expressly provided by Congress in MCC's authorizing legislation, allows predictability of aid, better planning and the ability to fund cost-effective, long-term projects essential for sustained development. Multi-year, upfront funding makes it possible to consider large infrastructure projects that require secure financing, and lowers the costs of large investment projects by reducing the risk premium otherwise added when funding is uncertain. It also provides incentive for partner countries to undertake a progressive approach to policy and governance reforms essential for sustained, private sector-led growth. Most importantly, this funding model creates a powerful incentive for countries to pursue good policies.

As a learning institution, MCC continues to provide leadership in rigorous economic analysis and monitoring and evaluation of programs to better capture results and impacts, as summarized in the following section. MCC is committed to increasing the use of new partnerships and new financing structures that leverage the agency's work with the work of other organizations, non-traditional partners, and other U.S. Government agencies. Going forward, MCC is working to increase the emphasis placed on private sector participation and the use of innovative program approaches.

Supplemental progress information on MCC's compacts in implementation and the Threshold Program is available immediately following MCC's FY 2012 budget request in **Appendix A** that starts on page 27. **Appendix B**, the Annual Performance Report, starting on page 36, provides additional details on MCC's impact and results.

Ensuring Coordination through the Presidential Policy Directive

MCC continues to make significant contributions to President Obama's foreign policy priorities, including promoting global stability through elevating development and supporting new aid initiatives such as food security and fiscal transparency. Lessons learned from MCC over the last seven years made important contributions to the 2010 Presidential Policy Directive (PPD) on Global Development Policy, and MCC will be an integral part of implementing the PPD's focus on economic growth, selectivity, country-led planning, transparency, and accountability for results.

The Administration's PPD recognizes that growth is the foundation for reducing poverty and attracting investment to create jobs and economic opportunity in countries. MCC is at the center of the U.S. Government's commitment to long-term investments in global economic growth. President Obama regularly emphasizes that development is ultimately in the hands of countries themselves and that accountable and effective governance is a necessary ingredient. This is a core MCC principle, and MCC works with poor countries that have a proven track record of ruling justly, promoting economic freedom and investing in the needs of their people. Moreover, MCC's approach to the transparency of financial and program information in development assistance serves as a model for the Administration's efforts toward greater government-wide transparency.

To ensure not only MCC results but also the success of a whole of government approach to development, MCC coordinates with other U.S. Government and international donors to avoid redundant investments and to maximize opportunities for leverage and complementary assistance. In addition, MCC's standards for gender integration as well as its environmental, social, health and safety safeguards contribute to sustainable development and have been embraced by much of the development community. For more information on how MCC coordinates with other agencies, please see pages 50-55 of **Appendix B**.

Results Framework and Compact Closures

During fiscal year 2010, MCC demonstrated that results reporting is an invaluable tool for managing projects that improves development outcomes. The level and quality of MCC's results reporting is an example of MCC's staying true to our commitment to transparency and accountability.

MCC seeks to report results across the entire portfolio of investments along a continuum that can be measured, collected and reported throughout the lifecycle of projects, from compact signing and entry into force to compact closure and beyond.

The results that MCC is most interested in are increased incomes among program beneficiaries obtained through sustained economic growth, which could take years to generate. Even before incomes begin to rise, however, tangible results can be shown by tracking policy improvements and program outputs, as well as preliminary outcomes and impacts.

Honduras and **Cape Verde**, the first two countries to conclude their MCC compacts, illustrate the early results that MCC is producing with our partner countries. While more information regarding MCC's impact in both countries is available at www.mcc.gov, a short summary follows. A more detailed description of MCC's results can be found in **Appendix B** starting on page 36.

Honduras MCC and MCA-Honduras identified low agricultural productivity and high transportation costs as key barriers to economic growth and poverty reduction. The program, therefore, sought to improve small farmer productivity and investment in transportation. The $205 million compact was signed in September 29, 2005 and finished in September 29, 2010.	
Policy Reforms	• **Increasing access to credit through a moveable property registry**: Through the newly-enacted Secured Transaction Law and establishment of a movable property registry system enabling credit seekers to use an entirely new category of moveable, non-real estate property—such as shop inventory, future crops, tractors, supply contracts, and sewing machines—as collateral. • **Enabling responsible resettlement:** The Honduran government passed a special decree fully authorizing MCA-Honduras to carry out a comprehensive resettlement program that provided affected parties with timely and fair market-value compensation beyond current legislative allowances, managed resettlement activities effectively, cleared the right of way, and started and completed road construction more quickly than other projects investing in the same highway and facing similar resettlement needs. • **Ensuring road sustainability:** Both a weight control system and a road maintenance fund are necessary for sustainability. Although MCC terminated assistance for the weight control system, the Honduran government and other donors are stepping in to construct and operate the system designed by MCC. Also, at MCC's request, Honduras progressively increased its road maintenance budget from less than $40 million in 2005 to $64 million in 2010.
Outputs	• More than **7,000 farmers** received technical training in better crop management, irrigation techniques, business skills, marketing, and post-harvest handling. • More than **10,000 loans** have been extended to **5,800** farmers, agribusinesses and other producers, giving them the means to buy equipment, seeds and tools to help them expand their production and increase their profits. • A total of **611 kilometers of roads** have been rehabilitated, including sections of the *CA-5 Highway* as well as rural and secondary roads, reducing transportation costs and time to national, regional and global markets.
Preliminary Outcomes	• Of the farmers trained, **6,029** increased their production of high-value horticultural crops to earn **$2,000** or more per hectare, demonstrating their effective adoption of the new techniques. • Farmers have reported that with more income, they are improving their farms and homes, purchasing vehicles to transport their produce to market and investing in the education of their children.
Impact Evaluation	• Though MCC can point to real change in Honduras now, MCC's stringent standards for measuring and reporting results require independent evaluations to verify the immediate and long-term impact of our partnership. These evaluations, which are expected by September 2011, will measure the gains in income attributable to MCC investments. • Over the next 20 years, MCC's investment in Honduras is expected to benefit more than **1.7 million** Hondurans and increase incomes by about **$240 million**.

Cape Verde Low-income households engaged in subsistence farming have limited opportunities to adopt new practices to raise incomes, MCC and MCA-Cape Verde sought to increase agricultural productivity, build vital infrastructure and develop a robust private sector to transform agriculture into a productive, competitive business sector. The $110.1 million compact entered into force on October 17, 2005 and finished in October 17, 2010.	
Policy Reforms	• **Decree Lifting Embargo:** Cape Verde issued a national decree lifting 20-year embargo on agricultural exports from the island of Santo Antão put in place because of a millipede infestation, contingent upon the construction/operation of the MCC-funded post-harvest inspection center. This now gives Santo Antão farmers an outlet for income-generating trade. • **Road Maintenance Fund:** In response to the compact, the government established a Road Maintenance Fund that is financed by a levy on road users for maximum sustainability of the road improvements. • **Citizens' House (*Casa do Cidadão*):** The Citizens' House electronic system improves access to government services and the MCC Compact contributed to this e-government service through a Cape Verdean agency by investing in equipment, software and technical assistance valued at more than $3 million. In 2007, it took 52 days to start a business in Cape Verde. By 2010, Cape Verde had reduced both the cost and time to start a business to an hour; • **Microfinance Legislation:** As a condition precedent to providing technical assistance to micro-finance institutions, Cape Verde enacted a micro-finance law that, among other improvements, authorized MFI collection of savings.
Outputs	• To increase agricultural productivity in targeted rural watershed areas, **28 reservoirs** (100 percent of the target) have been completed, **549 farmers** have been trained in new technologies and four participating microfinance institutions have issued **$617,000 in rural agricultural loans** to **209 farmers or agribusinesses**. • Three rural roads, totaling **40.6 kilometers**, have been upgraded from cobblestone to asphalt pavement connecting coastal and inland villages with larger population centers and markets. In addition, all **four bridges** have been completed, reducing the average annual number of days riverbeds were impassable from eight to zero during the heavy rainy seasons and contributing to the overall improvement of Cape Verde's rural transport network. • The **Port of Praia's efficiency increased** with the completion of the first phase of work, including the construction of a cargo village and access road and the rehabilitation of quay 2. • To increase financial intermediation and competition in the government securities market and develop the private sector, MCA-Cape Verde provided **eight microfinance institutions with technical assistance**, building capacity through training on best practices in accounting, credit appraisal, delivery, collection, human resources management, and marketing. Cape Verde also is launching the first **private credit bureau.**
Preliminary Outcomes	• Reduced road roughness because of rehabilitated roads is expected to result in shorter travel time, increased mobility, reduced operating costs and improved access to employment opportunities, markets, educational and health care facilities, and other social services. The improved benefits stream will be measured as part of an initial ex-post *Economic Rate of Return Analysis* on road investments as well as an impact evaluation. • As farmers increase their agricultural productivity, they will also increase their household income from farm profits and wages. A rigorous post-compact impact evaluation will confirm the impact on household income.
Impact Evaluation	• Project evaluations are expected beginning in November 2011 through June 2014 and will measure the gains in income attributable to MCC investments. • MCC's investment in Cape Verde is expected to benefit nearly 385,000 Cape Verdeans and increase incomes by over $149 million over the next 20 years.

Compact Programs in Development

Request (in $ millions)	FY 2010 Appropriated	FY 2011 CR Rate Annualized	FY 2012 Request
Total MCC	1,105	1,105	1,125
Compact Program	**915**	**915**	**912**

MCC has a pipeline of six partner countries anticipated in FY 2011 and FY 2012. The MCC Board approved a compact with **Malawi** in January 2011. Compact presentations for **Indonesia, Zambia,** and **Cape Verde** are expected for Board approval in calendar year 2011.

Georgia and **Ghana** were selected by the Board of Directors in January 2011 as eligible to develop subsequent compact proposals. Pending board approval, both compacts, as well as a portion of funding for the Indonesia compact, would be funded with FY 2012 funds. For a longer discussion on subsequent compacts, please see page 24.

Compact Country Pipeline (in $ millions)			
Country Partner	**Signed with prior year funds**	**FY 2011 Funds**	**FY 2012 Requested**
Philippines	**435**		
Jordan	**275**		
Malawi	**210**[1]	**141**	
Zambia		**350**	
Indonesia		**354-374**	**346-416**
Cape Verde		**50-70**	
Georgia			**100-150**
Ghana			**350-400**
Total	**920**	**895-935**	**796-966**

[1] Malawi compact has been approved for signing by the MCC Board of Directors.

Partnerships with these countries will provide significant opportunities to enhance American interests by providing tangible assistance for poverty reduction through economic growth in Africa, Asia, Eastern Europe, and the Middle East. They include one of the world's most populous countries **(Indonesia),** some of the poorest countries (**Ghana, Malawi and Zambia**), and populations living in poverty in lower-middle income countries (**Cape Verde and Georgia**).

Profile of Current Compact Eligible Countries							
Country	**Population** (millions) CIA Factbook	**GNI per capita** (US$) World Bank	**Population <$2/day** (percent) WDI	**Population <$2/day** (millions) WDI	**Human Develop-ment Index** UNDP	**Adult Literacy** (% age 15 & above) UNDP	**Infant Mortality** (per 1,000 live births) CIA Factbook
Cape Verde	0.5	3,010	40	0.2	118	84	28
Georgia	4.6	2,530	30	1.4	74	100	16
Ghana	24.3	700	54	13.1	130	65	50
Indonesia	242.9	2,230	60	145.7	108	92	29
Malawi	15.4	280	91	14.0	153	72	84
Zambia	13.5	970	82	11.0	150	71	68

Together these countries account for over four percent of the world's population (over 300 million people) and over six 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 FY 2012 Compact Countries

For FY 2012, the President's request would enable MCC to sign compacts with Ghana and Georgia as well as fully fund a concurrent compact with Indonesia.

MCC's estimated budget requirements for these compacts are based on several factors, including total population, population living below national poverty lines, absorptive capacity, policy performance on MCC's indicators, and performance in previous compact implementation. Final compact amounts will be based on funding availability and on the scope of agreed upon projects.

MCC requests $912 billion of the total FY 2012 request for compact programs, divided between compacts for Georgia (est. $100-150 million) and Ghana (est. $350-400 million) and the second tranche of funding for a compact with Indonesia (est. total $700-770 million). The Indonesian compact would be funded over two fiscal years, broken out as $354-374 million in FY 2011 funds and $346-416 million in FY 2012 funds.

Indonesia

Indonesia is the fourth most populous country and the largest Muslim country in the world, with more than 100 million people living on less than $2 per day. Given Indonesia's strategic importance to the U.S., its economic potential, and the high number of people living in poverty, a large MCC compact is justified. As noted above, the current planning level, based on projected appropriations in FY 2011 and FY 2012, is $700-770 million. Enactment of concurrent compact authority would allow MCC to accelerate compact development and implementation, while ensuring adequate time for the more detailed, technical project development that is needed for complex projects.

Indonesia was first selected as compact eligible in December 2008, and MCC has been working with the government over the past two years to develop a five-year program. National elections in Indonesia delayed work in the first year. In the last year progress has picked up, and the Government of Indonesia (GOI) established a high level Steering Committee, conducted broad consultations with civil society and vetted hundreds of proposals for projects to promote economic growth and poverty reduction. The GOI core team has overseen an analysis that identified three key constraints to economic growth and poverty reduction and in September 2010 MCC agreed with the Indonesians on three investment themes: Green Prosperity to support a low carbon sustainable growth strategy; e-governance – to modernize public procurement in order to reduce corruption and increasing efficiency and effectiveness; and Access – to address workforce development and stunting, two significant issues in Indonesia. Preliminary designs of projects in the e-governance and access areas offer innovative solutions to long standing constraints to growth. For example, in the area of workforce education the

Indonesians are proposing an outcomes-based aid model of meeting specific industry training needs through private training providers. The e-governance project proposes deep policy and regulatory reforms to better control Indonesia's public procurements where improvements could have a huge impact on controlling corruption and improving public financial management. The area of Green Prosperity is intended to support Indonesia's transition to low carbon, sustainable growth strategies. We have discussed how the Compact might complement Indonesia's participation in REDD+, and we anticipate activities intended to support decreased demand for actions that lead to deforestation or that address the needs of communities that are affected by the moratorium. The Indonesians have proposed a number of projects in the area of renewable energy. Proposed projects will have to go through the due diligence process to validate their economic feasibility, their potential impact on reducing poverty, and their workability. Compact development is scheduled to be completed by July 2011.

MCC and the GOI are actively exploring opportunities to leverage existing donor financing and government investment, as well as new partnerships with Indonesian and U.S. private firms and foundations.

Ghana

The Republic of Ghana consistently performs well on MCC's indicator criteria and is generally viewed as one of Africa's most stable policy performers, evidenced in part by its inclusion as a pilot country for the President's Global Development Strategy's "Partnership for Growth" initiative. Since 2004, Ghana has scored among the top Lower Income Countries on the Control of Corruption indicator. In 2009, Ghana ranked better than almost two-thirds of all countries on Transparency International's Corruption Perceptions Index, and is preparing for transparent management of potential oil revenues (which are expected to be time-limited and modest relative to GDP).

