

Changing the Conversation

Innovative U.S. Foreign Assistance
Created to Reduce Poverty



MILLENNIUM
CHALLENGE CORPORATION

UNITED STATES OF AMERICA

Changing the Conversation

October 1, 2006–September 30, 2007



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UNITED STATES OF AMERICA





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The Mayor of Al Hassa, Rana Hajaya, pictured upper-left wearing glasses, is one of hundreds of women elected in Jordan.



MCC invests in countries committed to: **Ruling Justly**

In some partner countries, specific projects advance pluralism, the rule of law, government transparency, and the protection of private property rights.



Malawi's threshold program supports ongoing anticorruption efforts, expands the work of civil society groups, and strengthens independent media coverage, including training 45 journalists in investigative journalism. Anti-money laundering legislation has been passed. A Financial Intelligence Unit has been created to investigate financial crimes. These efforts helped Malawi improve its per-

formance on the control of corruption indicator—from the 40th percentile in fiscal year 2005 to the 54th percentile in fiscal year 2008—now making the country compact-eligible.



Jordan's threshold program strengthens municipal governance by expanding the participation of its citizens, including women, in local elections and local government. Under the new municipalities law, 20 percent of municipal council seats are reserved for women. In the last elections, female candidates exceeded this quota and won 238 seats.



A woman in Burkina Faso attends school as a result of the MCC Threshold Program. Photo by Liz Bernard.



MCC invests in countries committed to: **Investing in the health and education of their citizens**

In some partner countries, specific projects focus on investments in health, education, and skills to expand human capabilities.



El Salvador's compact contains both formal and non-formal education and training components to increase employment opportunities for the poor.



Ghana's compact will complement agriculture and infrastructure investments in rural communities by providing over 100 new and rehabilitated education facilities, 900 additional water points, and electricity to 12 agro-processing facilities.



Lesotho's health sector project is designed to mitigate the

negative economic impacts of poor maternal health, HIV/AIDS, tuberculosis, and other diseases by strengthening the country's health care system. MCC funding will support the government's efforts to significantly increase access to life-extending antiretroviral therapy by providing a sustainable platform to deliver this and other essential health services.



Burkina Faso's threshold program opens 132 new "girl-friendly" school complexes. Over 18,000 children—half of whom are girls—are attending school who would not have been able to otherwise. Over 250 literacy centers are open, and thousands have received literacy training.



MCC invests in countries committed to: **Promoting economic freedom**

In some partner countries, specific projects focus on maximizing business development and investment opportunities, the true engines of economic growth.



Benin's access to markets project will increase competitiveness at the Port of Cotonou by reducing transport costs through systems and infrastructure improvements, increasing the volume of merchandise traffic through the port.

Honduras's compact has begun training 800 farmers to grow and sell horticultural

products and will train more than 8,000 during the life of the program.



Morocco's financial services project will increase financial services for micro-enterprises by addressing key constraints to the development of a broader, deeper, and market-based financial sector.



Paraguay's threshold program reduced the cost to start a business, from \$750 to \$250, and cut the number of days required to do so in half to 36.



Benin's compact increases the volume of imports and exports at the Port of Cotonou by reducing delays and improving operations and infrastructure, providing greater access to markets for the Beninese.







Who We Are

MCC's Mission

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

Reducing poverty through economic growth



Justine Rasoamanahirana, like most of the rural population in Madagascar, inherited her land from her parents. Read how MCC's Madagascar compact is helping Justine at www.mcc.gov/success.



MCC's Milestones

As of the end of fiscal year 2007, MCC signed 14 compacts, totaling nearly \$4.55 billion.

MCC also signed threshold programs with 14 countries, totaling about \$316 million.

Compacts in Signing Order

Country	Award (in millions)	Signing Date	Entry Into Force
 Madagascar	\$109.8	April 18, 2005	July 27, 2005
 Honduras	\$215.0	June 13, 2005	September 29, 2005
 Cape Verde	\$110.0	July 4, 2005	October 17, 2005
 Nicaragua	\$175.1	July 14, 2005	May 26, 2006
 Georgia	\$295.3	September 12, 2005	April 7, 2006
 Benin	\$307.3	February 22, 2006	October 6, 2006
 Vanuatu	\$65.7	March 2, 2006	April 28, 2006
 Armenia	\$235.7	March 27, 2006	September 29, 2006
 Ghana	\$547.0	August 1, 2006	February 16, 2007
 Mali	\$460.8	November 13, 2006	September 17, 2007

Country	Award (in millions)	Signing Date	Entry Into Force
 El Salvador	\$461.0	November 29, 2006	September 20, 2007
 Mozambique	\$506.9	July 13, 2007	Estimated Entry into Force projected for Autumn 2008
 Lesotho	\$362.6	July 23, 2007	Estimated Entry into Force projected for Autumn 2008
 Morocco	\$697.5	August 31, 2007	Estimated Entry into Force projected for Autumn 2008

Compact

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

Entry into Force

After compact signing, entry into force is the point at which funds are obligated and the full implementation of compact programs begins.

Threshold Program

The Threshold Program is designed to assist countries that are on the “threshold,” meaning they have not yet qualified for MCA Compact funding, but have demonstrated a significant commitment to improve their performance on the policy indicators.

Threshold Programs in Signing Order

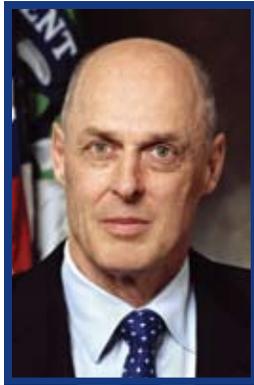
Country	Amount (in millions)	Signing Date
 Burkina Faso	\$12.9	July 22, 2005
 Malawi	\$20.9	September 23, 2005
 Albania	\$13.9	April 3, 2006
 Tanzania	\$11.2	May 3, 2006
 Paraguay	\$34.6	May 8, 2006
 Zambia	\$22.7	May 22, 2006
 The Philippines	\$20.7	July 26, 2006
 Jordan	\$25.0	October 17, 2006
 Indonesia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

MCC's Board of Directors

MCC is managed by a Chief Executive Officer and is overseen by a public-private Board of Directors comprised of the Secretary of State, the Secretary of the Treasury, the U.S. Trade Representative, the USAID Administrator, the CEO, and four individuals from the private sector appointed by the President with the advice and consent of the U.S. Senate.



Chair
Condoleezza Rice
Secretary of State



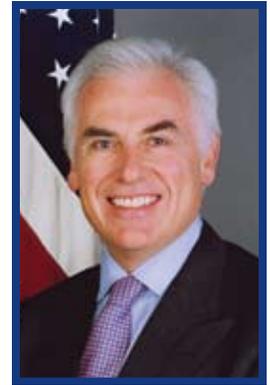
Vice Chair
Henry M. Paulson, Jr.
Secretary of Treasury



Susan C. Schwab
United States
Trade Representative



Henrietta Holsman Fore
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U.S. Agency for
International
Development



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Visiting Professor
of International
Economic Policy
Woodrow Wilson
School of Public and
International Affairs
Princeton University



Kenneth Hackett
President,
Catholic Relief
Services



Alan J. Patricof
Founder and
Managing Director,
Greycroft, LLC



**Christine Todd
Whitman**
Former Governor
of New Jersey
*Three-year term
ended June 27, 2007.*

MCC's Staff

We reached our planned corporate headquarters staffing level of 300 in fiscal year 2007. Our workforce (full-time, direct-hire MCC employees) is a diverse one, composed of 25 percent minorities and 55 percent women. We continue to assess how best to balance workforce availability with workload demands and are determining which activities should remain core competencies within MCC and which should be outsourced.

MCC's Reorganization to Focus on Implementation Support

Since 2004, supporting partner countries in *compact development* has been at the core of MCC's efforts. With the negotiations and signings completed for a number of results-oriented compacts to reduce poverty and stimulate growth, we now enter a new phase of our evolution. While continuing *compact development* on a regular basis, over the long-term, MCC's core activity will focus on oversight and support for country-led *compact implementation*. This new focus will also help MCC to implement best practices to build country capacity in procurement, to monitor and accommodate changes in requirements during implementation of infrastructure projects, and to

ramp up disbursements while maintaining the highest level of accountability.

In late fiscal year 2007, MCC initiated a major reorganization to position ourselves to meet the long-term demands required to work with partner countries to implement compacts with quality and speed. We have taken concrete measures to reorient from working with partner countries in developing compacts to also working with them to ensure that the compacts are implemented successfully. This means fully utilizing the expertise and experience of MCC professionals to focus on oversight and support of program implementation. It has meant moving more responsibility and authority to resident country directors in all partner countries by giving them the latitude to make decisions that will expedite compact implementation. It has meant combining and restructuring two existing departments—the *Department of Operations* and the *Department of Accountability*—to form two new departments—the *Department of Compact Development* and the *Department of Compact Implementation*.