In August 2006, MCC signed its first five-year compact with Ghana aimed at modernizing Ghana's agricultural sector to promote economic growth through three major projects. The Agriculture Project aims to improve and expand commercial agriculture for smallholder farmers. As of December 2010, over 45,000 farmers had received training on improved farming techniques and high-value agriculture and over 35,000 hectares of land are under production with MCC support. In addition, six cooling facilities have been installed to reduce post-harvest losses and maintain the freshness of produce as it is transported to markets. The Transportation Project was designed to link rural communities to markets and reduce transportation costs. Construction work on the N1 Highway, a major artery in Accra, and over 350 km of feeder roads is underway. The Rural Development Project supports basic community services for rural farm communities, such as access to drinkable water, safe school infrastructure, electricity and efficient financial services. Procurements are completed for 377 water points to improve access to clean water. More than 17,000 students now attend class in

74 new or rehabilitated schools. In addition, over 123 rural banks are now connected to a Wide Area Network that connects rural communities to the national payment system, enabling rapid and transparent transaction processing and reducing the clearing time for payments. The selection of Ghana for a subsequent compact by the Board in January 2011 offers opportunities to advance U.S. interests by addressing constraints to economic growth in one of Africa's most important regional anchors.

The economic constraints analysis is expected to be completed by June 2011 and concept papers will follow later this calendar year. During the project appraisal phase, MCC will coordinate with other USG initiatives to ensure a cohesive US engagement. This appraisal phase is expected to last through June 2012, and will be followed by Board vote and, if approved and funding is available, a possible compact signing later that year. Already, the Ghanaians have expressed their interest in public-private partnerships, which is also an MCC priority.

Georgia

Georgia is recognized globally as one of the best investment climate reformers even though 30 percent of its population still lives on less than $2 a day. Over the last five years, its scores on the World Bank's Doing Business assessment have improved more than any other country in the index. The country has made significant strides to privatize state-owned industries and improve its Transparency International rank on corruptions perception index. This good economic policy performance is reflected by the fact that Georgia has seen a 55 percent increase in new businesses registered. Georgia failed the Investing in People category for FY 2011, in part due to a temporary shortage of measles vaccines in 2009 that caused a decline in the immunization score. In addition to already addressing this problem, Georgia has prioritized investments in education in its national development plans.

In September 2005, MCC signed a five-year compact with Georgia to address its two main barriers to economic growth: a lack of reliable infrastructure and the slow development of businesses, particularly agribusiness. The Government of Georgia has been a committed partner, and the compact investments have delivered tangible results. The Samtskhe-Javakheti Road rehabilitation project, the signature project of the compact, has repaired 217 kilometers of road thus far, improving access to markets in Tbilisi and serving as a key regional transport corridor and border crossings with Turkey and Armenia, facilitating easier trade transit in Georgia and in the South Caucasus. It now takes 2 hours and 42 minutes to travel the road compared to 8 hours and 13 minutes. Through the Gas Pipeline Rehabilitation Activity the rehabilitation of 22 sites of the main gas pipeline in Georgia has improved regional and municipal service delivery providing increased energy reliability and security throughout the country. The Agribusiness Development Activity gave grants to improve the economic performance of 283 agribusiness and farm production projects, resulting in 2,600 jobs as of

September 2010, benefitting over 10,000 people. Businesses thus far report an increase in wages of almost $3.2 million and an increase in firm income of over $2.7 million. Impact evaluations measuring the compact's contribution to the reduction of poverty are underway.
Georgia was selected as eligible for a second compact by MCC's Board in January 2011. They have already identified a national coordinator in the Prime Minister's office and allocated funding to initiate the process. Consultations with MCC began in February 2011, and Georgia has begun a constraints analysis to identify critical barriers to private sector economic growth.

MCC expects that Georgia will submit project concept papers by the third or fourth quarter of calendar year 2011. To enhance the impact of MCC's assistance and ensure sustainability of investments, the Georgians are examining whether MCC funds can leverage private investment through public-private partnerships. During the project appraisal phase, MCC will emphasize not only technical and environmental feasibility, but also the institutional capacity of the implementing organizations and the need for policy reforms to reinforce sustainability. This appraisal phase will begin by early FY 2012, with the anticipation that MCC would present a compact for consideration by the Board before the end of FY 2012.

Update on FY 2011 Compact Countries

MCC expects that funds provided in FY 2011 will enable MCC to sign compacts with Cape Verde and Zambia, fully fund an approved compact with Malawi, and provide the first tranche of funds for a compact with Indonesia[2]. MCC is working with the respective national teams on project preparation studies and environmental assessments 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.

Malawi

On January 5, 2011, the MCC Board approved a $351 million compact with Malawi focusing on availability, reliability, and quality of the power supply, and addressing policy reforms needed to attract investment in the power sector. With only seven percent of the local population having regular access to electricity, lack of high-quality, reliable power is a critical constraint to growth in Malawi, one of the world's poorest countries. The compact program consists of two activities: the infrastructure development activity, which focuses on the power system in order to preserve and stabilize existing generation capacity and improve the capacity of the transmission and distribution network, and increase the efficiency and sustainability of hydropower generation; and the power sector reform activity which will provide support for the Malawi's policy reform agenda and building capacity in critical institutions such as the electricity utility, the Malawi Energy Regulatory Authority, and the Ministry of Natural Resources Energy and the Environment. These reforms, along with increased capacity in the distribution system, will provide the conditions necessary for Malawi to attract private investment into the power sector. In tandem with MCC funding, the Government of Malawi has committed to investing in the expansion of generation capacity at an existing hydropower plant in Malawi and funding the turnaround of the utility.

Cape Verde

MCC's first compact with Cape Verde was completed in October 2010, and will be in the administrative closure period through February 2011. Improvements to the port of Praia, to the island road system, and in agricultural practices are expected to benefit 385,000 Cape Verdeans and increase incomes by over $149 million over the next 20 years. The Government of Cape Verde established an active board of directors and a civil society stakeholder committee whose active guidance during compact implementation led to significant policy and institutional reforms that amplified the benefits of the compact's infrastructure investments, an example of the benefits of strong country ownership in the management of USG resources. For instance, in 2007, it took 52 days to start a business in Cape Verde. By 2010, Cape Verde had reduced both the cost and time to start a business to an hour

[2] The development of the Indonesia compact is discussed in the previous section (FY 2012 Compact Countries) because a portion of the total compact amount will come from FY 2012 funds.

Since being selected as eligible for a subsequent compact in December 2009, the Cape Verdeans have committed approximately $400,000 to date to the compact development process. Under the direction of the Minister of Finance they have conducted a rigorous economic constraints analysis and carried out broad consultations with civil society that resulted in five concept papers for investments. MCC provided technical feedback, and encouraged the government to make difficult decisions to narrow focus to no more than two projects addressing key constraints to growth. The Cape Verdeans selected water, sanitation and hygiene and property rights as the key priorities. The compact development and due diligence plan fully integrate MCC's strategic priorities of leveraging funds through private sector engagement, tight donor coordination, and incorporating significant policy reform into compact design, including special attention to gender concerns.

Given existing resources, as well as the desire to leverage private sector and other sources of financing when developing subsequent compacts, MCC has reduced the budget range for this compact from $75-100 million to $50-70 million. MCC has approved a $2.7 million 609(g) request to finance further project development, and we expect this compact to be submitted to the MCC Board for consideration in late FY 2011.

Zambia

Since being selected as compact eligible in December 2008, Zambia has made significant progress in the MCC compact development process. From November 2009 to February 2010, the Government of the Republic of Zambia conducted a constraints analysis to economic growth, initiated public consultations and submitted six project concept papers to MCC. MCC subsequently prioritized two of the proposed concepts for further assessment and possible project development: Greater Kafue National Park economic project and Lusaka water, sewerage, sanitation and drainage project. Preparatory studies are currently underway to determine the feasibility of proposed projects and other activities prior to compact signing.

Wildlife-based tourism in and around Kafue National Park has the potential to provide substantial revenues to both the Zambian economy as a whole, and to neighboring rural communities. However, a series of impediments limit this potential, including: inadequate infrastructure; a suboptimal regulatory framework and investment climate; limited capacity in the park management agency to manage the park; and inadequate policies and programs to promote community, conservation and participation in tangible benefits from sustainable natural resource use at the household level. To address these impediments, the proposed project offers a comprehensive approach by investing in infrastructure, park and wildlife management, and community development programs while relieving the pressures that development brings to Zambia's natural resources.

Zambia's capital Lusaka has over 35 peri-urban areas, of which 25 lack access to clean water supply and sanitation. Many of the Lusaka residents have no access to clean and safe water, and live in crowded unsanitary conditions thus exposing them to disease. About 850,000 people (60 percent of the urban population) in Lusaka's peri-urban areas depend on shallow wells for their supply of water, and are therefore at risk of contracting cholera and other related health problems. Due to poor drainage, most parts of Lusaka are subjected to frequent flooding during the rainy season, which negatively affects the health and productivity of the residents. The floods also cause pit latrines to overflow, thereby causing an environmental and health hazard. Poor drainage also contributes to high cases of malaria through stagnant and dirty pools of water which become breeding ponds for mosquitoes. The Lusaka water project aims to support a number of interventions that may include: the expansion of a water supply network and rehabilitation of the existing network; the extension of sewer network and provision of sanitation facilities; the burying of hand-dug shallow and contaminated wells in the project areas; drainage improvements and expansion; and conducting community based health and hygiene education activities.

Compact Development
609(g) and Due Diligence Request

Request (in $ millions)	FY 2010 Appropriated	FY 2011 CR Rate Annualized	FY 2012 Request
Total MCC	1,105	1,105	1,125
Total for compact development	**90**	**90**	**102**
609(g)	40	40	32
Due Diligence	50	50	70

For FY 2012, MCC requests $70.3 million for due diligence funds and $32 million for 609(g) grants, which includes funding to pursue innovative approaches to address partner countries' constraints to economic growth.

MCC's commitment to country ownership means helping partner countries gain the capacity to implement programs themselves while ensuring sustainability and ensuring MCC's high standards are maintained. 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 enhances the effectiveness of MCC's work with poor countries that have capacity constraints.

To date, MCC has provided or will soon provide, compact development assistance through 609(g) funding to Cape Verde, Indonesia, Malawi, Zambia, and the two requested FY 2012 countries, Georgia and Ghana. These grants are used for feasibility studies, environmental and social impact assessments, and detailed engineering designs on approved project concepts; together, these help MCC determine the final suitability and scope of investments, costs, implementation risks, and mitigation measures. These front-end investments contribute to speedier and more predictable disbursements, and earlier realization of benefits.

In order to fully realize the benefits of this increased compact development investment, 609(g) grants for countries under the compact development process, beginning with Moldova and Senegal, have increased, with 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 - $15 million each. For countries selected by the Board in January 2011 as compact eligible, we request $27 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. In FY 2012, MCC is requesting $70 million, reflecting the pace of new program development and the need for stepped-up evaluation of compacts nearing completion. MCC's compact with Honduras ended in September of 2010 and with Cape Verde ended in October of 2010; eight countries will conclude their compacts over the next 20 months (Georgia, Nicaragua, Vanuatu, Armenia, Benin, Ghana, El Salvador, and Mali). For all of these compacts, due diligence funds will support independent impact evaluations, contributing to MCC's lessons learned.

As part of the Administration's government-wide initiative to strengthen program evaluation, MCC's request includes $300,000 in due diligence funds for the Gender-Specific Impacts of MCA Benin Access to Land Project.

The Office of Management and Budget (OMB) received 59 evaluation initiative proposals from 19 agencies. MCC's proposal is one of the evaluation proposals specifically approved by OMB 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.

Innovation Fund

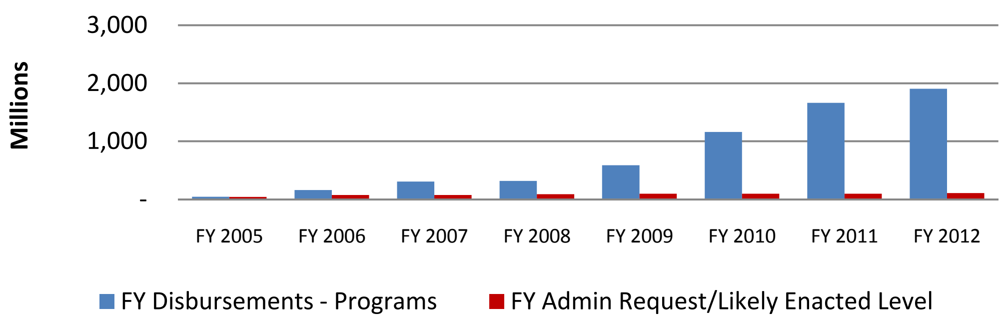
In response to OMB Memorandum (M-10-11) requesting executive departments and agencies to use competitive grant mechanisms such as prizes and challenges to promote innovative ways to further their policy objectives, MCC is budgeting $5 million in FY 2012 resources. Sections 609, 605, 614, and 616 of the Millennium Challenge Act authorize MCC to support competitive grants. MCC is currently reviewing all compacts (both current and future) to address whether competitive grants could be used to fund innovative approaches to address recipient countries' constraints to economic growth. In FY 2012, MCC will further its commitment to innovation in economic development in part through an award or prize using these FY 2012 requested resources.

Administrative Budget Request

Request (in $ millions)	FY 2010 Appropriated	FY 2011 CR Rate Annualized	FY 2012 Request
Total MCC	1,105	1,105	1,125
Total Admin Budget	**95.0**	**95.0**	**106.1**
Salaries & Benefits	52.5	53.0	54.4
Training	0.9	0.9	1.0
Contracted Services	7.6	9.2	9.7
Rent, Leasehold & Improvements	7.5	5.2	7.5
Information Technology	7.4	7.4	8.8
Overseas Operations	13.7	13.9	19.3
Travel	5.4	5.4	5.4

For FY 2012, MCC has requested an administrative budget of $106.1 million. While the request represents a twelve percent increase over FY 2010, MCC is continually working to control administrative costs by maintaining a high-performing staff, and by continually working to improve efficiency and effectiveness.

Administrative Expenses to Actual/Projected Disbursements



As compact and threshold disbursements are projected to increase by 64 percent from the FY 2010 levels administrative expenses are closely monitored and tightly controlled. The main increase in requested funds is due primarily to increasing overseas costs beyond MCC's control, as well as to improvements in information technology systems necessary to track and oversee compact resources, results reporting, to improve the efficiency and effectiveness of staff resources, and to achieve cost savings.

For FY 2012, MCC will need the funding to support the expansion into six new compact countries and the close-out of eight in the next eighteen months. In addition, MCC will continue to support core, including Partnerships for Growth, strengthening the focus on policy reform in partner countries, and expanding partnerships with the private sector.