We initiated such a comprehensive reorganization at MCC to address the challenges associated with compact implementation. Our new structure bolsters capacity building to empower our partner countries to launch transparent procurement processes, implement their compact projects in a timely manner, and monitor and evaluate the overall results.

The future success of MCC in 2008 and beyond depends on achieving the expected results from our partner countries' compact implementation. As a result, we have realigned priorities, goals, functions, and staff to meet that challenge and are better equipped now to achieve successful compact implementation, without

compromising our dedication to financial and procurement accountability, the important role of gender in development, effective monitoring and evaluation, sound economic underpinnings for programs, and international best practice management of social and environmental issues.

The screenshot shows the MCC website homepage with the following elements:

- Header:** Millennium Challenge Corporation logo and name, a search bar with a 'Go' button, and a navigation menu with links: About MCC, Selection Criteria, Programs & Activities, Countries, Press & Public Affairs, Jobs, Contracts & Procurements, and Contact MCC.
- Main Banner:** A large image of a gazelle with the Namibian flag overlaid. The text reads 'MCC Signs Compact with Namibia'. Below the banner are four buttons: 'Read the press release >', 'Download the fact sheet >', 'Visit the country page >', and 'Read the blog >'.
- Right Sidebar:** A red box with the text 'Learn about and read MCC's Quarterly Country Status Reports >' and a thumbnail of a report. Below it is a circular logo with a red cross on a white background and the text 'Learn about MCC's work in Georgia >'.
- Content Sections:**
 - Procurement:** A list of 'Five Most Recent Notices' including 'Architectural, engineering, construction and related technical consultancy services' (Aug 14, 2008) and 'Site preparation work'.
 - Public Affairs:** A list of 'Five Most Recent Releases' including 'MCC CEO Offers Condolences on the Passing of Zambian President Levy Mwanawasa' (08-19-2008) and 'Status of MCC Programs in' (08-14-2008).
 - Blogs:** A list of 'Most Recent Blog Entry' including 'Supporting Africa: Actions speak louder than words' by Ambassador John Danilovich (Jul 17, 2008) and 'The U.S. Government's support for Africa is much more than words alone. The tangible'.
 - Things To Know:** A list of news items including 'VOA News.com: Helping Women in Small Business', 'CEO Danilovich on Forbes.com: "A Call For Smarter Aid"', 'L.A. Times Editorial: "The Senate's foreign aid fight"', and 'L.A. Times: "Feed to Lead: Can the United States use food aid"'.
- Footer:** A red banner with the slogan 'Reducing Poverty Through Growth' and a blue footer with links: Country Tools | Privacy Policy | Blog Info | FOIA | No FEAR Act | CEO Hotline | Subscribe to Outreach List (Unsubscribe).

MCC's Brand

MCC Introduces a New Logo

On September 10, 2008, the Millennium Challenge Corporation unveiled a new logo as part of the organization's efforts to raise awareness of the global fight against poverty and the leadership by the United States to provide sustainable, long-term solutions for the world's poor.

MCC's new logo, a star formed in the classic shape of those on the American flag, is an emblem of the partnership and progress that this innovative way of delivering foreign assistance is bringing to some of the world's poorest countries. The logo contains sweeping stripes of red and white, symbolic of roads or fields that are part of many MCC programs, as well as three stars representing the principles of aid with accountability, country ownership and partnership, and results-based assistance that define MCC's cooperation with countries across the globe. The new logo is energetic, giving a sense of forward motion and progress, of long-term and sustainable economic growth, and of the partnership that takes place when two countries work together through Millennium Challenge Corporation programs.

MCC developed this new logo after feedback from Congress, partners in the field, and other stakeholders called for a clearer visual connection between MCC's programs and the people of the United States.



MILLENNIUM
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UNITED STATES OF AMERICA

The MCC star will replace the current logo (which will be retained as the official "seal" of the organization) over the next six months. MCC will gradually replace the logos in order to minimize costs and ensure responsible use of graphic, web-based and other communications products.

MCC's Public Web Site

As part of our communications strategy, MCC unveiled a state-of-the-art and user-tested website during fiscal year 2007, reflecting best industry practices. Its easy navigation and constantly updated content drew an ever-increasing number of visitors, making the website one of our most effective tools in showcasing progress to date. In fact, in the year since the launch of the redesigned website, visits skyrocketed an average of 294 percent from the previous year.

MCA Accountable Entities

Another tool in communicating MCC's mission is the tremendous public relations work undertaken by partner countries themselves. As accountable entities are established in each partner country to implement compacts, they are writing newsletters, maintaining their own websites, engaging the press, organizing events, communicating with stakeholders, and interacting with nongovernmental organizations to explain and highlight how MCC investments are fighting poverty, stimulating growth, and improving the lives of the poor. MCC's visibility in each partner country plays an instrumental role in advancing U.S. public diplomacy efforts.

Accountable entities, as part of their compact agreement, create a logo to help promote the partnership with the MCC and the United States.

The logo must meet these four requirements:

1. The logo must be a circle.
2. The logo must include "Millennium Challenge Account," which may be translated.
3. The logo must include the most commonly recognized country name by its citizens, which may be translated.
4. The logo must acknowledge the generosity of the people of the United States of America.

Accountable Entities created prior to October 31, 2006 and having already established a name and a logo were granted exemptions from the four requirements, but must also display either the MCC logo or the U.S. flag in conjunction with their own. Georgia, Madagascar, Nicaragua, and Ghana are examples of such countries.

The following page shows a sample of the accountable entity logos in use worldwide.



MCA-Armenia

<http://www.mca.am/new/enversion/>



MCA-Benin

<http://www.mcabenin.bj/>



FOMILENIO

<http://www.mca.gob.sv/fomilenio/>



Millennium Georgia Fund

<http://www.mcg.ge/>



MiDA

<http://www.mida.gov.gh/>



MCA-Honduras

<http://www.mcahonduras.hn/>



MCA-Lesotho



MCA-Madagascar

<http://www.mcamadagascar.org/>



MCA-Mali

<http://www.mcamali.org/>



Agence de Partenariat pour le Progrès



MCA-Nicaragua

<http://www.mcg.ge/>



MCA-Vanuatu

<http://www.governmentofvanuatu.gov.vu/mca-vanuatu/>



Colin Buckley, MCC Resident Country Director in Georgia, shakes hands with Leri Mikaberidze, Construction Manager for the Georgian company responsible for repairs to the North-South Gas Pipeline. The pipeline is a major component of the compact with Georgia.



What We Do

The MCC Process



The Millennium Challenge Corporation awards grants—not loans—to partner countries through an innovative and competitive process built upon four fundamental principles that are essential for the effective and efficient use of development assistance—good policy performance, country ownership, country responsibility, and tangible results.

Good Policy Performance: Selection Process

We work with countries that are committed to ruling justly, investing in their people, and promoting economic freedom. We assess a government's performance in these three areas by using objective, transparent, and third-party indicators taken from non-U.S. government sources. We use these indicators to create a scorecard measuring a country's policy performance among its own peer group in the same per capita income range. Our Board of Directors then uses these scorecards to determine and select annually which countries are eligible to receive our aid based on policy performance.

Fiscal Year 2007 Country Selection: The Competition to Participate

The Millennium Challenge Act of 2003, 22 U.S.C.A. 7701, 7707 (b) (the "Act") requires that MCC carry out a series of steps to determine countries eligible for MCA assistance during the fiscal year based on their commitment to just and democratic governance, investing in their people, and economic freedom. There must also be strong opportunities for poverty reduction and economic growth.

In fiscal year 2007, we completed our fourth cycle of selecting countries eligible to apply for assistance. Required reports were transmitted to the appropriate Congressional committees at each of the follow-

ing three stages of the selection process and are available on MCC's website.