Focus on Controlling Costs

<u>Salary and Benefits</u>

This request includes $54.4 million for salaries and benefits in FY 2012, a 4 percent increase from the FY 2010 appropriated level. The request represents the resources needed to maintain an average FTE level of 276 (or a 92 percent fill rate) for Washington-based staff. As of the end of FY 2010, MCC had filled 86 percent of its OMB-authorized level of staffing. Increasing the target fill rate by approximately six percent is critical to ensuring that MCC has the professionals needed to provide adequate oversight of its growing portfolio, its 33 separate bilateral relationships, a projected 64 percent increase in program disbursements, the development of six new compact programs, and the close-out of eight compacts over the next 18 months.

In FY 2011, MCC will begin to incur the associated staffing costs of Jordan, Malawi, and Indonesia compacts. Compacts ended in Honduras and Cape Verde in FY 2011, but the second compact with Cape Verde is expected to start in FY 2011. Georgia, Nicaragua, and Vanuatu will close in early FY 2011, but MCC intends to have a subsequent compact with Georgia in FY 2012. In the second half of FY 2011 and FY 2012, compacts end in Armenia, Benin, Ghana, but MCC intends to have a subsequent compact with Ghana in FY 2012. MCC will continue to incur overseas staffing costs in FY 2011 and FY 2012 until the existing compact programs are fully closed.

MCC has been able to control costs by implementing innovative training programs such as the learning management system, the frontline supervisor skills training, the individual development plans, the succession planning training and the steady workforce development program evaluation, helping to keep staff at their highest performance level and by decreasing its target fill rate in Headquarters to 92 percent. At a 92 percent target fill rate for FY 2012, a decrease of three percent from the FY 2010 fill rate target, MCC staffs are stretched but remain nimble and innovative, continually seeking to share lessons learned with rest of the USG as we pioneer new approaches.

The majority of MCC's administrative expenses directly support compact operations:

- Approximately 45 percent of the FY 2011 administrative expense request is for salaries and benefits, overseas expenses, travel, and other direct costs of compact operations.
- Of MCC's authorized level of 300 staff in Washington, over 50 percent work directly in compact operations.

- Nearly 40 percent of MCC staff are working in technical areas, helping to ensure that MCC's programs are well designed, responsibly implemented, and objectively evaluated, including:
    - 25 economists and other professionals in monitoring and evaluation;
    - 23 engineers and staff evaluating overseas infrastructure design and analysis;
    - 26 technical staff in agriculture, land rights, financial sector development, health and education;
    - 23 professionals in environment and social assessment; and
    - 24 team members overseeing compact finance and procurement activities.

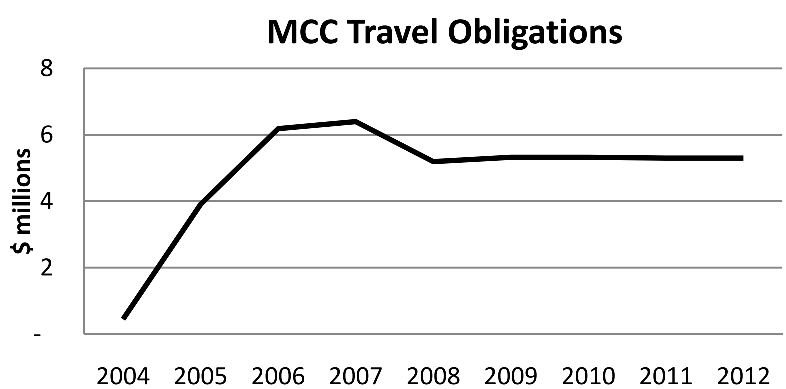
In order to further control costs, MCC has instituted the following:

- In accordance with the President's memorandum, MCC has frozen its salary tables for calendar years 2011 and 2012 for all of its federal employees.
- MCC will not issue across-the-board adjustments to rates of basic pay but will award merit increases based solely on individual performance.

Travel

Despite MCC's growing portfolio and an annual airline fare increase of approximately seven percent for the last four years, MCC has managed and intends to keep its travel obligations flat by continuing to:

- Combine trips in the same geographic regions when possible,
- Reduce the number of MCC staff required on mission related trips,
- Reduce conference related travel and increase the use of video teleconferencing, where practical.
- In lieu of paying for trips, enforce the use of corporate frequent flyer miles for airline travel.



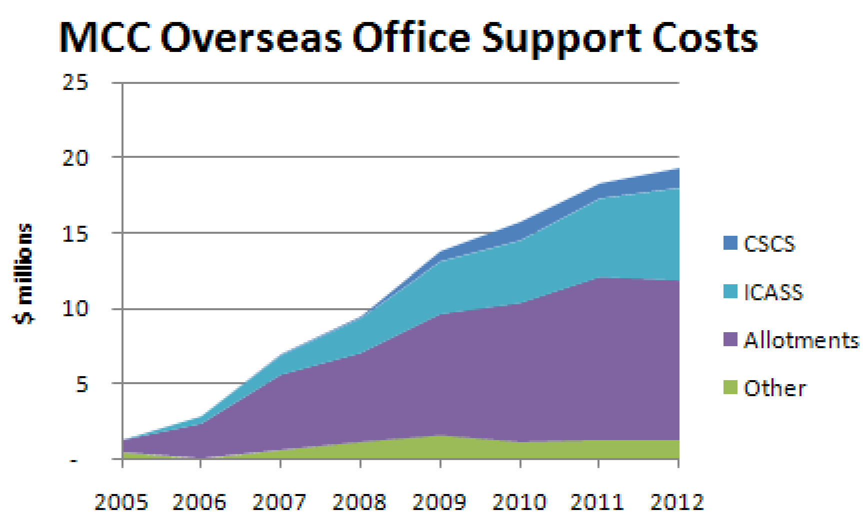
MCC has already achieved significant savings by adopting a more stringent requirement on business class travel than US government standards. This policy saved MCC more than $2 million in FY 2010 and the associated savings already have been incorporated into MCC's budget assumptions for FY 2011 and FY 2012.

Focus on Primary Cost Drivers

While MCC has focused on controlling costs, two components continue to put upward pressure on MCC's administrative expense budget: overseas operating costs and information technology.

Overseas Support Costs

MCC's overseas support costs have almost doubled since 2007 and continue to increase, accounting for over 41 percent of the increase from the FY 2010 enacted level to the FY 2012 request. The FY 2012 Budget includes $19.3 million for overseas operations in FY 2012, $5.6 million more than the FY 2010 enacted level.



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); Capital Security Cost Share (CSCS); and overseas operational costs, i.e. house leases, local salaries, educational allowances, and travel (collectively 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. MCC will complete compacts in two countries in FY 2011 – Cape Verde and Honduras. However, since Cape Verde will be implementing a second compact in late FY 2011 or early FY 2012, MCC has determined that it is more responsible both fiscally and programmatically to maintain the existing office space and local personnel during the transition between the two compacts. Since the ICASS year runs from

May 1 through April 30, any savings for Cape Verde won't be apparent until FY 2012. Likewise, MCC will not see any savings in ICASS or CSCS with the completion of the compact in Honduras until FY 2012. Any significant savings associated with the close-outs in Honduras will be offset with the new compact in Zambia and the two second compacts in Georgia and Ghana, both starting in FY 2012. In addition, due to the ICASS annual cycle, other upcoming compact closures in Nicaragua, Vanuatu, Armenia and Benin won't be reflected as budget reductions for MCC's ICASS bill until the FY 2013 budget.

MCC is working with the State Department to ensure the levels of reimbursement provided for ICASS and CSCS are in line with MCC's overseas footprint.

Information Technology:

The budget request includes $8.8 million for information technology in FY 2012, a 20 percent increase over the FY 2010 appropriated level of $7.4 million. This will support five important IT initiatives that will help MCC improve efficiency and effectiveness as well as maintain compliance with federal guidelines:

- Development of a comprehensive MCC enterprise architecture. To properly manage IT capital investments, MCC will finish the development of its Enterprise Architecture. The "as is" MCC business reference model was completed in 2010, the "as is" performance, data, services and technical reference models are anticipated in 2011. Additional resources will be required in 2012 to complete the target enterprise architecture, transition plan and gap analysis.
- Transition of office automation services to "the cloud" per OMB guidance, the MCC's Chief Information Officer (CIO) is transitioning to a hybrid cloud services model, and this transition has an associated one-time cost.
- Operations and maintenance of the MCC Integrated Data Analysis System (MIDAS) - MIDAS was built as the IT "system of record" for MCC and is the primary tool used by MCC to oversee compacts.
- Operations and maintenance of shared services and IT security - The shared services model has provided MCC with a reliable platform for IT services.
- Enterprise content management development - This initiative will provide the tools for robust internal and external collaboration with the various MCAs.

Other Administrative Costs

Training:

The budget request includes $1 million for training and staff development programs in FY 2012, a nine percent increase from the FY 2010 appropriated level. In FY 2012, the majority of the training budget will be used to sustain key skills 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 Services:

The budget request includes $9.7 million for contracted services, a six percent increase from the FY 2010 appropriated level. Most of MCC's financial management, payroll, and travel services are provided for MCC by the National Business Center, one of the U.S. Government's "Centers of Excellence." MCC has also partially or fully competitively sourced other administrative requirements, including contracting, human resources and information technology, and has used inter-agency agreements (IAAs) to provide other key services, such as an IAA with the Department of State for security. In order to control costs, MCC has implemented the following:

Contracts and Grants

In FY 2010, MCC realized savings of approximately $100,000 by re-competing existing contracts for administrative services. These savings have already been incorporated into MCC's budget assumptions for FY 2011 and FY 2012. 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.

Office Supplies and Printing

MCC receives at least a 10 percent discount on printing and office supplies. While mandated to use the Government Printing Office (GPO) for our printing requirements, MCC has cut cost on business cards and stationery accounts with Term Contracts. Term Contracts allow GPO to contract with one printer to provide services at a discount rate. MCC is also saving a minimum of 10 percent off the GSA schedule by contracting with OfficeMax for supplies.

Rent, Leasehold and Improvements:

The budget request includes $7.5 million for rent in FY 2012, unchanged from the FY 2010 appropriated level. MCC lease costs are below the equivalent cost per square foot that new commercial clients are paying in these buildings.

Inspector General Request

Request (in $ millions)	FY 2010 Appropriated	FY 2011 CR Rate Annualized	FY 2012 Request
Total MCC	1,105	1,105	1,125
Total Inspector General Budget	**5.0**	**5.0**	**5.0**

The following information is required to be reported to Congress under the 2008 amendments to the Inspector General Act.

The USAID OIG/MCC FY 2012 Budget Request sent to MCC is $5 million. The President's Budget requests the same amount. This request includes $0.486 million to satisfy OIG/MCC training requirements.

For FY 2010, the OIG has conducted 36 audits of which 22 were financial audits and 6 were performance audits. The OIG is planning to conduct 16 audits for FY 2011.

Eligibility Requirements for Subsequent Compacts

MCC's engagement with partner countries is not open-ended. MCC carefully considers the appropriate nature and duration of each country partnership based on the country's policy and implementation performance, as well as the opportunities to have an impact on growth and poverty reduction. This includes consideration of the potential sustainability of MCC's investments, and on the country's ability to attract and leverage public and private resources in support of development. These targeted, selective engagements are critical to ending the cycle of aid dependency, ensuring sustainability, and promoting country ownership.

A defining characteristic of MCC's model of aid effectiveness is selectivity – both in the countries it works with and the investments it makes. MCC partners only with countries that have a proven and sustained commitment to fostering their own economic growth and poverty reduction, and says "no" to those that do not. MCC has a mandate to partner with countries where investments will have the greatest potential returns in terms of poverty reduction and economic growth, and where U.S. taxpayer resources can be used most effectively. In some cases, the greatest opportunity for impact may be in deepening partnerships with countries that are currently, or have already been, MCC partners.

MCC aims to help countries solidify an economic growth path that attracts private investment allowing countries to move away from dependence on aid. While the agency does not intend to have ongoing long-term commitments with countries, in some cases subsequent compacts will play a pivotal role in the ability to reduce poverty, promote economic growth, and provide opportunities for MCC and partner countries to explore more innovative approaches, including strategic partnerships with the private and non-governmental sectors.

Subsequent compacts were envisioned by Congress and are explicitly authorized by section 609(k) of the Millennium Challenge Act of 2003. By engaging in subsequent compacts, yet being selective in choosing partners, MCC is able to keep incentives strong for countries to maintain good policy and implementation performance and use the experience gained in each country to make more effective, innovative investments going forward.

Deepening growth investments in countries committed to good governance directly supports the President's Global Development Policy. The policy directs the U.S to foster the next generation of emerging markets by supporting broad-based economic growth and democratic governance. Because of its mandate, MCC's is an integral of pursuing this goal, and MCC partners are among the best candidates for successfully meeting it.

MCC's Board is particularly selective when determining eligibility for follow-on partnerships. In addition to good policy performance, countries must show meaningful progress toward achieving first compact results before being considered for a subsequent compact. Of the eight countries that will conclude first compacts by the end of 2011 (Armenia, Benin, Cape Verde, Honduras, Ghana, Georgia, Nicaragua, and Vanuatu), MCC's Board has only selected three as eligible for a subsequent compact – Cape Verde in FY 2010 and Georgia and Ghana in FY 2011.

For the poorest countries, even the ones with the right policies in place, it takes decades of sustained growth to lift citizens out of poverty. For low-income countries like Tanzania or Ghana that have annual per capita incomes of $500 and $700 respectively, economists estimate it could take over 40 years to graduate out of the lower-middle income category even if they sustain annual per capita growth of four percent. This does not mean, however, that MCC engagement should last decades. On the contrary, MCC's role is limited and its approach can help countries change their growth path away from aid dependence and toward greater reliance on private sector investment and internally-generated revenue.

While a single compact alone cannot address all binding constraints to a country's growth, or transform an entire economy, a subsequent compact in a country that continues to perform well may present some of the best opportunities for MCC and partner countries to explore more innovative approaches, including strategic partnerships with the private and non-governmental sectors.

The design of subsequent compacts reflects MCC's expectation of an evolution in the nature of its relationship with these countries. In addition to requiring significant country resources in compact development and implementation, there is an increased emphasis on seeking compact partnerships with the private sector, other donors, and civil society; an increased emphasis on integrating social and gender analysis into compact processes; explicit application of lessons learned in first compact implementation; and a continued high standard for sustainability of outcomes from MCC-funded investments.

Proposed Legislative Changes

Compact Authorities

The President's FY 2011 and 2012 Budgets are linked to the Administration's proposed legislative changes to MCC's current authorities, including allowing for concurrent compact authority and longer compacts in certain circumstances.

The proposed 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.

Compact Partner Selection

MCC has also sought legislative changes aimed at ensuring that changes in countries' income categories do not prevent the agency from working with the best policy performing countries that also have populations living in extreme poverty. Sudden shifts in income category, due in part to changes in global inflation and exchange rates, pose serious policy and structural issues for MCC. These and other economic trends mean that a substantial number of compact-eligible countries are now in the Low Middle Income Country (LMIC) category.