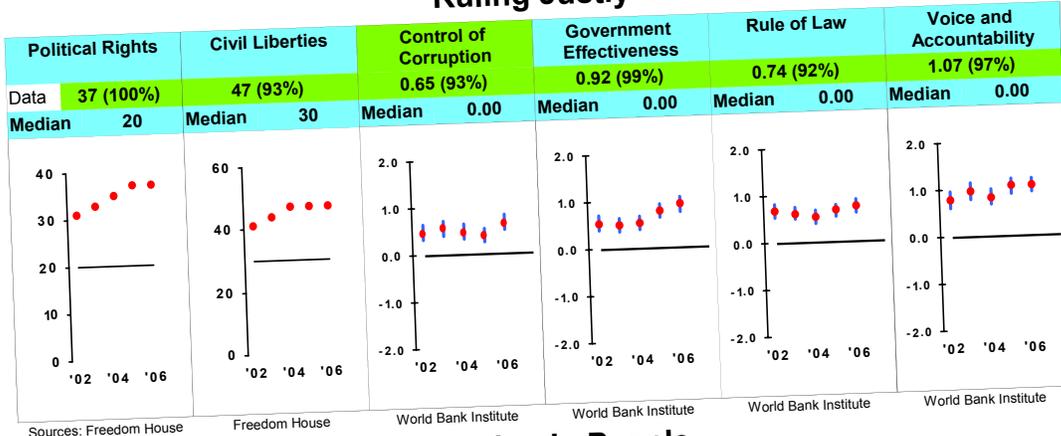
Stage 1: Identification of Fiscal Year 2007 Candidate Countries

In accordance with the Act, MCC submitted a *Report to Congress* on August 11, 2006, listing the countries that were candidates for MCA assistance during fiscal year 2007 based on their per capita income levels and their eligibility to receive assistance under U.S. law. This report identified 69 candidate countries in the "low income" category and 30 candidate countries in the "lower middle income" category for fiscal year 2007. "Low income" candidate countries have a per capita income equal to or less than \$1,675. "Lower middle income" can-

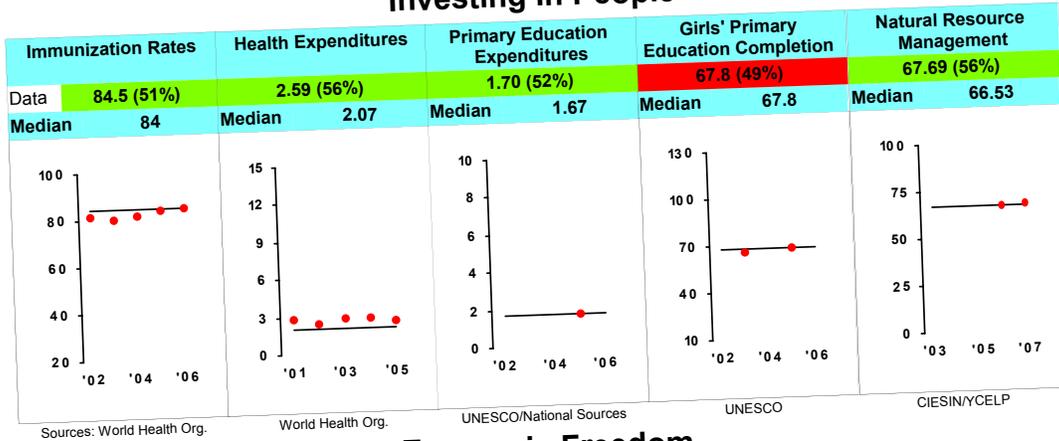
Population: 22,112,800
 GNI/Cap: \$520 LIC

Ghana FY08

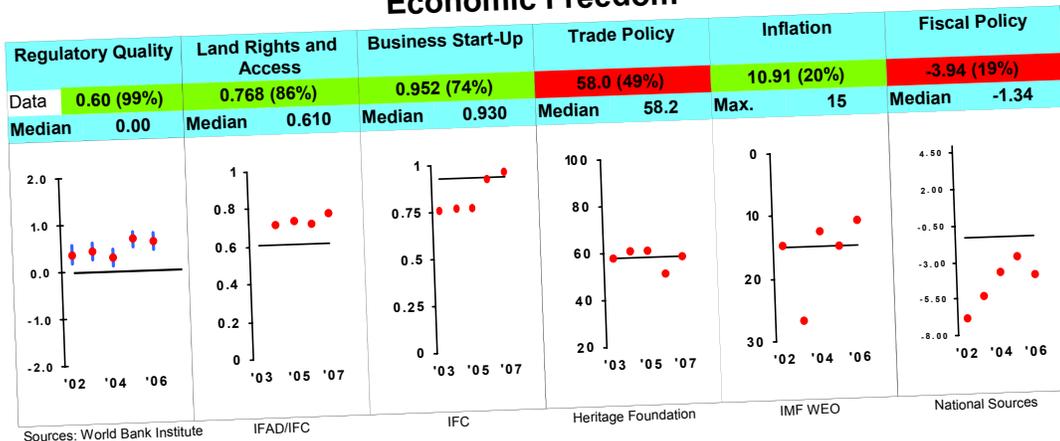
Ruling Justly



Investing In People



Economic Freedom



How to Read this Scorecard: Each MCC Candidate Country receives an annual scorecard assessing its performance in 3 policy categories: Ruling Justly, Investing in People, and Economic Freedom. Under the name of each indicator is the country's score and percentile ranking in its income peer group (0% is worst; 50% is the median; 100% is best). Under each country's percentile ranking is the peer group median. Country performance is evaluated relative to the peer group median and passing scores, or scores above the median, are represented with red. The black line that runs along the horizontal axis represents the peer group median. Each World Bank Institute indicator is accompanied by a margin of error, which is represented by the vertical blue bar.

Account Selection Process and these indicators, please consult MCC's website: www.mcc.gov

Sample MCC Scorecard showing how a country performs on the indicators.

didate countries have a per capita income between \$1,676 and \$3,465.

Stage 2: Selection Criteria and Methodology Report

In accordance with the Act, MCC submitted a *Report to Congress* on September 8, 2006, indicating the criteria and methodology to be used to measure and evaluate the candidate countries in order for our Board of Directors to select eligible countries from among them. Following the submission of this report and its posting to MCC's website and the *Federal Register*, we solicited and considered public comments for a period of 30 days.

At that time, candidate countries competed against their income peer group on 16 policy indicators that assess the degree to which the political, social, and economic conditions in these countries promote—and can sustain—poverty reduction and economic growth. These independently developed indicators are selected based on a number of factors, including their theoretical or empirical link to economic growth and poverty reduction; analytical rigor, quality, and objectivity; public availability; broad country-coverage; comparability across countries; and broad consistency in results from year to year. The 16 indicators used for fiscal year 2007 are listed in the chart below.

To become eligible, candidate countries are expected to score above the median on half of the indicators in each of these three criteria areas *and* above the median specifically on the *Control of Corruption* indicator. One exception to this methodology is that to pass the *Inflation* indicator, a country's inflation rate needs to be under a fixed ceiling of 15 percent. A performance scorecard was created for each candidate country, which was published on MCC's website. MCC staff met with representatives from many of these countries to discuss policy performance on the indicators and to highlight areas where reforms might increase future chances of qualifying for assistance.

As a general practice, we continually review the indicators used to ensure they are the best possible measures of country performance, consulting with experts across the U.S. government, the development community, public and private sector practitioners, researchers at think tanks, donors, and academia. From time to time, we recommend changes or refinements if better indicators or improved sources of data are identified. For instance, due to improvements in data quality and availability, we made several source changes to the fiscal year 2007 selection criteria. Rather than relying on multiple sources for the *Inflation* indicator, we relied exclusively on annual data reported in the International Monetary Fund's World Economic Outlook database. For *Public Expenditure on Health*,

we substituted World Health Organization data for data previously collected through national governments. Finally, for the *Public Expenditure on Primary Education* indicator, we established the United Nations Educational, Scientific and Cultural Organization (UNESCO) as the primary source and self-reported data from national governments as a secondary source.

For the first time in fiscal year 2007, MCC measured each candidate country's sustainable management of natural resources using two new indicators: a *Natural Resources Management Index* and a *Land Rights and Access Index*. The two new indicators measure how well candidate countries provide clean drinking water, expand sanitation ser-

vices, streamline the property registration process, and make land rights accessible and secure for poor and vulnerable populations. They were developed over the course of more than a year and resulted from a public process led by former MCC Board member Christine Todd Whitman. They involved extensive consultations with Congress, executive agencies, nongovernmental organizations, think tanks, and academics.

The *Natural Resources Management Index* and a *Land Rights and Access Index* provided non-binding, supplemental information in fiscal year 2007 and were formally adopted by the Board in September 2007 for use as selection indicators for fiscal year 2008 and beyond. The *Natural Resources*

The 16 Indicators Used for FY 2007

Ruling Justly

1. Civil Liberties
2. Political Rights
3. Voice and Accountability
4. Government Effectiveness
5. Rule of Law
6. Control of Corruption

Encouraging Economic Freedom

1. Cost of Starting a Business
2. Inflation
3. Fiscal Policy
4. Trade Policy
5. Regulatory Quality
6. Days to Start a Business

Investing in People

1. Public Expenditure on Health
2. Public Expenditure on Primary Education
3. Immunization Rates (DPT₃ and Measles)
4. Girls' Primary Education Completion

New Indicator: Natural Resource Management Index

Source

Created by Columbia University's Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy

Components

1. **Protection of Eco-Regions:** assesses whether countries are protecting at least 10 percent of all their biomes (e.g., deserts, tropical rainforests, grasslands, savannas, tundra)
2. **Access to Improved Water:** measures the percentage of the population with access to at least 20 liters of water per person per day from an "improved" source (household connections, public standpipes, boreholes, protected dug wells, protected springs, rainwater collection) within one kilometer of the user's dwelling.
3. **Access to Improved Sanitation:** measures the percentage of the population with access to facilities that hygienically separate human excreta from human, animal, and insect contact

4. **Child Mortality (Ages 1-4):** measures the probability of a child dying between the ages of 1 and 4, which is determined largely by efforts to reduce indoor air pollution and expand access to potable water and sanitation services

Why It Matters

The Natural Resources Management Index measures whether governments are investing their resources in ways that will enable poor people, particularly poor women and children, to live healthy and productive lives. Eco-region protection is important for sustainable economic growth and poverty reduction because ecosystems provide essential clean water, fresh air, healthy soils, livable climates, and wild foods that underpin human welfare. The Access to Improved Water, Access to Improved Sanitation, and Child Mortality subcomponents of this index measure a government's commitment to providing basic environmental services.