Each year, countries abruptly graduate from one income category to another with no transition period. This impacts whether they can be candidates for MCC assistance at all, and changes both the policy performance standards against which they are measured and the levels of funding that they can receive.

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

Appendix A – Current Program Status

Summary of Compact Program Results

(As of September 30, 2010, unless noted)

The result that MCC is most interested in seeing – and being able to attribute to its support – is increased incomes among beneficiaries. MCC's focus is sustainable growth, so most of its investments take several years to implement and gradually generate new income over many years. Yet, even before incomes begin to rise, MCC countries show tangible results along a spectrum from inputs to impact. MCC tracks interim indicators such as number of farmers trained or miles of road constructed because these are the drivers of the income gains its investments aim to achieve.

MCC's investments are designed to reduce poverty through growth

- $7.9 billion of compact funds committed to fighting poverty
- 65 percent of MCC compact funds support investments in Africa

Projected Impacts

- MCC partnerships aim to increase incomes
- 171,729,564 people expected to benefit from MCC programs (As of February 2011)
- $12.3 billion increase in income for beneficiaries expected over the life of current MCC investments (As of February 2011)

Interim Results

- MCC tracks the drivers of income gains as programs move from inputs to impact
- Training farmers increases productivity, income-making potential, and food security
  - 148,157 farmers trained
  - 3,878 enterprises assisted
  - 82,510 hectares of land under production
  - $65.99 million agricultural and rural loans provided
  - $260 million contracted for irrigation system construction

- Roads allow citizens to save time and money, more easily and quickly reaching markets, schools, and health centers
  - 2,424 kilometers of roads under construction
  - 4,941 kilometers of roads being designed
  - 895 kilometers of roads completed

- Secure, transferable property rights to land and effective related services promote productivity investment and cost-savings
  - 182,743 stakeholders educated of their property rights and land administration systems
  - 15,005 personnel trained in land registration, surveying, land use planning, and conflict resolution
  - 1,054,966 rural hectares mapped (i.e., boundaries verified/demarcated, cadastral records or land use plans created/updated)
  - 33,524 rural hectares of land formalized (i.e., land rights formally documented)
  - 2,454 urban parcels of land formalized (i.e., land rights formally documented)

- Investing in health & education fosters a skilled workforce
  - 201 education facilities constructed or rehabilitated
  - 59,611 students participating in educational programs
  - 5,502 additional female students enrolled in educational programs
  - 833 instructors trained or certified

Compact Portfolio

Country Partner	Africa	Europe, Asia, and Pacific	Middle East	Latin America	Signing	Entry Into Force	Closed Dates
Madagascar[3],[4]	109.8				04/18/05	07/27/05	08/31/09
Cape Verde	110.0				07/04/05	10/17/05	10/17/10
Benin	307.3				02/22/06	10/06/06	
Ghana	547.0				08/01/06	02/16/07	
Mali	460.8				11/13/06	09/17/07	
Mozambique	506.9				07/13/07	09/22/08	
Lesotho	362.6				07/23/07	09/17/08	
Morocco	697.5				08/31/07	09/15/08	
Tanzania	698.1				02/17/08	09/17/08	
Burkina Faso	480.9				07/14/08	07/31/09	
Namibia	304.5				07/28/08	09/16/09	
Senegal	540.0				09/16/09	09/23/10	
Georgia[5]		295.3			09/12/05	04/07/06	
Armenia		235.7			03/27/06	09/29/06	
Mongolia		284.9			10/22/07	09/17/08	
Moldova		262.0			01/22/10	09/01/10	
Vanuatu		65.7			03/02/06	04/28/06	
Philippines		434.0			09/23/10		
Jordan			275.1		10/25/10		
Honduras[3]				215.0	06/13/05	09/29/05	9/29/2010
Nicaragua[3]				175.0	07/14/05	05/26/06	
El Salvador				460.9	11/29/06	09/20/07	
Total	**5,125.4**	**1,677.6**	**275.1**	**850.9**			

[3] Due to a pattern of actions inconsistent with MCC policy, the Madagascar, Honduras and Nicaragua compacts were reduced from their original amounts listed above, to $88 million for Madagascar, $205 million for Honduras and $113.5 million for Nicaragua.

[4] Madagascar was scheduled to close July 27, 2010, but it was terminated early on August 31, 2009 due to patterns of action inconsistent with MCC policy.

[5] In November 2008, MCC and the Government of Georgia signed an amendment to the Compact which provided an additional $100 million in compact funding to expand existing activities under the compact.

Long-Term Program Impacts

At present, MCC funds are projected to benefit 171,729,564 people and lead to approximately $12.3 billion in increased income. For most projects, MCC expects estimated income gains will be realized within a 20 year horizon after the compact enters into force. The table below shows the number of expected beneficiaries by country.

Compact	Estimated Number of Beneficiaries	Estimated Long-Term Income Gain Over the Life of the Project (NPV of Benefits)
Armenia	427,623	$424,862,716
Benin	13,421,086	$409,568,812
Burkina Faso	1,181,296	$186,872,277
Cape Verde	384,765	$149,471,371
El Salvador	794,811	$366,707,505
Georgia	344,244	$301,305,834
Ghana	1,217,133	$683,253,724
Honduras	1,704,553	$237,274,575
Jordan	TBD	$800,300,000
Lesotho	1,041,422	$376,048,666
Madagascar	480,347	$123,202,505
Malawi	5,900,000	$2,300,000,000
Mali	2,836,578	$457,098,832
Moldova	414,000	$259,940,491
Mongolia	2,897,985	$306,921,751
Morocco	845, 415	$860,408,732
Mozambique	4,565,136	$632,655,761
Namibia	1,063,413	$240,500,000
Nicaragua	107,832	$113,395,397
Senegal	1,662,129	$862,900,000
Philippines	125,000,000	$666,226,989
Tanzania	5,425,013	$1,474,290,895
Vanuatu	14,783	$54,000,000
Total for All Compacts[6]	**171,729, 564**	**$12,287,206,834**

[6] These estimates do not include beneficiaries of projects or activities terminated, suspended or on hold in Madagascar, Honduras, Nicaragua, and Armenia. Madagascar's estimates account for that compact's early termination. Net present value (NPV) of benefits is the present value of the benefit stream calculated as the sum of all projected benefits accruing within the first 20 years of the project lifespan, evaluated at a 10% discount rate. NPV of all benefits is reported in millions of US$ in the year that the ERR was completed. "TBD" beneficiary estimates for the Jordan compact will be finalized when the compact enters into force.

Threshold Program

MCC's Board or Directors may select countries as eligible for Threshold Programs in FY 2011 and/or FY12, but no additional funding will be required in FY 2012.

In June 2010, MCC presented to its Board of Directors a conceptual re-design of the Threshold Program based on the results from a year long review. The overall program goal remains the same—assisting countries to become compact eligible by enabling countries to demonstrate their commitment, through policy reforms, to the three broad policy areas of MCC's statute: Ruling Justly, Investing in People, and Encouraging Economic Freedom. Implementation of a country's threshold program also will provide the Board with additional information about MCC's opportunity to reduce poverty and stimulate growth in a country through a compact investment, one of three factors that MCC's statute instructs the Board to consider in selecting a country for compact assistance.

New threshold programs will continue to support a country's commitment to reforms in the three broad policy areas, but they will no longer be designed primarily to boost a country's indicator scores within a two to three year period. This adjustment directly addresses a critical finding of the threshold program review, that while policy indicators are useful proxies for comparing peer countries' performance in a range of policy areas to determine compact eligibility, they are not a satisfactory means of measuring program impact, and movements in indicator scores cannot be directly attributed to threshold program interventions.

The policy indicators that are captured on MCC's country scorecards remain critical to compact eligibility determinations, and MCC will continue to fund threshold programs in policy areas measured by the indicators; however, with the adjustments embodied in the revised threshold program, the focus will be on countries improving the more critical underlying policy areas, rather than narrowly-target improvements on the indicators—a more realistic goal. In any future programs, MCC will invest in policy improvements that present a constraint to growth in the country, strengthen governance and accountability, and help the country to become competitive for compact eligibility. MCC's revised threshold program also may create an environment more conducive to successful compact implementation by affording countries the opportunity, several years prior to a compact, to "front-load" reforms that require longer gestation periods and that, ultimately, enhance compact success. In this way, the revised threshold program aims to maximize continuity between threshold and compact programs.

The revised threshold program will more fully leverage the expertise and approaches of MCC and USAID into an even more robust partnership and whole-of-government approach, but will also place even greater emphasis on country ownership. The revised threshold program also will incorporate a "policy lab" component that will allow partner countries to experiment with innovative approaches to reform. We believe that this platform for experimentation will benefit partner countries and has the potential to contribute to improved aid efficacy and practice in US foreign aid.

MCC Threshold Portfolio

MCC Threshold Countries (in $ millions)					Signing Dates						
	Africa	**Eurasia**	**Latin America**	**Middle East**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Completion Date**
Burkina Faso	12.9				Jul 22						9/30/2008
Malawi	20.9				Sep 23						9/30/2008
Tanzania	11.2					May 03					12/30/2008
Zambia	22.7					May 22					2/28/2009
Kenya	12.7						Mar 23				12/31/2010
Uganda	10.4						Mar 29				12/31/2009
Sao Tome & Principe	7.4						Nov 09				4/15/2011
Niger	23.1							Mar 17			Suspended
Rwanda	24.7							Sep 24			12/31/2011
Liberia	15.1									Jul 6	9/30/2013
Albania		13.9				Apr 03					11/15/2008
Ukraine		45.0				Dec 04					12/31/2009
Moldova		24.7				Dec 14					2/28/2010
Kyrgyz Republic		16.0						Mar 14			6/30/2010
Albania II		15.7						Sep 29			7/31/2011
The Philippines		20.7				Jul 26					5/29/2009
Indonesia		55.0				Nov 17					12/31/2010
Timor-Leste		10.5								Sep 22	10/31/2013
Paraguay			34.6			May 8					8/31/2009
Paraguay II			30.3						Apr 13		10/31/2011
Guyana			6.7				Aug 23				2/23/2010
Peru			35.6					Jun 09			7/31/2011
Jordan				25.0		Oct 17					8/29/2009
Total	**161.1**	**201.5**	**107.2**	**25.0**	**2**	**9**	**4**	**5**	**1**	**2**	

Compact 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 4 countries (Ghana, Mozambique, Morocco and Tanzania). These project changes 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, or 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.

In the past, MCC has been forced to put projects on operational hold and in three cases ultimately to terminate projects because of patterns of actions inconsistent with the agency's policy criteria. 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. There were no project holds, suspensions or terminations due to policy considerations in FY 2010.

Summary of Restructurings and Re-Allocations in 2010

Country	Project/Activity	Cause	Solution Implemented
Ghana	Transportation Project	Increased costs due to design changes and construction inputs and spike in world prices (i.e. oil and construction costs) impacted financial bids.	Re-allocation of $39.79 million at the project level to accommodate appropriate levels of contingencies and address higher than estimated costs for highly specialized works contracts.

Summary of Restructurings and Re-Allocations in 2010 (continued)

Mozambique	Large Cities Water Project including Nacala Dam Rehabilitation	Estimated construction budget from final engineering design in excess of allocated construction budget	Reallocation of funds to cover full water supply system in one city with limited groundwater investigations in two cities. Reallocation of funds from urban water supply project to cover full rehabilitation of Nacala Dam.
	Rural Water Supply Project	Compact allocated construction budget insufficient to construct proposed 600 rural water points	As a scalable activity, reduced the total number of boreholes expected to be drilled from 600 to 300-400.
	Roads Project	Estimated construction budget from final engineering design in excess of allocated construction budget for an estimated 500 kilometers.	Reallocation of funds to cover an estimated 250 kilometers of road construction.
Morocco	Artisan and Fez Medina Project	In Spring of 2010, the Government of Morocco requested a restructuring of the Artisan and Fez Medina project, and the Makina component of the project was subsequently removed.	MCC is currently considering a proposal submitted by MCA-Morocco to reallocate these funds to the Fruit Tree Productivity Project.

Summary of Restructurings and Re-Allocations in 2010 (continued)

Tanzania	Mainland Trunk Roads Zanzibar Rural Roads Mafia Island Airport	Actual or projected financial bids are in excess of the allocated construction budget	Consistent with the Compact's Program Implementation Agreement, the Government of Tanzania has committed the necessary funds to fully fund and implement these activities.
	Non-Revenue Water	Economic rates of return for both construction packages fell below MCC's 10 percent hurdle rate after detailed design and final construction cost estimates.	Construction for this activity was not funded and $25 million was reallocated to offset costs associated with water activities.
	Malagarasi Hydropower and Kigoma Distribution	Project design would critically alter the habitat of three newly identified endemic species.	While potential environmental mitigation measures were considered, time and information constraints precluded incorporation of such measures in time to complete construction. MCC determined that the activity could not go forward as originally planned. Alternative activities which will improve and increase electricity in the Kigoma region are being developed.

Summary of Project Holds, Suspensions, and Terminations in 2010

Country	Project	Cause	Solution Implemented
	MCC initiated no project holds, suspensions or terminations in 2010.		

Appendix B – Annual Performance Report

Annual Performance Report

Purpose

For FY 2010, the Millennium Challenge Corporation (MCC) has chosen to use an alternative to the Performance and Accountability Report (PAR) and produce a separate agency financial report (AFR) and an annual performance report (APR). This APR is prepared in compliance with the Government Performance Results Act requirements as outlined in OMB Circular A-11, section 230.

This report summarizes MCC's progress since fiscal year 2010 towards achieving the goals in its strategic plan and performance budget and provides its strategic goals for fiscal years 2011-2015 along with annual goals for fiscal year 2011. MCC's Agency Financial Report for Fiscal Year 2010 can be accessed at www.mcc.gov.

Compact Programs Results Framework

MCC begins tracking a compact's performance on processes and outputs when it enters into force and continues tracking high-level outcomes and impacts throughout the compact term to concretely assess how compact activities have affected poverty and economic growth.

MCC is committed to the principles of performance measurement mandated under the *Government Performance Results Act of 1993 (GPRA)* and applies this focus to results for compact programming. MCC monitors progress toward compact results on a regular basis using performance indicators that are specific to its Monitoring and Evaluation (M&E) Plan. The M&E Plan specifies indicators at all programmatic levels so that progress toward final outcome results can be tracked at every step.

MCC's results framework also establishes a more rigorous method for program performance, both in terms of attribution and significance. MCC is committed to conducting independent impact evaluations of its programs as an integral part of its focus on results. In order to fulfill MCC's commitment to tracking results all the way through high-level impacts on poverty and economic growth, monitoring and evaluation is integrated into all phases of compact operations – from compact development through implementation.

MCC is investing resources in program evaluations that meet the highest standards of rigor, and the information that is generated will be used as MCC, other donors, and our country partners make decisions about future investments.

MCC has established itself as a leader within the foreign assistance community in its evaluation practices and is actively engaging others to use similarly rigorous approaches through venues such as the multi-lateral Network of Networks on Impact Evaluation (NONIE) and the International Initiative for Impact Evaluation (3ie). MCC's approach to impact evaluation is a critical part of its evidence-based approach to enhancing aid effectiveness, and goes far beyond that used by other foreign assistance agencies in a number of important ways:

- Independence: MCC projects are evaluated by highly credible external evaluators;
- Scope: MCC has committed to contracting outside evaluators for the vast majority of its activities (the portfolio of evaluations will be made according to MCC strategy and reflect the fact that 100 percent coverage is neither practical nor cost-effective);
- Rigor: MCC projects are being evaluated in terms of their impact on local incomes – roughly half of MCC activities have integrated experimental or quasi-experimental designs, and most of the remaining activities will be evaluated using pre-post comparisons, supplemented by pre-investment benefit-costs analyses; and
- Transparency: MCC documents on its public website its overall impact evaluation strategy, and how that is reflected in each country's evaluation portfolio, as well as all reports and data generated by the independent evaluators. Although MCC reserves the right to comment on initial drafts, the independent evaluators have final decision on where they publish their results and what they publish.

Not all of MCC's investments will demonstrate their full impacts by the end of a compact, but as opportunities to learn are identified, MCC will return to partner countries and conduct follow-up surveys to measure longer-term impact. MCC also knows that not all activities will generate the impacts that were originally projected but it has made a commitment to learn from its experience by documenting the actual results and using this information in its future economic analyses and investment decisions.

Threshold Programs

MCC's Threshold Program assists countries in becoming compact eligible by supporting policy and institutional reforms in the areas of Ruling Justly, Investing in People and Economic Freedom. Threshold partners are countries that do not meet the criteria for compact eligibility, but may be viable compact candidates in three to four years and who are committed to reform. MCC's authorizing legislation allows the use of up to ten percent of appropriated funding for the threshold program.

Performance Summary by Strategic Goal

In accordance with the Government Performance and Reporting Act (GPRA), the Board approved MCC's Strategic Plan on November 8, 2005, covering FY 2006 to FY 2011.

The FY 2006-FY 2011 Strategic Plan defined four strategic goals for MCC:

1. Achieve sustainable, transformative development
2. Support development of a sound policy environment for economic growth and poverty reduction in the developing world
3. Advance international development assistance practice by continually improving MCC's operational effectiveness
4. Build MCC's capabilities to achieve its primary strategic goals

Strategic Goal 1:

Achieve sustainable transformative development

As of September 30, 2010, MCC committed 189 percent of its FY 2010 targets for commitments and disbursed 139 percent of its FY 2010 targets for disbursements. As reflected in the table below, with few exceptions, MCC also exceeded all of its FY 2010 targets across all core sectors for its current compacts.

Compact Commitments by Sector

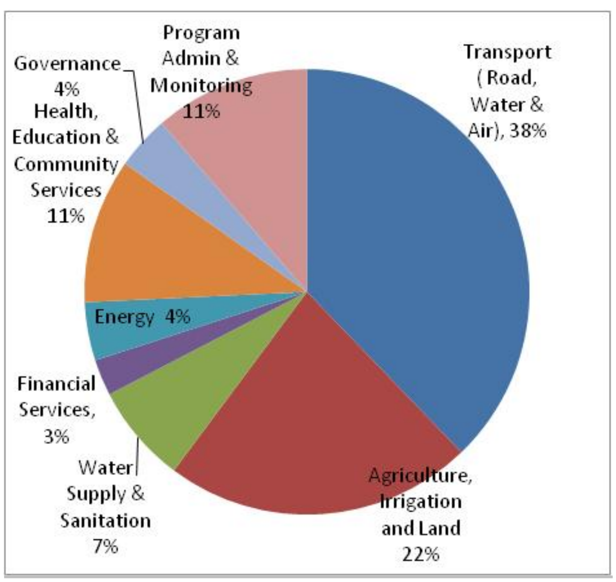


Table 1: FY 2010 Performance across Core Sectors

Sector	Countries Tracked	Indicator	Cumulative Target in FY2010 (+/- 10 percent)	Actual	Performance on FY2010 Targets	Results
	MCC	Core Sector Commitments (in $ millions)	$995.69	$1,880.80	189%	Met
	MCC	Core Sector Disbursements (in $ millions)	$800.00	$1,114.00	139%	Met
Roads	**Armenia, Burkina Faso, Cape Verde, El Salvador, Ghana, Georgia, Honduras, Mali, Mozambique, Nicaragua, Tanzania, Vanuatu**	Value of signed contracts for road works	$753.00	$1,192.00	158%	Met
		Kilometers of roads under works contracts	1,450.00	2,424.07	167%	Met
		Kilometers of roads completed	450.00	895	199%	Met
Agriculture & Irrigation	**Armenia, Burkina Faso, Cape Verde, El Salvador, Ghana, Georgia, Mali, Honduras, Madagascar, Morocco, Nicaragua**	Value of signed contracts for irrigation works (in $ millions)	$160.00	$260.00	163%	Met
		Number of farmers trained	112,000.00	148,157	132%	Met
		Hectares under production	47,000.00	82,510.10	176%	Met
Water and Sanitation	**El Salvador, Lesotho, Ghana, Georgia, Mozambique, Tanzania**	Value of signed contracts for water and sanitation works (in $ millions)	$63.00	$69.82	111%	Met
Education	**Burkina Faso, El Salvador, Ghana, Morocco, Mongolia, Namibia**	Value of signed contracts for construction and/or equipping of educational facilities (in $ millions)	$30.00	$50.20	167%	Met
Land	**Benin, Burkina Faso, Ghana, Lesotho, Mali, Madagascar, Mongolia, Mozambique, Nicaragua**	Stakeholders trained	17,700	15,005	85%	Not Met
		Urban parcels formalized[7]	17,500	2,454	14%	Not Met
		Rural hectares formalized[8]	479,000	33,524	7%	Not Met

[7] The "urban parcels formalized" target largely comprises two countries, Benin (approx. 86% of target), and Lesotho (approx. 9%).

[8] The FY 2010 target for "rural hectares formalized" was largely based on two countries, Mongolia (approx. 60% of target), and Benin (approx. 28%).

Figure 1: Results in Agriculture and Irrigation

Why Invest in Agriculture and Irrigation? MCC investments in agriculture and irrigation aim at increasing income and reducing poverty. This is done by providing technical assistance and training and increasing access to agricultural inputs, including water and credit, thereby expanding technical and physical capacity and improving resource use in the agriculture and agribusiness sectors. In turn, this is expected to lead to greater productivity and farm revenues. MCC interventions in agriculture often include irrigation activities, sometime on a large scale. Agriculture activities also complement other MCA compact activities, such as the rehabilitation of rural roads and land tenure reform, tracked separately.

	Feasibility and/or Detailed Design	Construction/Capacity Building/Other Support to Farmers and Enterprises		Increasing Capacity and Resources Use	Growth in the Agricultural Sector
	Process	**Process**	**Output**	**Outcome**	**Objective**
Progress indicators	1. Value of irrigation feasibility and/or detailed design contracts signed 2. Percent of irrigation feasibility and/or detailed design contracts disbursed	3. Value of irrigation construction contracts signed 4. Percent of irrigation construction contracts disbursed	5. Number of farmers trained 6. Number of enterprises assisted 7. Hectares under improved or new irrigation	8. Hectares under production 9. Value of agricultural and rural loans 10. Number of farmers that have applied improved techniques 11. Number of enterprises that have applied improved techniques	12. Increase in agricultural value-added or income
Totals	**$43.68M in design contracts, 38.04% disbursed**	**$260M contracts, 32.52% construction disbursed**	**148,157 farmers trained, 3,878 enterprises assisted, 4,856.8 ha**	**82,510.1 ha, $65.99M loans, 19,389 farmers with new techniques, 30 enterprises with new techniques**	**Expected upon completion of works and training or in post-compact period**
Currently implementing	**Armenia** ($4.5M, 76%) **Burkina Faso** ($5.86M, 16%) **Cape Verde** (N/A) **Ghana** ($3.6M, 58%) **Georgia** ($1.16M, 59.4%) **Mali** ($8. 96M, 39%) **Morocco** ($18.9M, 28%) **Nicaragua** ($0.7M, 100%)	**Armenia** ($96.8M, 31%) **Cape Verde** ($5.04M, 91%) **Mali** ($126.67M, 37.7%) **Morocco** ($31.49M, 7%)	**Armenia** (43,787 farmers, 185 ent) **Cape Verde** (549 farmers, 12.8 ha) **El Salvador** (8,205 farmers, 76 ent) **Georgia** (286 ent) **Ghana** (45,472 farmers, 2,543 ent) **Honduras** (7,265 farmers, 464 ent, 4,844 ha) **Madagascar*** (31,366 farmers, 324 ent) **Mali** (1,199 farmers) **Mozambique** (1,568 farmers) **Nicaragua** (8,746 farmers)	**Armenia** ($8.4M) **Cape Verde** ($.528M, 100 farmers) **El Salvador** (10,710.1 ha, $4.8M, 1,655 farmers, 23 ent) **Georgia** ($18.48M) **Ghana** (29,615 ha, $15.6M, 6 ent) **Honduras** (19,815 ha, $17.1 M, 6,996 farmers) **Madagascar*** ($1.08M, 1,892 farmers, 1 ent) **Morocco** (9,263 ha) **Nicaragua** (13,107 ha, 8,746 farmers)	Most increases in income attributable to MCC activities to be measured by impact evaluations. Evaluations are in progress in: Armenia, Burkina Faso, Cape Verde, El Salvador, Georgia, Ghana, Honduras, Madagascar, Mali, Mozambique, Nicaragua
Pending		Burkina Faso Mozambique	Burkina Faso Morocco	Burkina Faso Mali Mozambique	

All program data are as of September 2010. Data are preliminary and subject to adjustment. *These values represent a decline from values previously recorded due to the final reconciliation of performance data following termination of the Madagascar Compact.

Figure 2: Results in Roads

Why Invest in Roads? MCC investments in roads are part of a variety of MCA compact projects. In **transportation** projects, roads rehabilitation and construction primarily aim to lower transport costs by reducing travel time and vehicle operating costs; improve access to public basic services such as health and education, particularly for the rural poor; and facilitate international and regional trade. In **agriculture** projects, roads primarily aim to link producers to markets for their goods and to inputs for their production year round. In some cases, roads are a part of **irrigation** projects to provide access to, from, and within irrigated areas.

	Feasibility and/or Detailed Design	Procurement for Construction Contractors	Construction		Expected Outcomes	Expected Objectives ‡
Indicator Type	Process	Process	Process	Output	Outcome	Objective
Progress Indicators	1. % disbursed for contracted studies 2. Km of roads under design	3. Kilometers (km) of roads under works contracts	4. % of contracted roads works disbursed	5. Kilometers (km) of roads completed	Increased Traffic, Reduced Travel Times	Increase in Income from reduced travel time and vehicle operating costs and increased regional and international trade
Totals	48.1% of contracted studies disbursed; 4,941.5 km of roads under design	2,424.07 km of roads under works contracts	43.13% of contracted roads works disbursed	895.63 km of roads completed	Average daily traffic, average travel time	Expected after completion of works
Currently implementing	**Armenia** (90%; 892 km) **Burkina Faso** (11%, 536 km) **Cape Verde** (92%; 63.4 km) **El Salvador** (42.61%; 179.2 km) **Georgia** (86.1%; 220 km) **Ghana** (96%;776.3 km) **Honduras** (62.8%; 673 km) **Mali** (68%, 81 km) **Mongolia** (17.7 km) **Mozambique** (13%, 491 km) **Nicaragua** (100%; 398.6 km) **Tanzania*** (25%; 464.3 km) **Vanuatu** (100%; 149 km)	**Armenia***** (24.5 km) **Cape Verde** (40.6 km) **El Salvador** (156.41 km) **Georgia** (220 km) **Ghana** (399.16 km) **Honduras** (673 km) **Mali** (81 km) **Mongolia** (176.4 km) **Nicaragua** (74 km) **Tanzania** (430 km) **Vanuatu** (149 km)	**Armenia** (100%) **Cape Verde** (100%) **El Salvador** (32.3%) **Georgia** (64.5%) **Ghana** (27%) **Honduras** (65.5%) **Mali** (53%) **Nicaragua** (100%) **Tanzania** (11.5%) **Vanuatu** (88.8%)	**Armenia** (24.5 km) **Cape Verde** (40.6 km) **Georgia** (54.4 km) **Honduras** (610.1 km) **Mali** (21.03 km) **Nicaragua** (74 km) **Vanuatu** (71 km)	Rehabilitated roads will reduce travel times, lower vehicle operating costs, and increase traffic volumes.	Most income increases attributable to MCC activities will be measured by impact evaluations
Pending Implementation		Burkina Faso Mozambique	Burkina Faso Mozambique	Burkina Faso El Salvador Ghana Mozambique Tanzania		

All program data are as of September 2010. 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. ^^Design numbers for Ghana have decreased due to a rescoping of the roads project. ‡All MCC education programs have as their long-term end goal an increase in individual or household income and a corresponding decrease in poverty.

Figure 3: Results in Land and Property

Why Invest in Property Rights and Land Policy? MCC's Property Rights and Land Policy (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 national and local institutions, and land-related outreach and education are aimed at reducing transaction costs, increasing tenure security and improving access to land. This, in turn, will result in increased transactions and investment in land and property and higher land productivity and value.