New Indicator: Land Rights and Access Index

Source

Created by combining the International Fund for Agricultural Development's Access to Land indicator with the International Finance Corporation's Time and Cost of Property Registration indicators

Components

1. **Access to Land:** assesses the extent to which the institutional, legal, and market framework provides secure land tenure and equitable access to land in rural areas, including (a) the extent to which the law guarantees secure tenure for land rights of the poor; (b) the extent to which the law guarantees secure land rights for women and other vulnerable groups; (c) the extent to which land is titled and registered; (d) the functioning of land markets; and (e) the extent to which government policies contribute to the sustainable management of common property resources
2. **Days to Register Property:** measures how long it takes to register property in the capital city
3. **Cost of Registering Property:** measures the cost to register property

as a percentage of the value of the property in the capital city

Why It Matters

Land is a crucial asset and a social safety net that poor people rely on to improve their well-being. Access to land often determines whether or not the poor can earn enough income to survive and invest in their own futures. It also addresses gender equality and assesses a government's commitment to investing in women. Secure land tenure is also a critical component of sustainable natural resource management because those who lack clear ownership or use rights to their land are less likely to make long-term investments in land productivity and more likely to make short-term decisions with negative environmental impacts, such as deforestation. By measuring whether governments are improving their laws, policies and administrative practices to make land access more secure, MCC can better identify countries committed to investing in the entrepreneurship of their people and empowering them to more fully harness their skills and talents to improve their own livelihoods.

Management Index has been placed in the investing in people category, and the *Land Rights and Access Index* has been placed in the economic freedom category. The gradual and transparent integration of the two new indicators into MCC's selection framework provided candidate countries with an opportunity to understand how the new benchmarks would be used in the eligibility selection process.

With the Board's formal adoption of these two natural resources management indicators and the decision it took to consolidate into one index the two indicators we use from the International Finance Corporation to assess the number of days and cost to start a business, the total number of performance indicators moving forward increased from 16 to 17.

Stage 3: MCC's Board Names Fiscal Year 2007 Eligible and Threshold Countries

The third and final step in the country selection process was the Board's determination of fiscal year 2007 compact eligible and threshold eligible countries. MCC submitted this list in its *Report to Congress* on November 13, 2006 (Section 608(d) of the Act). In making its decision, the Board of Directors evaluated each candidate country's performance scorecard and exercised its discretion in considering additional information, including adjustments for data

gaps, lags, or other weaknesses. The Board also considered whether MCA assistance would have an impact on poverty reduction and economic growth in a particular country as well as the extent of available MCC funds.

The re-selected countries from the "low income" category were: **Armenia, Benin, Bolivia, Burkina Faso, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, Tanzania, Timor-Leste, and Vanuatu.**

The re-selected countries from the "lower middle income" category included: **Cape Verde, El Salvador, and Namibia.**

These 21 countries in the "low income" and "lower middle income" categories had each been selected in at least one previous cycle, and the Board reselected them for fiscal year 2007 based on their continued policy performance since their prior selection. However, six of these countries—Benin, Cape Verde, Ghana, Madagascar, Senegal, and Sri Lanka—did not perform above the median in relation to their peers on at least half of the indicators in each of the three policy categories. Yet, we did not believe that a serious erosion of policy performance had occurred in any of these countries and they were, consequently, reselected. Each of their governments committed to specific courses of actions to address indicator

performance weaknesses and to improve performance overall.

Three additional countries were selected for the first time in fiscal year 2007: **Moldova** and **Ukraine** in the “low income” category and **Jordan** in the “lower middle income” category. While now eligible for compact assistance, all three of these countries are also currently participating in the threshold program. The governments of Moldova, Ukraine, and Jordan are required to successfully implement their respective

threshold programs—and corresponding reforms—even during the compact development process. Proceeding with a compact depends on successful performance in each country’s threshold program.

As a result of the fiscal year 2007 selection process, **Niger**, **Peru**, and **Rwanda** were selected for the threshold program, joining 17 countries chosen during previous MCC threshold program selection rounds in 2004 through 2006. (Read “MCC’s Threshold Program” on page 33 for more details.)



These children, at a school in Niger, will benefit from Niger’s Threshold Program which concentrates on improving its Girls’ Primary Education Completion Rate indicator. Read more at www.mcc.gov/niger.

MCC's Threshold Program

To provide further incentive for policy reform and to assist countries to become compact eligible, MCC's legislation established a threshold program for countries that demonstrate a significant commitment to meeting the eligibility criteria but fall short on several indicators. Threshold assistance helps countries address specific areas of policy weakness identified in the MCA selection indicators. Up to ten percent of MCC's appropriation may be spent on the threshold program.

Threshold countries

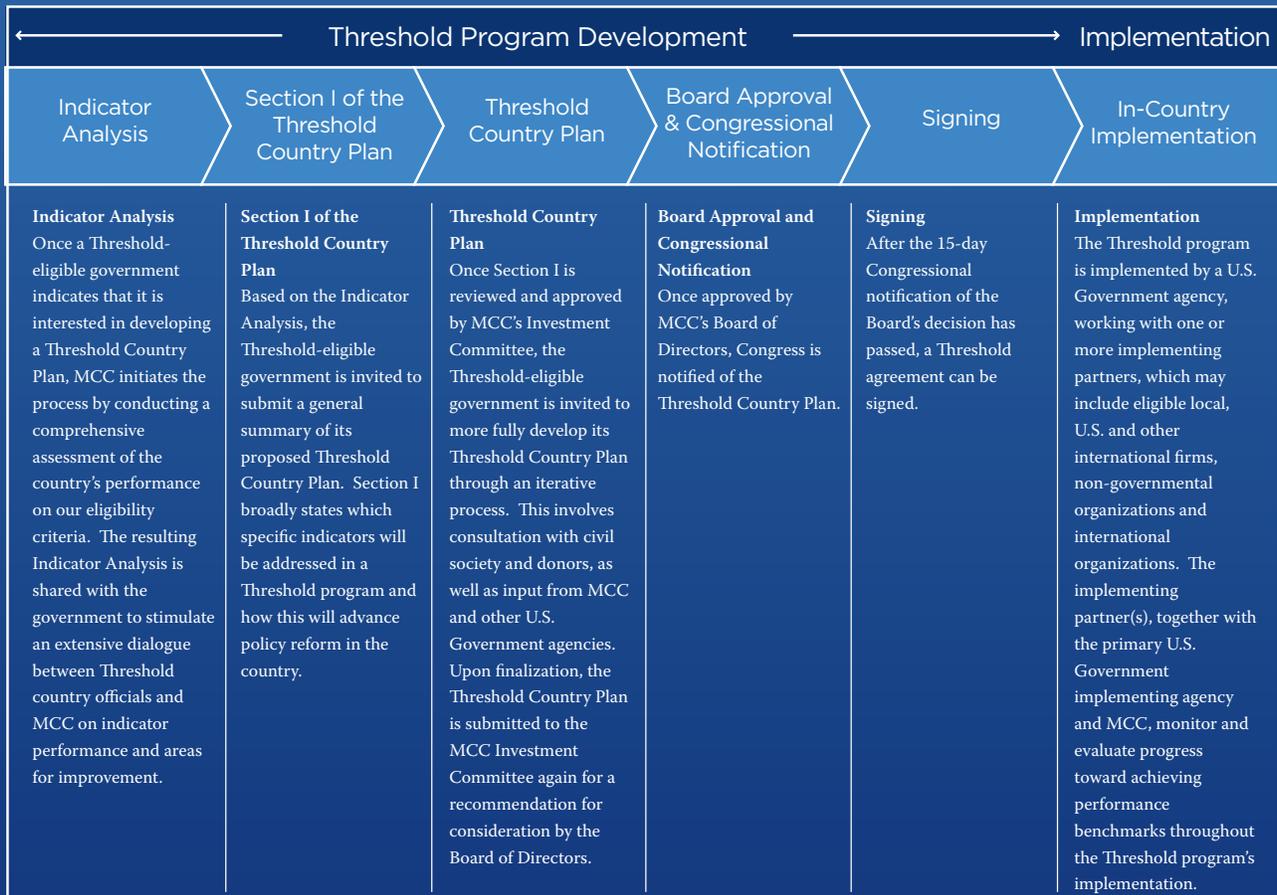
The following countries were eligible for threshold program assistance in fiscal year 2007: Albania, Burkina Faso, Guyana, Indonesia, Kenya, Kyrgyz Republic, Jordan, Malawi, Moldova, Niger, Paraguay, Peru, Philippines, Rwanda, Saõ Tomé and Príncipe, Tanzania, Uganda, Ukraine, Yemen, and Zambia.