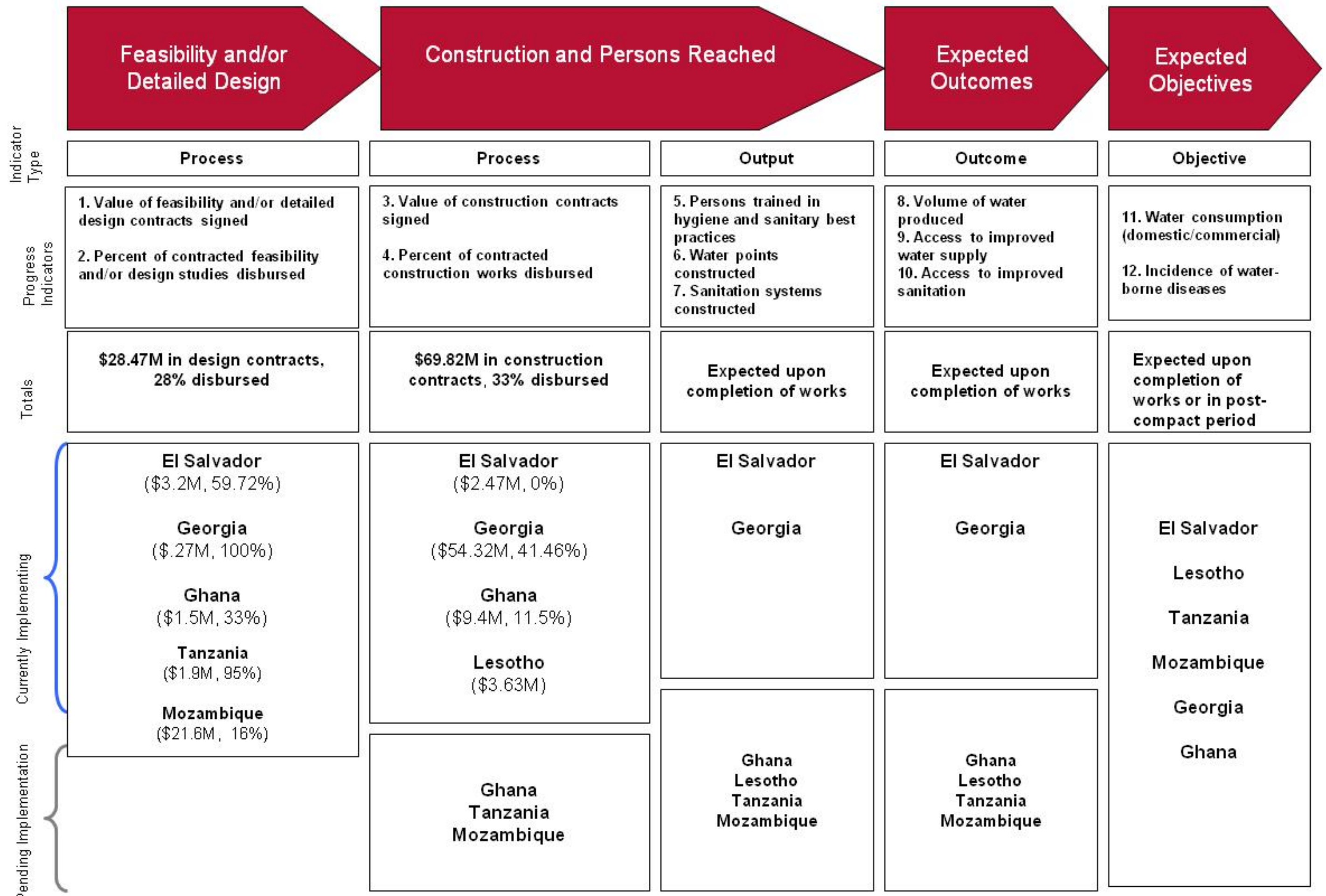
* These activities may be implemented in this order but often overlap and extend throughout the compact period.

	Regulatory, Legal and Other Work	Institutional Upgrading and Capacity Building	Clarification and Formalization of Land Rights	Expected Outcomes	Expected Objectives
Indicator Type	Output	Output	Output	Outcome	Outcome
Progress Indicators	1. Preparatory studies completed 2. Legal and regulatory reforms adopted	3. Buildings built or rehabilitated 4. Stakeholders trained	5. Rural hectares (ha) mapped/formalized 6. Urban parcels mapped/formalized	Effective property rights system	Increase in income from investment in land and property and higher land productivity and value
Totals	**47 studies completed; 17 legal and regulatory reforms adopted**	**129 buildings built/rehabilitated; $12.5 million in equipment purchased; 15,005 stakeholders trained**	**1,054,966 rural hectares mapped; 33,524.69 rural hectares formalized; 2,454 urban parcels formalized**	**Expected in late compact or post-compact period**	**Expected in post-compact period**
Currently implementing	**Benin** (16 studies; 0 reforms) **Burkina Faso** (6 studies; 8 reforms) **Ghana** (5 studies; 2 reforms) **Lesotho** (1 study; 0 reforms) **Madagascar** (8 studies; 4 reforms) **Mali** (0 study; 2 reforms) **Mongolia** (6 studies; 0 reforms) **Mozambique** (1 study; 1 reforms) **Nicaragua** (4 studies; 0 reforms)	**Benin** ($5.569M; 60 trained) **Ghana** (1 bldg; $0.07M; 128 trained) **Lesotho** ($0.04M) **Mali** (1 bldg; $.05M) **Madagascar*** (115 bldgs; $4.8M; 12,216 trained) **Mongolia** (894 trained) **Mozambique** (4 bldgs; $0.28M; 97 trained) **Nicaragua** (8 bldgs; $1.69M; 1,610 trained)	**Ghana** (4,646 rural ha mapped, 189.69 rural ha formalized) **Madagascar*** (30,047 rural ha mapped and formalized) **Mali** (1,050 rural ha mapped) **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	Most increases in income attributable to MCC activities to be measured by impact evaluations.
Pending Implementation	Senegal	Senegal Burkina Faso	Benin Lesotho Mozambique Namibia Senegal Burkina Faso		

All program data are as of September 2010. Data are preliminary and subject to adjustment. *These values represent a decline from values previously recorded due to the final reconciliation of performance data following termination of the Madagascar Compact.

Figure 4: Results in Water and Sanitation

Why invest in Water and Sanitation? MCC's non-agricultural water and sanitation investments are for human consumption and sanitation needs and some medium-scale business and industrial uses. These investments take two major forms. Networked investments normally focus on urban and peri-urban service delivery while non-networked investments normally focus on rural access. Desired outcomes include improved service access, capacity, & efficiency, which are designed to lead to higher human productivity, which contributes to greater economic growth and reduced poverty



*All program data as of September 2010. Data are preliminary and subject to adjustment. Indicators in this Results Framework may be added or removed as MCC's investments in WS evolve over time.

Figure 5: Results in Education

Why Invest in Education? Investments in human capital through education and training are widely recognized as critical for improving productivity and economic growth and reducing unemployment and poverty. A well-educated citizenry also contributes to a country's freedom and stability, and the skills and learning of its workforce is a nation's most enduring and competitive asset.

	Construction & Institutional Strengthening	Improved access, quality and relevance	Expected outcomes	Expected objectives‡
Indicator Type	Process	Output	Outcome	Objective
Progress Indicators	1. Value of signed contracts for MCC-supported educational facility construction/rehabilitation and/or equipping 2. Percent of contracted construction/rehabilitation/and/or equipping works for educational facilities disbursed	3. Educational facilities constructed/rehabilitated and/or equipped through MCC-supported activities 4. Number of instructors trained or certified through MCC-supported activities	5. Number of students (any educational level) participating in MCC-supported educational activities. 6. Additional primary / secondary / tertiary school female students enrolled in MCC-supported educational facilities	7. Primary/secondary/tertiary /vocational school graduates in MCC-supported educational facilities 8. Employed graduates of MCC-supported training programs
Totals	$50.2M in signed construction contracts, 22.7% disbursed	201 facilities built, 833 Instructors	59,611 students participating, 5,502 additional female students	Expected upon completion of works or training
Currently Implementing	Burkina Faso ($22.5M, 12.9%) El Salvador ($8.9M, 67.67%) Ghana ($18.3M, 13.6%) Mongolia ($.5M)	Burkina Faso (108 facilities) El Salvador (21 facilities, 425 instructors) Ghana (71 facilities) Mongolia (1 facility, 94 instructors) Morocco (314 instructors)	Burkina Faso (23,267 students, 1,871 additional females) El Salvador (12,878 students, 753 additional females) Ghana (17,585 students, 452 additional females) Morocco (5,881 students, 2,426 additional females)	Burkina Faso El Salvador Mongolia Morocco Namibia Ghana
Pending Implementation	Morocco Namibia	Namibia	Mongolia Namibia	

*All program data as of September 2010. Data are preliminary and subject to adjustment. Indicators in this Results Framework may be added, removed, or modified as MCC's investments in education evolve over time.

‡All MCC education programs have as their long-term end goal an increase in individual or household income and a corresponding decrease in poverty.

Threshold Results in Brief

Since 2005, MCC has partnered with 21 countries on 23 threshold programs, 15 of which have concluded. A brief summary of results from completed programs are included below.

Albania's original threshold program aimed to reduce opportunities for corruption in business registration, tax administration and public procurement. The program helped streamline business registration procedures by creating a one-stop shop that reduces the days to register a business from 42 to 3 -- driving a 49-point, one-year rise on the *Doing Business Report* in 2009 and a smaller increase in 2010. The new system automatically brings new businesses into the tax system, which expands the tax base and increases government revenues. The program also launched an electronic tax return filing system which became mandatory in 2010. The system reduced interaction between tax inspectors and taxpayers which has resulted in a reduction in opportunities for corruption in revenue collection, according to a survey of taxpayers. Lastly, the program created an electronic procurement system now used on all procurements above $4,000 in value. The system doubled competition for the average tender, reducing costs to government by nearly 12 percent, and won a United Nations Award for Public Service in 2010.

Burkina Faso's threshold program focused on improving primary education completion rates for girls in ten of the country's poorest provinces. Through the construction of 132 girl-friendly schools and housing for teachers, food rations for students, and teacher training, over 9,000 girls were recruited to attend grades 1-3. The program also provided literacy training to over 6,000 mothers and conducted public awareness campaigns to build community support for girls' education.

Guyana's threshold program focused on improving fiscal policy, increasing fiduciary oversight, and streamlining business registration. The program supported the reorganization and reengineering of the Guyana Revenue Authority by increasing staff capacity, redesigning business processes, and creatively utilizing information technology. As a result of these and other government efforts, the amount of outstanding tax arrears was reduced from $8.6 billion to $1.2 billion. In addition, the program helped reduce the time to register a business from 46 days to 30 days by reducing the number of required documents and creating streamlined operations.

Indonesia's threshold program focused on reducing public corruption and increasing immunization rates. The immunization component helped increase coverage of local area monitoring health centers to 97 percent in targeted districts and vaccinated over 5 million children, as planned, for measles and DPT3. The anti-corruption component supported reform of the Supreme Court's human resource management, including job descriptions and performances standards for over 800 court positions, mandating asset disclosure for senior level employees, and publishing the Supreme Court's decisions and opinions online.

Jordan's threshold program focused on strengthening municipal governance and modernizing customs administration. The threshold program reduced bottlenecks in import/export procedures, upgraded 15 customs centers and implemented a "single window" concept in five locations. The threshold program also helped improve local governance capacity by assisting municipal staff in creating three-year development plans, increasing coordination with the private sector, and helping to promote women's involvement in local government.

Kenya's threshold program focused on reducing corruption in public procurement and in the health care sector. With threshold program assistance, the Public Procurement Oversight Authority (PPOA) increased the number of procuring entities that report large procurements to the PPOA, from 16 in 2007 to over 128 in 2009, and completed 10 procurement audits of the highest spending GOK entities, all of which are published on their website.

Kyrgyz Republic's threshold program sought to improve court transparency and strengthen prosecutors' capabilities, while creating external and internal control mechanisms to check law enforcement abuse. The completion of several threshold activities was compromised by the political turmoil and overthrow of the Bakiyev government in April 2010.

Malawi's threshold program focused on reducing corruption and improving financial management. The threshold program was instrumental in passing the Anti-Money Laundering law and the plea bargaining provisions under the recently enacted Criminal Procedure and Evidence Code. The threshold program also established a Financial Intelligence Unit to help fight money laundering and financing of terrorism-related activities. In 2010, the FIU was still operational, receiving regular reports from the country's commercial banks and referring cases to the Anti-Corruption Bureau, Department of Public Prosecutors, and the Malawi Revenue Authority for investigation. These cases resulted in recovery of lost revenues by MRA and two convictions thus far.

Moldova's threshold program focused on strengthening capacity in several sectors for prevention and deterrence of corruption. The threshold program created an integrated case management system that was created and installed in 41 courts across the country to improve efficiency, transparency, and accountability. The threshold program also supported the development of 91 national clinical protocols to create uniform and enforceable standards of behavior to help reduce corruption in health care. The program also created an import tracking system for the customs administration.

Paraguay's original threshold program focused on reducing corruption in areas of public administration and bolstering the capacity of prosecutors to investigate corruption cases. The most notable achievement of the program was to create a biometric passport and ID card system, which is now in place. The program also trained, equipped and supported an anti-contraband operation unit in the Customs Service, increasing the annual average in contraband seizures by more than five times, compared to the previous two years. Lastly, the program helped to reduce the number of days to open a business in Paraguay from 74 to 35 days, according to the *Doing Business Report* issued in 2008 by streamlining procedures and eliminating unnecessary steps.

The Philippines' threshold program focused on strengthening the capacity of the Office of the Ombudsman and improving the Department of Finance's ability to monitor, expose, and impose sanctions on corruption practices. As a result of threshold program support and other efforts, the annual conviction rate at the Office of the Ombudsman rose from 19 percent to 76 percent; an increase in the number of cases filed against smugglers and tax evaders at the Department of Justice from 11 to 95 and from 44 to 117, respectively; and the computerization of 97 percent of the offices of the Bureau of Internal Revenue nationwide.

Tanzania's threshold program focused on reducing corruption in public procurement and increasing the capacity of civil society to monitor government activities and uncover corruption. As a result of threshold program support, the Tanzania Public Procurement Regulatory Authority conducted 39 audits of procuring entities, one of which uncovered irregularities in the procurement of electrical generators by the national electricity purveyor. This report was made public and was prosecuted by threshold trained prosecutors. The subsequent scandal attracted national attention and led to the resignation of several senior government officials, including the Prime Minster.

Uganda's threshold program focused on reducing and preventing corruption in public procurement and increasing the number of successful public corruption prosecutions. Through diligent procurement audits of government entities, advocacy from civil society and support from the media, the threshold program supported the publication and distribution of 17 procurement audits that highlight the challenges in central and local government entities. Under the prosecution strengthening component, an Anti-Corruption Division of the High Court was established and has already brought to trial, tried, and convicted three high profile cases. The program also leveraged civil society activism and supported the production and publication of a National Book of Fame and Shame. This document received national attention because of its candid presentations of public perceptions of both the most corrupt persons and those who have contributed to fight against corruption.

Ukraine's threshold program concluded in December 2009 and was focused on reducing public sector corruption. The complex and ambitious program achieved several successes that include the launch and implementation of a nation-wide standardizing testing system for higher education admissions, a sector plagued by corruption, with over two million tests securely administered. As a result of the efforts by threshold program's civil society advocacy coalition over 132 reforms were adopted including 12 at the national level.

Zambia's threshold program focused on reducing opportunities for corruption in three government entities, reducing administrative barriers to business and investment, and improving border management of trade. By streamlining value-added tax (VAT) registration and introducing other reforms, the Zambia Revenue Authority has reduced processing times and improved customer satisfaction. The threshold program also significantly reduced processing time for business name registration at the Patent and Company Registration

Office (PACRO) and helped expand access to business registration services by establishing two regional PACRO offices.

Strategic Goal 2:

Support development of a sound policy environment for economic growth and poverty reduction in the developing world

Championing Policy Reforms

Because effective project design and sustainable development demand sound policies, MCC partners with countries that practice good governance, respect the rule of law, protect civil liberties, fight corruption, invest in health and education, and promote economic freedoms, as assessed through 17 independently-verified, publicly-available indicators. This approach motivates partner countries not only to adopt policy reforms, including at the sector level, but also to create conditions that attract private sector-led economic growth and investment. Policy performance remains the primary focus of our country selection process, and we continue to make the implementation of investment-related policy reforms a key component of our strategy to ensure that our investments have full and sustained impact.

Policy Performance as a MCC Criteria

MCC recognizes that countries themselves must create the conditions for development to take hold. Both research and experience suggest that sound political, social and economic policies can promote broad-based economic growth and the effective use of development assistance. That is why MCC works only with poor countries that have a track record of ruling justly, promoting economic freedom and investing in people as measured by their performance on a set of transparent, third-party indicators. By selecting country partners that perform well in these areas and by leveraging continued country policy reform to support growth, good governance and an enabling environment for trade and investment, MCC creates an incentive for partner countries to improve in the areas that matter most for poverty reduction and economic growth. Through a performance-based approach to development, MCC motivates policy reforms essential for sustainable development even before making a single investment of American resources.

Sectoral Reforms

MCC incentivized major sectoral reforms as part of compacts with various partner countries. These reforms help ensure the sustainability of our investments**.**

- **Tanzania** passed a new electricity law, a requirement of the Compact, partly to encourage private sector participation in the energy sector. In addition, TANESCO, the public utility company which services the mainland, and ZECO, which services Zanzibar, were required to sign a power purchase agreement to protect their respective legal and commercial interests with respect to the Zanzibar Interconnector Activity, ensuring the long-term sustainability of MCC's investment. Furthermore, both TANESCO and ZECO are required to submit rate cases to reform their tariffs to fully recover their costs, which will help facilitate increased private investment in the electricity sector.

- **Ghana's** parliament passed landmark legislation on *Seeds, Plant Protection and Fertilizer* in June 2010, which will provide access to improved seed varieties, certified fertilizer and pest-free plant material. These developments are key for Ghana's food security and agricultural productivity. With the passage of these laws, MCC will rehabilitate 3 plant protection labs for the Ghanaian Ministry of Food and Agriculture.
- **Armenia's** Ministry of Nature Protection worked with MCC and MCA-Armenia to approve guidelines for the proper handling of construction wastes containing certain types of hazardous materials. These guidelines now serve as a basis for promoting safe handling practices and protecting workers and the environment from potentially harmful hazardous materials.
- **Lesotho** enacted the *Land Act 2010*, which has provided the framework for conducting systematic land regularization with the subsequent issuance of leases (title) to land, introduced sectional titling (akin to condominium law) and streamlined the issuance of government approvals. The country also enacted the *Land Administration Authority Act 2010* which establishes a self-sustaining, semi-autonomous, professional land administration body that will simplify the process of land transactions. This body will record rights to land in an efficient and customer-oriented manner, with the potential of becoming self-supporting through revenue collected for services. The Land Administration Act also expands access to land information, reducing risks in land transactions and improving landholders' access to credit. This is a dramatic improvement for Lesotho where over 70 percent of the residents in Maseru, for example, live on land occupied informally for decades, without the security of tenure to invest in their homes.

<u>Strategic Goal 3:</u>

Advance international development assistance practice by continually improving MCC's operational effectiveness

Proposed Legislative Changes to Maximize Results

During FY 2010, the Administration requested legislative changes to MCC's authorization statute. Portions were passed by the Senate Foreign Relations Committee and the Senate Appropriations Committee and included in the final FY 2011 Omnibus Appropriations Bill. Both bills included language addressing compact term extension, concurrent compacts and graduation/selection issues. Concurrent compact authority would allow MCC to sign overlapping compacts in one country within the provided time and compact funding limitations. The legislation also included a comprehensive treatment of country graduation and selection that accommodates changes in the composition of the MCC candidate pool. MCC continues to work with Congress toward adopting these legislative changes.

U.S. Foreign Assistance: Partnering on Shared Objectives

As the United States reforms how it engages with the developing world, it is emphasizing broad-based economic growth, country ownership, results, mutual accountability and governance, transparency, and gender integration. These principles are central to the Obama Administration's new *U.S. Global Development Policy*, and are reflected in presidential initiatives such as *Feed the Future* (FTF) and the *Global Health Initiative* (GHI), the U.S. strategy on the *Millennium Development Goals*, the Administration's global commitments in the context of G8 and G20 summits, and a number of legislative initiatives. These same principles have been fundamental to MCC's model since its inception in 2004. MCC has seven years of experience translating these principles into practice.

For example, collaboration on FTF built upon two areas where MCC is particularly strong: a rigorous focus on results and a practical approach to gender integration during program design, implementation and monitoring. MCC helped FTF develop its results framework and program impact. Also, MCC agriculture experts reviewed FTF country plans to provide guidance based on MCC's experience in supporting country-led plans for comprehensive food security investments. Our experience implementing the MCC gender policy informed the development of both FTF's and GHI's approach to gender integration.

The Administration's Global Development Policy recognizes that growth is the foundation for reducing poverty and attracting investment to create jobs and economic opportunity in countries. MCC is at the center of the U.S. Government's commitment to long-term investments in global economic growth. President Obama regularly emphasizes that development is ultimately in the hands of countries themselves and that accountable and effective governance is a necessary ingredient. This is a core MCC principle, and MCC works with poor countries that have a proven track record of ruling justly, promoting economic freedom and investing in the needs of their people. Moreover, MCC's approach to the transparency of financial and program information in development assistance serves as a model for the Administration's efforts toward greater government-wide transparency.

Partnering with Countries

Country ownership is a key principle of President Obama's *Global Development Policy*. Country ownership is also a core tenet of the aid effectiveness agenda promoted through the *Paris Declaration* and *Accra Agenda for Action*. The starting point for MCC's approach to country ownership is the belief that development programs will be more effective if they are part of a country's own development strategy. MCC expects partner countries to identify the principle constraints to investment, growth and poverty reduction, to consult broadly with key stakeholders to better understand those constraints and to prioritize investments to address them. In this sense, ownership extends beyond governments. These consultations result in programs that have broad public support, ensuring their resiliency in the face of political upheaval, including changes in government leadership and ideology.

Ownership extends through the project development phase into implementation, where MCC partner countries take the lead in all aspects of program management, including establishing and staffing an accountable entity, procuring goods, services and civil works and providing oversight for all investments. Partner countries establish accountable entities—often referred to as MCAs—which are responsible for program implementation; these entities are staffed by country nationals and are accountable to a board of directors or similar governing body that includes representatives from civil society and the private sector. Typically, partners also establish stakeholder advisory committees designed to represent the interests of project beneficiary groups and ensure regular communication with key project stakeholders. MCC partners also take the lead in managing environmental and social safeguards associated with their investments and in tracking results.

Country ownership is vital to the sustainability of compact investments. Countries are more likely to make difficult policy reforms for programs that are aligned with national priorities, strongly supported by the public and implemented by recipients. They are also more likely to sustain these investments, for example, through diligent operations and maintenance.

Examples of country-driven consultations to develop MCC Compacts include:

- **Jordan** created an advisory council of 15 to 20 international, royal and local NGOs to advise on the strategy and execution of the country's consultative process. The council helped to recruit participants for regional meetings that took place in each of Jordan's 12 governorates. Following these broad consultations, several private business leaders and NGOs participated in a smaller, multidisciplinary, results-focused project design workshop to provide detailed insights on key problems in the water sector. This workshop actually determined the conceptual design for the projects that Jordan proposed as part of its initial concept paper, which later became the basis for the Compact.

- The consultative process for the **Malawi** compact has been ongoing since the initial phases of compact development. The consultative plan was strategically designed to integrate the private sector, other donors, and civil society groups, including NGOs, religious leaders, traditional authorities, university faculty and students, women's groups, and various associations. Consultations with the private sector were particularly fruitful during the program design phase, eliciting private sector feedback on the impact of unreliable electricity on business productivity and suggestions for strengthening the policy, legal, and institutional environment in the power sector to encourage private sector investment. MCC and the GOM expect that, during the implementation phase, consultations will continue to play a prominent role in further shaping the program and communicating key program results.

- During compact development, **Moldova** met with multiple NGOs to discuss constraints to economic growth, including the Foreign Investors' Association, the American Chamber of Commerce in Moldova, the National Confederation of Employers, the "Timpul" Business Club, the gender-focused Center Partnership for Development, and the Independent Analytic Center "Expert-Group." Public and private sector representatives from the agricultural sector, for example, advised on the design of the integrated high-value agricultural project in Moldova's Compact. The Steering Committee of MCA-Moldova, which is responsible now for implementing Moldova's MCC Compact, includes the executive directors from five NGOs.

- During compact development in the **Philippines**, the Philippines core team sought advice from the *Transparency and Accountability Network (TAN)* and *InciteGov*, two umbrella organizations that represent hundreds of grassroots NGOs engaged in anti-corruption and governance initiatives. *TAN* and *InciteGOV* supported national and regional consultations during the Compact development process. Constraints and solutions that they identified, such as procurement fraud training, are included in the Compact's governance framework. Moreover, at the project level, *Road Watch* held discussions with the Philippines core team and MCC during Compact development to ensure that the *Secondary National Roads Development Project* was consistent with the principles adopted for similarly-funded road construction activities in the Philippines. Meanwhile, local farmer organizations and advocacy groups focused on gender participated in consultations regarding Kalahi-CIDSS, offering suggestions for the process of social mobilization and preparation that have been incorporated into this MCC-funded community-driven development activity.

- After conducting broad-based consultations in **Zambia** on constraints to economic growth, Zambia's core team held in-depth consultations within the framework of the Sector Advisory Groups (SAGs). SAGs include representatives of civil society groups, the private sector and cooperating partners. The SAGs, which the Government of Zambia initially set up to assist in developing the Poverty Reduction Strategy Paper and the Fifth National Development Plan, proved helpful in eliciting feedback on the initial constraints analysis findings for the MCC Compact.

Partnering with Other U.S. Government Agencies

MCC's significant grants, commitment to country ownership and capacity-building stand out within the U.S. Government's foreign assistance toolkit. Taking a whole-of-government approach, MCC projects are unlocking opportunities that other U.S. Government agencies are leveraging. Examples during FY 2010 of complementary U.S. Government's efforts include:

- Building on over $4 billion in food security-related investments, MCC is a key piece of the Administration's ***Feed the Future*** (FTF) initiative. MCC and **USAID** are identifying opportunities for FTF programs to complement and leverage existing MCC investments in food security. For example, since one of the key obstacles to food security in Mali is land tenure, the *Alatona Irrigation Project* in that country's MCC Compact is piloting land titles for small farmers. USAID intends to build on this by supporting a legal framework to resolve land conflicts. In Senegal, MCC and USAID have identified – and are coordinating on -- opportunities for USAID programs in social services, farmer training and rural infrastructure to complement MCC's investments (irrigation and water resource management) in the Senegal River Valley region. In Ukraine, USAID is continuing some of the successful anti-corruption initiatives from the MCC-funded Threshold Program that ended in December 2009, such as streamlining the customs valuation system and developing a pilot unified land registry. In Moldova, MCC and USAID are co-financing capacity building and market development activities for farmers who are also benefitting from Compact investments in irrigation infrastructure.

- The **U.S. Trade and Development Agency** funded feasibility studies for private sector activities connected with MCC Compacts and organized visits between representatives from MCC partner countries and the U.S. private sector. These visits allowed MCC partner countries to learn about available technologies and to observe the design, manufacture and operation of U.S. products and services. The **U.S. Export Import Bank** and the **Overseas Private Investment Corporation** can provide financing to contractors that work on compact-funded projects and to companies that have increased their business because of Compact investments.
- **USAID**, the **U.S. Department of Treasury** and the **U.S. Department of Justice** contribute to the success of MCC's Threshold Programs. Because most MCC Threshold Programs center on corruption, USAID brings its expertise in democracy and governance to program design and implementation. The U.S. Department of Treasury supports MCC Threshold Programs in such areas as customs administration and financial sector reform. The U.S. Department of Justice contributes technical expertise in prosecution and law enforcement to several MCC Threshold Programs.
- More than 160 contractors and suppliers attended a procurement conference in South Africa co-organized by the **U.S. Department of Commerce**, Business Unity South Africa and MCC at the Development Bank of Southern Africa. Representatives from MCC partner countries attended to meet with companies seeking contracting opportunities on projects funded by MCC Compacts.
- The **United States Peace Corps** and MCC are breaking new ground in Lesotho, where the first Peace Corps volunteer in the world has been assigned to work with an MCA entity. MCC CEO Daniel Yohannes and Peace Corps Director Aaron Williams signed an agreement on September 9, 2010, to enhance further collaboration and cooperation between the two agencies and share respective strengths, knowledge and resources in support of country-led development initiatives that improve the lives of the world's poor. An outgrowth of the memorandum of understanding between MCC and Peace Corps, the Peace Corps volunteer at MCA-Lesotho is co-managing the *Rural Water Supply and Sanitation Project* in Lesotho's MCC Compact, which is reducing sanitation-related health problems by constructing 250 water projects and more than 10,000 ventilation-improved pit latrines in rural areas. Similarly, Peace Corps volunteers in El Salvador are exploring ways of collaborating with FOMILENIO, the Salvadoran MCA entity, on MCC-funded projects. So far, volunteers have surveyed students benefitting from MCC assistance in technical middle schools in the country's Northern Zone and have organized workshops to train artisans and other entrepreneurs to pursue market-based opportunities.

Partnering with the Broader Development Community

MCC deepened partnerships with international donors, non-governmental organizations and philanthropic foundations during FY 2010. Looking ahead, MCC intends to forge additional partnerships with the broader international development community, including more non-traditional actors like social entrepreneurs and social responsibility firms.

- The **World Bank's** Public Private Infrastructure Advisory Facility (PPIAF) funded a $244,000 financial sustainability plan for Malawi's national electricity utility, which provided an input into the development of the compact program. In Mozambique, PPIAF provided $250,000 for public-private transaction advice supporting MCC-upgraded rural water utilities.

- MCC partnered with the **Australian Government Overseas Aid Program (AusAid)**, the **Danish International Development Agency (Danida)**, the **UK Department for International Development (DFID)**, and other donors to sponsor the *International Initiative for Impact Evaluations (3ie)*. MCC is in a unique position among 3ie's sponsoring members to provide input given our rigorous impact evaluations. Collaboration will help MCC stay on the cutting edge through ongoing input and guidance from 3ie's network of evaluation experts and will improve the quality of information available to assess proposed projects. MCC also participated in the *Open Window Grant Competition*, which awards quality impact evaluations in social and economic development and creates incentives to enhance the quality of these evaluations. These initiatives help donors, like MCC, and the developing world better identify what works to support poverty reduction and economic growth.
- Together with the **World Bank**, the **United Nations Development Program (UNDP)** and other donors, MCC piloted a capacity self-assessment tool called *CAP-Scan* to help countries determine where their capacities to manage for development results fall short. For example, MCC supported Malawi in a capacity self-assessment in the energy sector. Malawi's *CAP-Scan*, completed in March 2010, involved extensive consultation with key stakeholders in government, private sector, the electric utility, regulators, a civil society. The results of the assessment helped inform Compact implementation activities to ensure the sustainability of MCC's investments by strengthening leadership, planning and budgeting, statistical capacity, monitoring and evaluation, accountability, and partnerships.
- MCC and the **World Food Program (WFP)** identified opportunities for MCC-funded farmers to be potential suppliers for WFP's *Purchase for Progress Program*. This innovative program is designed to respond to food security needs in developing countries by providing a structured market for smallholders as they transition to commercial agriculture.