Of these, Niger, Peru, and Rwanda were selected in fiscal year 2007 to participate in the threshold program.

Certain threshold countries have subsequently been selected as compact-eligible, and performance on any ongoing threshold program will be considered by MCC's Board of Directors in approving a possible future compact.

Countries with approved threshold programs

As of the end of fiscal year 2007, MCC has approved and signed 14 threshold programs totaling about \$316 million with Burkina Faso, Malawi, Tanzania, Albania, Paraguay, Zambia, Philippines, Ukraine, Jordan, Indonesia, Moldova, Kenya, Uganda, and Guyana.



Country Ownership: Compact Development Process

Once countries qualify and are selected for full MCC assistance because of their policy performance, they are invited to develop a proposal for funding—through an agreement we call a compact—to address their constraints to poverty reduction and economic growth. In keeping with MCC’s core value of country ownership, we expect countries to inform MCC of what they need to achieve their antipoverty strategies, rather than MCC selecting and designing the programs we think we should be funding. This level of expectation—and responsibility—demanded by country ownership has stretched existing capabilities among our partner countries and developed new capacities. The process is making our partner countries the leaders of their own development.

Eligible countries must first identify their main constraints to poverty reduction and economic growth through a timely and meaningful consultative process with their civil societies, including the private sector, nongovernmental organizations, private

voluntary organizations, other donors, women, and the poor themselves who are to benefit from the programs. Eligible countries are expected to design and submit their own proposals for funding addressing their identified constraints. We make it

MCC as a Major Donor

At the 2005 Gleneagles summit, President Bush and other G8 leaders agreed to double aid to Africa by 2010. Later that year at the WTO meetings in Hong Kong, the U.S. committed to more than double aid-for-trade from \$1.3 billion in 2005 to \$2.7 billion by 2010, provided development partners prioritize trade in their development plans. MCC plays an important role in helping the United States work toward these commitments. Over 60 percent of the \$5.5 billion MCC has approved in compacts through the first quarter of fiscal year 2008 benefits sub-Sa-

haran Africa, and MCC has become the largest U.S. contributor to aid-for-trade, with nearly \$778 million in obligated aid-for-trade activities in FY 2007.

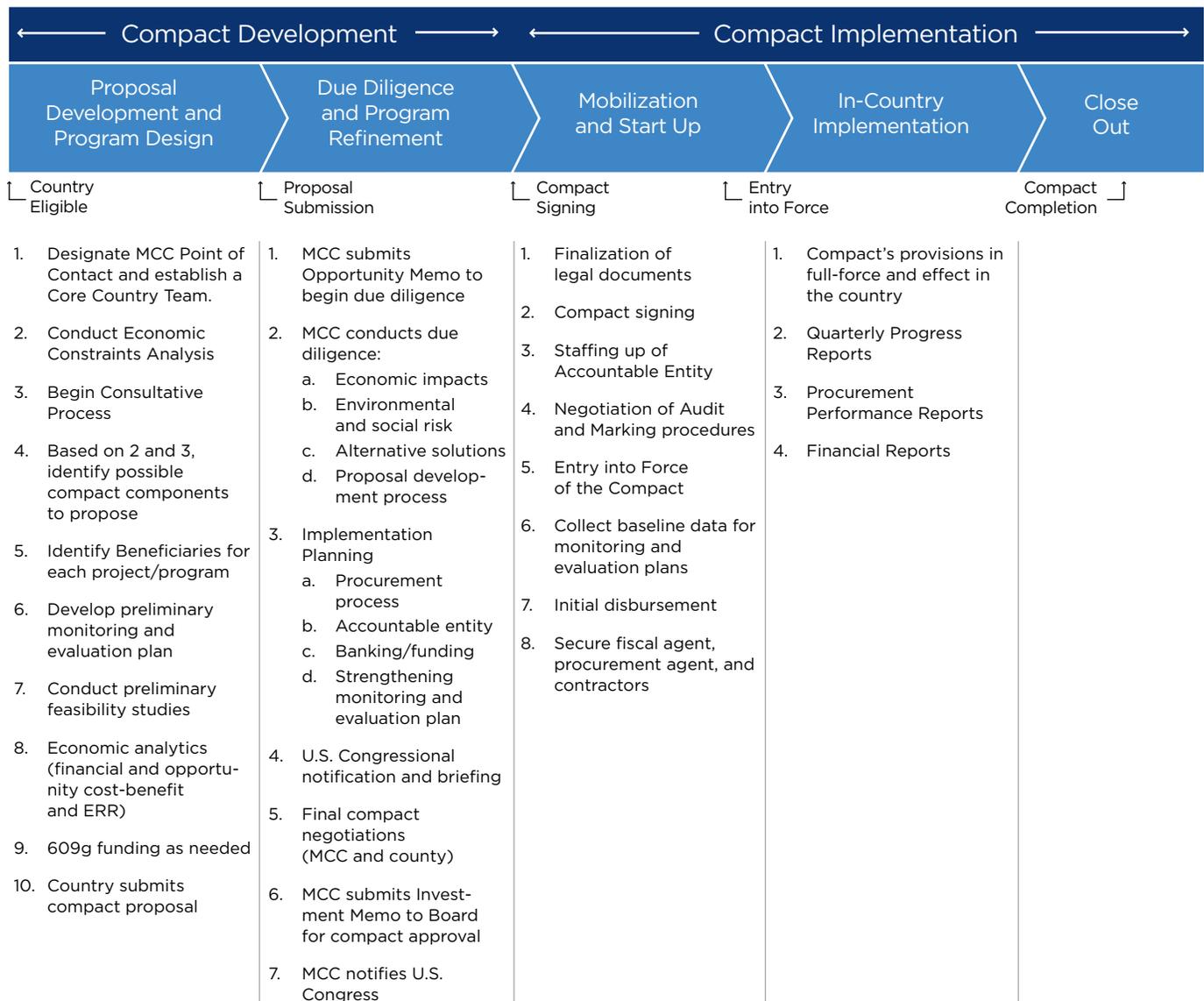
MCC is among the largest donors in each of our partner countries. After the initial compacts, which were smaller in size, MCC is now among the top three donors in most partner countries and has helped raise the overall profile of the United States as a donor.

clear that should MCC approve their proposals, we expect them to be responsible for the implementation. For this reason, we ask partner countries to think through their implementation mechanisms as part of the proposal process.

We evaluate and conduct due diligence on each proposal to determine whether it will lead to poverty reduction and growth.

If a country’s proposal is approved for funding—and approval is not automatic—MCC and the country enter into a country-specific compact. This mutual agreement outlines responsibilities for both MCC and the partner country and stipulates progress benchmarks along the way to ensure accountability and outcomes.

The Making of a Compact



The Consultative Process

MCC is committed to a participatory, timely, and meaningful consultative process as key to successful compact proposal development and implementation. This process takes into account the local input and perspectives of the rural and urban poor, women, private and voluntary organizations, the business community, and other donors in each partner country. Consultations are tailored to each specific phase of compact evolution.

Phase	Purpose of Consultations at this phase include:	Consultations enable partner countries:
1. Proposal development and program design	<p>To explain the compact development process and consultations to the public</p> <p>To gather information on problems and priorities from a wide range of stakeholders</p>	<p>To identify economic obstacles with broad impact</p> <p>To identify solutions and program ideas to propose as compact components</p> <p>To draft and submit a compact proposal</p>
2. Due diligence and program refinement	<p>To explain publicly why the elements included in the compact proposal were selected</p> <p>To gather local-, sector- and stakeholder-specific information needed to refine technical elements of the proposal through consultations with domestic and international technical experts, the donor community, and groups that are likely to benefit from or be affected by the implementation of a proposed program or project</p>	<p>To make technical decisions relating to the proposal to maximize the number of beneficiaries, increase public participation, ensure gender-equal access, alleviate cost burdens on vulnerable groups, and fine-tune an impact monitoring and evaluation plan</p>

Phase	Purpose of Consultations at this phase include:	Consultations enable partner countries:
3. Mobilization and start up	<p>To promote realistic public understanding of the compact, including outlining and managing public expectations about its implementation</p>	<p>To establish transparent communication channels that can be used throughout implementation to continue interacting with the beneficiaries of the proposed programs or projects, civic and private sector groups that seek information—including procurement opportunities—during implementation, and the media</p>
4. In country implementation	<p>To provide beneficiaries with the information needed to encourage and enable them to participate in compact programs</p> <p>To gather information from beneficiaries and stakeholders about the impact and effectiveness of compact programs</p> <p>To provide interested stakeholders and the general public with information about the progress and impact of the compact</p>	<p>To continue an ongoing exchange of information with the public throughout implementation, with an eye to correcting problems and scaling up positive outcomes</p>

Country Responsibility: Implementation Process

Once a partner country has successfully gone through the selection process and has developed its own feasible and approved compact, it is responsible for implementing its own compact programs and is accountable for maintaining policy performance and achieving program results. This responsibility reinforces MCC's commitment to country ownership. Tangible results in the lives of the poor are an outgrowth of successful, country-led implementation, which requires a partner country's willingness to mobilize its own resources and talented professionals for implementation. Such mobilization entails

- ★ establishing an independent, in-country accountable entity, the organization formed by the country to manage and implement compact activities,

Monitoring and Evaluation

Extensive monitoring and evaluation (M&E) plans are integrated into each MCC program to benchmark progress and measure impact. In fact, we work with eligible countries to develop instruments and procedures to enable them to carry out comprehensive and rigorous program performance monitoring and impact evaluation. M&E spans the entire life cycle of a program from concept through implementation and beyond, generally covering three main stages:

First

We ask that countries analyze their constraints to growth and opportunities for investment before constructing a proposal. MCC conducts an **economic analysis** of every proposal submitted to identify potential economic impacts. Assessing the economic growth and poverty reduction rationale for each project also helps to identify key indicators of progress in implementation.

Second

A set of indicators for **monitoring** performance during implementation is developed, with annual

targets for each. This helps eligible countries identify problems early-on and make mid-course corrections during implementation in order to ensure that the program is on track to achieve the ultimate outcomes and impact.

Third

While good program monitoring is essential, it is often not sufficient to measure the long term impact of a program on the well-being and incomes of beneficiaries as well as on national economic growth and poverty reduction. Thus, MCC incorporates **impact evaluations** into compact implementation as well. We are also working on ways to measure and evaluate program impacts beyond the typical five year compact duration.

Taken alone these are not new ideas, but the combination and unique implementation of these three steps, in addition to the central role the countries play, achieve the intended outcomes.

Working with Other Donors and U.S. Agencies

MCC and MCA teams have coordinated investments with USAID, other U.S. agencies, and donors throughout compact development and implementation. Some current compact activities build upon successful programs of other donors, complement existing donor initiatives, and are helping catalyze new donor investments. For example:



In **Armenia**, MCA-Armenia has accelerated the construction planning on approximately 20 kilometers of rural roads by using detailed design studies made available by the Lincy Foundation. This cooperative effort will result in approximately \$50,000 in savings to the MCA-Armenia program and allow MCA-Armenia to break ground in late 2007.



In **El Salvador**, the Central American Bank for Economic Integration has provided a \$55 million loan to the National Registry Center that is critical to the sustainability of MCC compact results. The loan supports El Salvador's Northern Zone Development Program and will be used to fund the necessary strengthening of land rights and the modernization of the cadastre and property registration systems.



In **Georgia**, MCC's Agribusiness Development Activity joined the USAID-funded activity AgVANTAGE in the publication and distribution of a magazine for farmers that reports on wholesale market prices for agricultural products and raw materials.



In **Lesotho**, PEPFAR activities supported the Ministry of Health and Social Welfare in developing MCC's first successful health proposal. In turn, projected MCC investments in health systems strengthening and infrastructure helped provide the impetus for PEPFAR to increase its in-country staff from seven in FY 2007 to nine

in FY 2008 and enabled PEPFAR to make key FY 2008 budgeting decisions.



In **Mongolia**, the Vocational Education Project builds on complementary investments funded by the Asian Development Bank, the German Agency for Technical Cooperation, the Japan Fund for Poverty Reduction, and the Nordic Development Fund. The prior work of these donors saved MCC time and money during the project design phase and will likely yield further benefits by allowing MCA-Mongolia to incorporate lessons learned into the Vocational Education Project's implementation.



In **Morocco**, the compact's Financial Services Project builds on the strategic priorities articulated by other donors and industry professionals. MCC is partnering with the Agence Française de Développement, Germany's Kreditanstalt für Wiederaufbau, and the International Finance Corporation to invest in the Jaida fund, which provides debt funding to the Moroccan micro-credit sector.



In **Mozambique**, the compact's Water Supply and Sanitation Project builds on pioneering World Bank work started over a decade ago. MCC's approved investments in water and sanitation will benefit from \$40 million in complementary support through the World Bank's Water Services and Institutional Support Project and are attracting other donor investments into the sector as well.

MCC increased efforts to share experiences and learn from others in broader donor and development fora in areas such as evaluation, procurement, gender, and aid effectiveness. MCC donor coordination, both in partner countries and at headquarters, has helped save time and money and leverage MCC investments.

- ★ developing systems for financial control and oversight,
- ★ finalizing the legal documentation requirements, and
- ★ concluding detailed project planning.

Establishing the accountable entity

Each country's accountable entity—not MCC—is responsible for the daily management, operation, coordination, implementation, as well as monitoring and evaluation of the compact. The accountable entity becomes the central point of contact for MCC, other donors, contractors, consultants, and the country's citizens overall. The country decides what type

of entity would best advance the goals of government accountability, transparency, efficiency, and operational capability, as well as the inclusion of stakeholders during compact implementation. The accountable entity develops and carries out all plans for the implementation of compact activities, including financial plans, procurement plans, the monitoring and evaluation plan, the fiscal accountability plan, work plans, as well as any audit plan.

Mobilization of fiscal and procurement agents

Along with establishing an accountable entity, each MCC partner country also selects fiscal and procurement agents.



Honduras' MCC compact is about to change the face of Highway CA-5 North and the lives of approximately 600 families settled near the road. Read more at www.mcc.gov/honduras.

These agents are responsible for establishing the financial and reporting systems, developing standard bidding documents, and beginning work on any procurement activities required prior to the compact's

entry into force. **Finalizing legal documentation**

MCC's legal team and the country's legal counsel cooperate in finalizing all legal documentation to provide for the compact's entry into force. These documents give full legal effect to the compact, describe in detail how the accountable entity will be structured and managed, and are required to lay the foundations for how procurements and finances are to be managed.

Detailed project planning

With assistance from MCC staff, the accountable entities create work plans to guide compact activities. Along with such plans, the accountable entities develop feasibility studies, environmental impact assessments, and strategic environmental assessments. Procurement plans and disbursement requests are also devised to map out the steps and timelines required for procurement actions.

To ensure transparency and accountability, our assistance is disbursed according to such timelines only as performance benchmarks are achieved.





Why We Do What We Do



The girl in this photo lives in the village of Gomo Coura, Mali, a region where MCC is funding a road project to bring, among other things, more economic growth to the region. The village will directly benefit from the project. Photo by MCC staff member Marc Tkach.

Changing the Conversation About Development

While delivering country-specific results through compacts and threshold programs, MCC's approach also offers positive incentives for creating the very conditions that make development sustainable and transformative. This, too, is at the core of our early successes and demonstrates how we are changing the conversation about how development takes place.

Changing lives through policy reforms

MCC motivates reforms. By stressing sound political, economic, and social policies, MCC motivates the hard work of policy changes in countries that want to either maintain their eligibility with us or qualify for it. As a result, these governments are making improvements in governance, increasing investments in health and education, and creating pro-business conditions. Even before a dollar of our assistance is invested, countries begin investing in their own development to qualify for MCC funding, a phenomenon we call the *MCC incentive effect*.

- ★ According to the World Bank's *Doing Business* project, 24 countries specifically cited MCC as the primary motivation for their efforts to improve their business climate. Interministerial com-

mittees and presidential commissions have been set up in at least a dozen countries to devise reform strategies that address our selection criteria.

- ★ Many countries—though not yet eligible for MCC assistance—are undertaking the hard work of policy reform and improving their practices and procedures with the expectation of qualifying for our assistance. For instance, motivated by its interest to qualify for MCC funding, Guatemala has taken significant steps to improve its policy performance on MCC's indicators. Tough anticorruption reform measures include prosecuting high-ranking officials on charges of corruption, creating a financial crimes unit, hiring a foreign accounting firm to audit congressional spending, initiating online disclosure of government procurements, and

implementing a performance-based budgeting process.

Once countries become eligible, they must continue an aggressive reform agenda to keep pace with an increasingly demanding standard for eligibility. Competition is getting tougher, and countries must continue maintaining and improving policy performance.

- ★ Madagascar reduced the minimum capital requirement for new businesses by 80 percent in 2006 and saw a 26 percent increase in new business registrations. Similarly, El Salvador reduced the number of days it takes to start a business from 115 to 26 days. To maintain its eligibility, El Salvador also passed a new ethics/anticorruption law and other reforms, resulting in its inclusion in the World Bank's 2007 *Doing Business* report as a top 10 performer worldwide.
- ★ Madagascar, Mali, and Benin are undertaking land reform measures, which are necessary to promote secure land rights, access to credit, investments, and increased productivity. MCC is the leading donor for land reform in Madagascar, where only seven percent of land is officially titled, and the backlog of registration requests could take over 100 years to process without these key reforms.
- ★ Nicaragua and Honduras implemented reforms to secure unprecedented levels of funding for road maintenance. These funds improve the sustainability of the road investments MCC and others are making. In a country where road maintenance funds were insufficient to maintain the road network in sustainable ways, Nicaragua, specifically, collected \$10 million for road maintenance in the first year. In Honduras, not only has funding for road maintenance dramatically increased, but also the reporting requirements for the country's road maintenance plan have improved transparency in planning and execution.