Partnering with the Private Sector

During FY 2010, MCC worked to leverage additional resources from the private sector. These resources enhance sustainability, increase efficiency, boost scalability, build capacity, and share or mitigate risk in partner countries worldwide. Private sector firms benefit from business-friendly policy environments in MCC partner countries and the financing we bring to projects that enhance or underlie commercial, trade and investment opportunities. Significant procurements resulting from MCC-funded compacts also present real opportunities for private sector firms. By increasing MCC partner countries' awareness of the benefits of partnering with the private sector, and providing them with the tools and information they need to forge those partnerships, we will sustain economic growth once MCC funding ends.

The following examples illustrate how private sector engagement contributes to successful Compacts:

- **Ghana's** Millennium Development Authority (MIDA) has attracted the investment interest of *VegPro*, a Kenyan vegetable exporting company known for working with small and mid-size farmers. *VegPro* has secured the lease of 1,050 hectares adjacent to the hectares that will be served with the MCC-financed irrigation perimeter. MIDA will facilitate temporary and eventually permanent access to irrigation water for *VegPro*. *VegPro* has plans to source their vegetables from about 500 MiDA trained farmers who will be direct beneficiaries of the irrigation scheme and the MiDA farmer training program. *VegPro* will also potentially create about 800 jobs on its 1,050 hectare farm.

- MCC's **El Salvador** Compact includes a Productive Development Project with the objectives of increasing productivity, improving market access, and building the management capacity of beneficiaries in the agricultural Northern Zone. Specifically, El Salvador's MCA unit, FOMILENIO, is using $5.9 million of Compact funds to train, equip, and strengthen El Salvador Produce, a beneficiary-owned company of 2,000+ fruits/vegetable producers. To leverage its investment, MCC collaborated with USAID resulting in a Global Development Alliance grant of US $500,000 to a Salvadoran grocery chain, SuperSelectos, to help build out the cold-storage chain for the commercialization activities of El Salvador Produce. These funds were in addition to $1 million in private sector investment by SuperSelectos and a smaller contribution from the owners of El Salvador Produce.
- A joint venture between U.S. firm *Symbion Power LCC* and French company *Areva* will construct and rehabilitate 24 power substations throughout the mainland and Zanzibar. *Symbion Power* has also partnered with another U.S. firm, *Pike Electric Corporation,* to construct and expand roughly 1,600 kilometers of power transmission and distribution lines in six regions. These strategic private sector partnerships and contracts represent a significant component of the overall $206 million Energy Project under **Tanzania's** $698 million MCC Compact to fund water, energy and infrastructure projects.
- Through its MCC Compact, **Jordan** plans to leverage substantial private sector resources to expand the As-Samra wastewater treatment plant, which will ensure modern treatment of large volumes of wastewater from the most populated area of the country and create an alternative source of water for irrigation and other uses.
- In **Namibia**, MCC will leverage private sector investment in the tourism sector by providing partial funding to stimulate the development of new joint-venture tourism lodges. These lodges will be jointly owned and managed by the private sector and community organizations called conservancies that have rights over tourism and wildlife. Revenues from these lodges will go to members of these conservancies, who are generally rural Namibians with few other sources of cash income other than tourism.

<u>Strategic Goal 4:</u>

Build Operational Capabilities to Achieve its Primary Goals

Organizational Realignment

Matrix management is an integral element in defining MCC as an organization. Regardless of where any one group sits in the organizational chart, all MCC staff contributed as a team to achieving shared corporate goals with consistency, efficiency and quality in practice. However, achieving maximum effectiveness with limited resources required better aligning MCC's structure to our business needs. To do this, the *Department of Compact Development* and the

Department of Compact Implementation were combined into one *Department of Compact Operations*. MCC economists and monitoring and evaluation specialists were consolidated into an enhanced *Department of Policy and Evaluation* (formerly *the Department of Policy and International Relations)*. MCC also established a new investment and risk management function within the Office of the CEO, responsible for leading high-priority initiatives, such as increased private sector engagement; expansion of the types of projects, partnerships and financing instruments used by MCC; and promoting innovation in areas such as alternative energy, energy efficiency, adaptive technology, and access to capital. The organizational realignment allows MCC to concentrate more fully on capturing and communicating results, expanding partnerships, particularly with non-traditional actors, and enhancing our capacity and resources to better facilitate policy reforms and gender integration in the projects we fund.

A New Approach to Risk Management

Identifying and managing the risks MCC faces in promoting economic growth in very challenging environments is critical to sound business operations, the protection of taxpayer funds and the achievement of MCC's objectives. From inception, MCC has considered financial, economic, operational, and reputational risk factors in assessing the viability of projects at both the proposal and implementation stages. Various mechanisms have been used to identify risks, design risk mitigation strategies and assess performance against risk. These measures include:

- risk analysis during due diligence,
- specific risk identification and mitigation analysis in investment memoranda,
- discussions of risk issues among senior management and MCC's Board,
- detailed work programs and indicator specifications setting out performance targets against which risk is assessed,
- regular portfolio reviews in which risks are regularly analyzed.

However, as our portfolio matures, it has become possible and important to do both deeper and more cross-cutting risk analysis in order to design and manage projects more cost-effectively and with greater confidence to achieve targeted results.

The new *Investment and Risk Management* (IRM) division within the Office of the Chief Executive Officer was created during fiscal year 2010 to focus on investment strategy and risk management across MCC. The Senior Investment and Risk Officer is developing a process for risk assessment and for risk mitigation evaluation across projects, countries and risk types. For example, the IRM division is analyzing transport projects in early MCC Compacts, identifying when and how risks emerged, whether or not they were or could have been anticipated, how the emerging risks were addressed, how successful the risk management strategies were, and what lessons can be derived to inform future transportation projects. Similarly, cross-sector analysis is being conducted on how certain risks—such as cost escalation, contractor underperformance or political disruption—have been handled across projects and what lessons learned can be incorporated in future programs.

Open Government Initiative

Even before the Office of Management and Budget issued an *Open Government Directive* on December 8, 2009, MCC has been—and remains—at the forefront of promoting transparency, participation and collaboration in all aspects of our work to reduce poverty through economic growth. These are essential aspects of MCC's organizational strength and effectiveness. Through its website, regular public events, press interactions, and participation in the activities and initiatives of the Obama Administration and the development community, MCC provides continuously updated data on MCC decision-making, program management and policy assessment.

U.S. taxpayers and key stakeholders deserve to know how funds provided by the United States Congress are used at MCC. They also deserve the opportunity to provide feedback on how MCC can perform more effectively. To maximize transparency and learning in a constrained economic environment, MCC is fully utilizing the vast capacity and reach of online information-sharing. Visitors to MCC's public website can access spreadsheets that show economic rates of return calculations, performance indicator tracking tables and impact evaluation summaries for MCC-funded projects. Data on beneficiary analyses are also available. All signed Compacts, information on program-related procurement opportunities, and reports and notices provided to Congress are posted to the MCC website. MCC invites feedback, comments and questions on this data and these reports via our website as part of our ongoing discourse with the public. In addition, MCC has embraced new technologies and social media, including web chats, Facebook, Twitter, You Tube, and Vimeo.

Committed to transparency and openness, MCC -- with support from partner countries -- plans to post to our website up to 50 new survey datasets related to program impact evaluations over the next two years. A number of these datasets will include pre-, mid- and post-project survey data that will be used to assess the impacts of Compacts that will be completed in these two years. Over half of these new survey datasets will be baseline datasets, reflecting conditions prior to Compact investments in a number of countries.

Visit www.mcc.gov to download and read MCC's *Open Government Plan*.

Performance Goals – FY 2011

As a result of MCC's strategic planning process, MCC has developed the strategic goals, corporate (annual) goals, and measures set out below as the basis for MCC's management of and accountability for its activities for FY 2011 – FY2015. The Strategic Plan defines MCC's mission as *reducing poverty by supporting sustainable transformative economic growth in developing countries that create and maintain sound policy environments.*

The new Strategic Plan covering FY 2011 to FY 2015 defines five strategic goals for MCC:

1. Achieve Demonstrable Results
2. Support Sound Policy Environment
3. Leverage MCC's Financial and Technical Capabilities
4. Enhance International Development Practice
5. Maintain Organizational Effectiveness

Strategic Goal 1 – Achieve Demonstrable Results

Results-based development is the cornerstone of MCC's approach. This emphasis will be maintained moving forward, with a particular focus on measuring progress and making those results transparent.

Corporate Goals FY 2011:

- Achieve significant, measurable financial, non-financial, and performance-based outcomes
- Close first compacts successfully with particular focus on sustainability
- Present MCC Board with quality investments, drawing on lessons learned
- Ensure that new and second compacts incorporate priority areas for action
- Apply agency-wide risk management processes based on best practice and lessons learned
- Enhance the quality, timeliness, and accessibility of interim and final program results
- Integrate gender and social assessment earlier and more comprehensively in project development and implementation

Measures:

- Specific, quantified annual disbursement and commitment targets
- Specific annual outcome and impact targets for sector activities (e.g., kilometers of road completed, number of farmers trained, incomes raised)
- Specific targets for key MCC inputs to project development and implementation (e.g., M&E plans prepared, ERRs calculated, plan revisions completed)
- First compact close-outs completed in accordance with specific work-plans
- New compacts developed and approved in accordance with standards for completion of preparatory activities (e.g., feasibility, due diligence, risk assessment, design)
- Risk management process at agency level implemented

Strategic Goal 2 –Support Sound Policy Environment

MCC's innovative model has supported significant policy reform successes during the last several years of compact development and implementation. This focus on defining reform goals and measuring progress against those goals is an integral part of the process which will be maintained in the coming years.

Corporate Goals FY 2011:

- Country selection process is reviewed to optimize targeting of countries most capable of benefitting from MCC funding
- Macro-level (eligibility indicator-focused) policy reform underpins measurable improvements
- Sector-level policy reform is incorporated systematically into project design and implementation
- MCC's commitment to and role in promoting policy reform is communicated effectively to stakeholders and the public
- The issue of graduation from LIC to LMIC or from LMIC to UIC is addressed effectively and comprehensively, limiting adverse consequences

Measures:

- Reviewed selection/eligibility system submitted for approval and put into operation
- Revised process for supporting policy improvement process in counterpart countries put into effect
- Sector policy reform is incorporated systematically into threshold and compact development and implementation, as documented in process review and assessment records and in final documentation and operational plans
- Baseline and impact evaluation information collected and documented at specific points in implementation cycle

Strategic Goal 3 – Leverage MCC's Financial and Technical Capabilities

To ensure not only results but also overall aid-effectiveness, MCC has made it a priority to coordinate with other U.S. Government and international donors to avoid redundant investments and maximize opportunities for leverage and complementary assistance.

Corporate Goals FY 2011:

- Expand range of partnerships in which both MCC and country counterparts engage
- Expand range of financing instruments used in MCC-funded compacts
- Develop structure for increased coordination of MCC activities with those of other USG agencies
- Create opportunities for more innovative program content, especially in alternative energy, applied technology, and access to capital
- Demonstrate value of leveraging MCC resources with those of other USG, donor, and non-governmental actors
- Increase gender and social assessment integration in project design, implementation, and tracking process

- Explore potential for competitive grants, retrofitting compacts, and other ways to increase impact of compact programs and/or contribute to international development practice
- Increase quality, price-competitive participation in compact-funded procurements

Measures:
- Documentation and training on new approaches to project development developed and delivered
- Project preparation documentation reflects consideration of specific partnerships, financing, and innovation considerations
- New partnerships, financing structures, and innovative project content are incorporated in compacts
- MCC's resources and capabilities are leveraged through more pro-active coordination with other donors and USG agencies
- Gender and social assessment are incorporated systematically in project development and implementation, as documented in project records
- Training of MCC and MCA staff in gender and social assessment is carried out

Strategic Goal 4 – Enhance International Development Practice
MCC will continue to make significant contributions to President Obama's foreign policy priorities, including promoting national security through elevating development and supporting new aid initiatives such as food security and fiscal transparency.

Corporate Goals FY 2011:

- MCC is positioned as a thought leader on development assistance effectiveness
- MCC develops and applies knowledge management/lessons learned process and disseminates results
- MCC assists pro-actively in implementation of the President's Global Development Policy, Food Security, Global Health, Climate Change
- MCC stakeholders in Congress have the information to make informed judgments regarding MCC's operations and funding
- MCC expands its engagement with USG and other actors in development assistance, enabling MCC to leverage its resources while promoting inter-agency specialization around respective strengths
- MCC maintains its position as a leader in government transparency and publication of information on processes and program results, targeted and achieved
- Outreach strategy to encourage more participation in MCC-funded procurements and program partnerships is reinforced and extended

Measures:

- MCC's role in development assistance recognized through invitations to participate in critical identified global and USG forums and through references in development literature

- Process for internal knowledge generation (e.g., collection, analysis, and dissemination of lessons learned) and knowledge sharing with other international development assistance actors in place and operational
- Specific targets identified for posting information on MCC website
- MCC staff participate in USG cross-government initiatives (Partnership for Growth, Global Development Policy, Food Security, Global Health, Climate Change)
- Key legislative changes requested to improve MCC's operations passed
- Communications strategy approved by management and put into operation
- Outreach to stakeholders and potential development partners increased against measurable targets
- Effectiveness of procurement and partnership outreach measured against targets
- Participation in MCC-funded procurements by qualified bidders with cost-effective bids increased
- Website improved to incorporate additional information, including on impact evaluations

Strategic Goal 5* – *Maintain Organizational Effectiveness

MCC continues to look for ways to innovate and improve. A learning institution, the agency is committed to continually strengthening economic analysis and program monitoring to better capture results and impacts.

Corporate Goals FY 2011:

- MCC's organizational structure and staffing supports achievement of MCC's strategic and corporate goals
- Effective financial and administrative information systems and management platform are in place to support timely and effective management decision-making
- Processes and systems are in place for timely and effective oversight of compliance, auditing, contracting, and security issues
- Budget is managed to optimize uses of funds in constrained funding environment
- Information technology and architecture is reinforced to support strategic business requirements

Measures:

- OPM standards for hiring practices fully incorporated
- Positions filled within target deadlines
- Weaknesses in internal controls identified and corrected within target deadlines
- Improved performance management plan implemented
- Budget planning improved to incorporate tighter cost-effectiveness measures
- Compliance with Federal regulations and requirements maintained
- Information technology and architecture improved to meet evolving needs in US and overseas

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