Changing lives by rejecting corruption

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

- ★ To promote transparency and good governance, each compact adheres to strict fiscal and procurement standards. This not only protects MCC invest-

ments in partner countries from waste and fraud, but also helps countries learn the importance of adopting and applying sound budget, fiscal, and procurement management.

- ★ Benin produced an action plan to ensure compliance with the MCC corruption indicator. On its own, it initiated sweeping reform of several government offices and ministries to reduce corruption and establish a “no tolerance for corruption” campaign. Several high-level government personnel have been dismissed or indicted on charges of embezzlement or misuse of public funds.
- ★ Georgia adopted dramatic anticorruption reforms leading to a significant improvement in its control of corruption indicator from the 36th percentile

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

Evaluating Progress: The Questions to Ask

When MCC was created as a new model for foreign aid, we also envisioned a new way for evaluating our progress, to get at the very core of what makes development sustainable. Four key questions guide us in our self-evaluation:

- ★ **First**, are MCC candidate and partner countries elevating their focus on maintaining and improving policy performance through necessary reforms?
- ★ **Second**, are countries consulting with their citizens and other stakeholders to present well-designed programs that stimulate growth and transform the lives of the poor?
- ★ **Third**, are partner countries implementing projects in an effective and transparent way?
- ★ **Fourth**, did the projects deliver the desired results during implementation and upon completion?

- ★ The majority of MCC's threshold programs are designed to fight corruption.

Changing lives through capacity building

MCC helps countries build institutional capacity. By insisting that partner countries design and implement their own development plans, we are strengthening institutions and jumpstarting critical thinking about the policies necessary to ensure sustainability. Country ownership encourages civil participation and accountability

and helps sustain high environmental and social impact standards. It reinforces the good policies we demand in the first place. And, good practices are spreading beyond just MCC-funded programs in partner countries.

- ★ In Ghana, one of the obstacles to successful development has been the lack of adequately trained procurement specialists. MCC is funding a *procurement capacity-building initiative* within the Ghanaian government designed to strengthen the effectiveness of various

The MCC Effect

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

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

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

Steve Radelet, of the Center for Global Development, has identified "a strong MCC Effect in which

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

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

procurement entities to help Ghana *help itself* overcome this barrier to its own development. Ghana also plans to use the consultative and rigorous project evaluation process MCC requires for compact development to evaluate non-MCC funded activities within the country. Moreover, to share experiences and lessons learned in developing and implementing compacts, Ghana hosted a conference for representatives of other African countries with compacts.

- ★ In Georgia, extensive collaborative efforts are strengthening the Georgia Department of Statistics to ensure that *Millennium Challenge Georgia*—which is responsible for compact implementation, monitoring, and evaluation—has

the best possible data to evaluate its program in particular and to generate stronger impact evaluation and data gathering capacity within the Georgian government overall. Asking countries to develop their own compacts—including the monitoring and evaluation plans for them—enhances their abilities and skills to evaluate other government programs. MCC partner countries are responsible for establishing baselines and demonstrating and measuring results to focus on outcomes and impacts rather than project inputs and outputs.

- ★ In Nicaragua, extensive public participation in designing and implementing the compact program has generated unwavering support from local officials, civil society groups, and program



Andrés Velásquez of Puentecito, a village in Honduras, lives with his wife and five children and grows crops on a small farm. Read how MCC's Honduras compact is helping Andrés at www.mcc.gov/success.

beneficiaries. This support serves to buoy the program during elections and political transitions, allowing it to progress uninterrupted.

- ★ Mali conducted an *MCA Press Corps* training workshop. Journalists from various media were briefed on both MCC and the components of the Mali's compact in a focus-group format. This has led to more in-depth investigative reporting of the program, increased reporting volume, widening coverage to radio and multiple language formats, and has inspired improved reporting on the MCA program and its synergies with other donor organizations.
- ★ In Honduras, representatives from 200 municipalities attended workshops to identify roads to be improved under the *Farm to Market Roads* activity, resulting in applications for improvements to 6,645 kilometers of road, about 10 times what can be funded with the \$21.5 million budget for this activity. Civil engineers are now using publicly available criteria to conduct field assessments of the applications to make selections. The wide participation of municipalities and the use of transparent and objective criteria to select the roads are making this a model process in Honduras.
- ★ Georgia's program raised the bar on environmental protection as well as health and safety by improving stan-

dards applied to gas pipeline repairs. Georgian corporations have embarked on a program to raise project construction and supervision to international environmental, safety, and health standards for the first time.

- ★ Farmers in the MCC-funded *Farmer Training and Development Activity* in Honduras have sharply reduced their pesticide and fertilizer use and improved their handling of these products, directly improving their health and that of other users, while minimizing damage to the watershed and improving crop yields. In addition, the MCA-Honduras program is implementing a resettlement process that is fairer and more transparent than anything previously done in Honduras.

Changing lives by giving voice to women

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

- ★ In Benin, over 100 local civil society organizations elected representatives to the working group to design that country's compact; and representatives of Benin's leading NGO promoting women's rights played an instrumental role in expressing the views of rural women and addressing the interrelated issues of land ownership and agricultural production.
- ★ Lesotho's parliament enacted a law to confer equal legal status on married women so as to engage them fully in that country's economic life. MCC welcomed this groundbreaking policy reform as critical to the success of the Lesotho compact. MCC is partially funding the government of Lesotho's commitment to identifying existing laws that conflict with the *Legal Capacity of Married Person's Bill* and introducing legislation to harmonize certain laws prior to the compact's initial disbursement after entry into force.
- ★ In Ghana, the Agriculture Productivity Project and the Land Regularization Activity address the constraints to women's participation along the productive value chain for rural agriculture and in land access, ownership, and management. For both activities, MiDA (MCA-Ghana) has taken the lead in developing gender assessments to ensure that female beneficiaries are able to both participate and benefit.

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

Changing lives through entrepreneurship and trade

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

MCC can play a unique role within the U.S. government to foster and leverage mainline international investment and help scale up viable private sector activity. We do this by coordinating efforts with other U.S. government agencies and international programs to maximize private sector incentives for investment in MCC economies. We are integrating private sector activi-



Repairing Georgia's North-South Gas Pipeline became a priority as the old, exposed pipeline was subject to extreme damage from severe weather. Read more about the pipeline at www.mcc.gov/success.



ties into MCC compacts and working to stimulate follow-on investments in MCC countries. We also address critical constraints to private sector development, such as inadequate infrastructure, by investing in partner countries' infrastructure priorities.

As the Finance Minister of Indonesia asserts, the real draw of MCC's eligibility and selection process is not necessarily the development assistance but the "*good housekeeping seal of approval*," which sends a powerful signal to private investors that conditions are right in MCC countries for investing and doing business.

- ★ *Grupo Beta*, a textile manufacturing firm, made a \$6 million investment in Nicaragua, attracted by the favorable

business conditions MCC helped create. The investment is projected to create 1,200 new jobs.

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



 Women process pineapples for export at a nucleus farm in Ghana. Learn more about the programs in MCC's Ghana compact at www.mcc.gov/ghana.

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

- ★ MCA-Honduras is training farmers in small business skills and production practices needed to compete under CAFTA-DR. For example, MCA is providing training on *EurepGAP* standards for good agricultural practice. *EurepGAP* training involves actions not only to ensure good agricultural product

quality during production, processing, and transportation, but also to guarantee food safety as well as the protection of the environment and field workers. *EurepGAP* will allow Honduran farmers to meet global export standards.

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

Changing Lives: Threshold Programs

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



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



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



In **Zambia**, the business registration process at the Patents and Companies Registration Office has been reduced from 10 days to one, effectively reducing the number of days required to

start a business from 35 to less than 10. The projected benefit from the savings in business personnel time and earlier initiation of business activity is estimated at more than \$12 million per year.



In **Jordan**, legislation to reform municipal governments passed, allowing for the election of municipal mayors and council members, the reduction of the voter eligibility age from 19 to 18, and the establishment of a 20 percent quota for women in municipal councils. MCC support is now assisting nine municipalities—including one with a female mayor—to respond better to the priority needs of their citizenry through targeted trainings, grants, and public discussion programs.



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

Threshold Program Descriptions

Country	Threshold Program Description
 Albania	The \$13.8 million program focuses on reducing corruption by reforming tax administration, public procurement and business administration. The program anticipates reducing the bribes and bureaucracy needed to start a business while increasing the national tax base.
 Burkina Faso	Burkina Faso's program focuses on creating a plan to increase girls' primary school enrollment and attendance rates in the country's 10 lowest performing provinces. It provides for the construction of 132 schools and other interventions to improve the access and quality of education for girls within these 10 provinces.
 Guyana	MCC's two-year, \$6.7 million Threshold Program with Guyana seeks to improve Guyana's performance on MCC's Fiscal Policy indicator. Specifically, the grant will help the Government of Guyana implement its new value-added tax (VAT) system and develop ways to assist and educate taxpayers, while at the same time helping the government better plan and control spending. Additionally, the grant will help reduce the number of days and costs associated with starting a business by modernizing and streamlining the business registration process.
 Indonesia	The \$55 million program seeks to immunize at least 80 percent of children under the age of one for diphtheria, tetanus and pertussis and 90 percent of all children for measles. The program also has a component aimed at curbing public corruption by reforming the judiciary.
 Jordan	The \$25 million program supports Jordan's efforts to broaden public participation in the political and electoral process, increasing government transparency and accountability, and enhancing the efficiency and effectiveness of customs administration.
 Kenya	Kenya's program focuses on reducing public sector corruption by overhauling the public procurement system, focusing on health care procurements in the supply chain. A new public financial management reform strategy reduces the opportunity for corruption and includes a public procurement project.
 Malawi	Malawi's program focuses on improving the legislative and judicial branches, providing support for lead anti-corruption agencies, strengthening independent media coverage and expanding and intensifying the work of civil society organizations.
 Moldova	The \$24.7 million Moldovan Threshold Program seeks to reduce corruption in the public sector through reforms to the judicial, health, tax, and customs systems. The reforms will complement Moldova's national strategy aimed at reducing corruption.

Country	Threshold Program Description
 Paraguay	Paraguay signed a \$34.65 million Millennium Challenge Corporation Threshold program to initiate a multi-sectoral attack on corruption and create conditions conducive to economic growth and business development in Paraguay. By helping Paraguay improve its tax collection rates, prevent smuggling, and decrease the time required to start a business, MCC is helping to improve the business and investment environment in the country
 Philippines	The \$22.1 million program aims at improving revenue administration and anti-corruption efforts. The program will reduce corruption by strengthening the Office of the Ombudsman and strengthen enforcement within three departments in the Department of Finance.
 Tanzania	Tanzania's program focuses on controlling public corruption. The program includes projects to build the non-governmental sector's monitoring capacity, strengthens the rule of law for good governance, establishes a Financial Intelligence Unit and curbs corruption in public procurement.
 Uganda	Uganda's program focuses on fighting corruption by improving public procurement and financial management practices, increasing the effectiveness of investigations and prosecutions and strengthening the role of civil society.
 Ukraine	The \$48.1 million program focuses on reducing corruption by strengthening civil society's ability to monitor and expose it. The program also enables the government to increase the monitoring and enforcement of ethical and administrative standards.
 Zambia	The \$24.3 million Zambia Threshold Program focuses on reducing corruption and improving government effectiveness. The Program is funding three components aimed at increasing control of corruption within the public sector, improving public service delivery to the private sector and strengthening border management of trade.

Changing Lives: Compacts

Initial performance results reported by countries in compact implementation demonstrate that MCC is making substantial progress. As of the end of fiscal year 2007, highlights of progress include:

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

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

 In **Georgia**, the first round of emergency repairs to the *North-South Gas Pipeline* in Georgia have been completed, improving the long term security and diversification of the country's natural gas supply and providing Georgian citizens and businesses with electricity and heating as temperatures drop. In addition, grants totaling \$1.1 million to 34 new or expanding agribusinesses are helping them

improve technologies and access markets. These agribusinesses will employ about 400 people and do business with 22,000 customers and suppliers.

 In **Nicaragua**, thousands of farmers and rural entrepreneurs have benefited from technical assistance and business development services.

While infrastructure projects in compact countries typically take longer to launch as quarterly and other performance reports suggest, supplemental indicators indicate that MCC is reaching key process milestones on these projects so that longer-term objectives can be achieved. In certain cases, targets have been reached ahead of schedule. One of the targets for road rehabilitation in Cape Verde was exceeded, and a target for the value of regional infrastructure projects in Georgia was surpassed. Georgia also completed 100 percent of its emergency pipeline repairs. The rise

in procurements to mobilize key activities indicates that progress on infrastructure and other projects will intensify in fiscal year 2008.

Overall, results reported on various process milestones, initial performance indicators, and annual targets demonstrate that partner countries are achieving substantive progress.

Compact Descriptions

Country	Compact Description
 Armenia	<p>The five-year \$235 million MCC Compact with Armenia is focused on increasing economic performance in the agricultural sector. The Compact consists of a five-year program of strategic investments in rural roads and irrigated agriculture. Specifically the investments will upgrade hundreds of kilometers of road, providing communities and rural residents with reduced transport costs and better access to jobs, markets and social services; and increase the productivity of 250,000 farmer households through improved water supply, higher yields, higher-value crops and a more competitive agricultural sector.</p>
 Benin	<p>The five-year, \$307 million compact aims to increase access to land through more secure and useful land tenure, expand access to financial services through grants given to enterprises, provide access to justice by bringing courts closer to rural populations and improve access to markets through the Port of Cotonou.</p>
 Cape Verde	<p>The five-year, \$110 million compact seeks to improve the country's investment climate and reform the financial sector, improve infrastructure to support increased economic activity and provide access to markets, employment, and social services, increase agricultural productivity and raise the income of the rural.</p>
 El Salvador	<p>In El Salvador, the five-year, \$461 million Compact will improve the lives of Salvadorans through strategic investments in education, public services, enterprise development, and transportation infrastructure. The Compact is highlighted by a Human Development project designed to increase employment opportunities for the region's poorest inhabitants and provide greater access to safe water and sanitation services. The Productive Development Project will assist the development of profitable and sustainable business ventures with a primary focus on poor farmers. The Transportation Project will fund road infrastructure improvements to increase access to markets, lower transportation costs, and provide increased economic opportunities.</p>

Country	Compact Description
 Georgia	<p>The five-year \$295 million MCC Compact with Georgia will help reduce poverty by renovating key regional infrastructure and improving the development of regional enterprises. The Compact's infrastructure projects will improve rural transportation, providing agricultural suppliers the opportunity to connect more easily with consumers and increase regional trade. Furthermore, by providing funding and technical assistance to targeted regional enterprises, the Compact will enhance productivity in farms, agribusinesses and other enterprises that will increase jobs and rural income.</p>
 Ghana	<p>The five-year, \$547 million compact seeks to raise farmer incomes through private sector-led, agribusiness development and to increase the production and productivity of high-value cash and food staple crops enhancing the competitiveness of Ghana's agricultural products in regional and global markets.</p>
 Honduras	<p>The five-year Compact with Honduras aims to reduce poverty by increasing agricultural productivity and decreasing transportation costs. MCC's \$215 million investment will develop the productivity and business skills of farmers who operate small and medium size farms and their employees and reduce transportation costs between targeted production centers and national, regional and global markets.</p> <p>The Rural Development Project will result in higher incomes for the farmers, their employees, and their communities. The Transportation Project will enable farmers and other businesses to get their products to market more efficiently, rural Hondurans to get to work and access social services, and children to get to school.</p>
 Lesotho	<p>The five-year, \$363 million compact seeks to improve health outcomes and productivity through strengthening the health system, removing barriers to foreign and local private sector investment and providing water supplies for industrial and domestic use.</p>
 Madagascar	<p>The four-year, \$110 million compact seeks to increase land security, expand competition in the financial sector and increase investment in farms and other rural businesses.</p>
 Mali	<p>The five-year, \$461 million compact seeks to increase production and productivity of agriculture and small and medium-sized enterprises and expand Mali's access to markets and trade through key infrastructure investments that capitalize on the Bamako-Sénou Airport and the Niger River for irrigated agriculture</p>
 Morocco	<p>The five-year, \$697 million compact seeks to increase productivity in high potential sectors including investments in fruit tree productivity, small-scale fisheries and artisan crafts. Small business creation and growth will be supported also by investments in financial services and training in business management.</p>

Country	Compact Description
 Mozambique	<p>The five-year, \$507 million Compact seeks to improve rural and urban water and sanitation, roads, improved land administration, agriculture and cross-cutting policy reforms and capacity building initiatives.</p>
 Nicaragua	<p>The five-year Compact will provide \$175 million to reduce transportation costs, improve access to markets, strengthen property rights, increase investment, and raise incomes for farms and rural businesses in the Leon and Chinandega region.</p> <p>The Compact will improve property records of land parcels and create a modern system of parcel maps and registered land titles, making property rights more secure and lowering the cost of doing business in the region. Transportation projects will upgrade a stretch of the Pacific Corridor highway to better link producers in the northwest to commercial centers in Managua, Honduras, and El Salvador. Upgrades to rural secondary roads will improve community access to markets and social services.</p>
 Vanuatu	<p>The five-year \$65 million MCC Compact with Vanuatu addresses the country's poor transportation infrastructure. Consisting of various infrastructure projects, including roads, wharfs, an airstrip and warehouses, the program seeks to benefit poor, rural agricultural producers and providers of tourist related goods and services by reducing transportation costs and improving the reliability of access to transportation services.</p>

Reducing Poverty Through Growth



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