



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to negotiate and sign a threshold program agreement with the Government of Honduras obligating up to \$15,650,000. In addition to the enclosed notification, we have included supplemental information regarding the Honduras threshold program.

The attached notification is being sent to the Congress on March 21, 2013. Members of MCC's staff are available to meet with you to discuss the planned program. If you or your staff would like to arrange a meeting, please contact Jim Mazzarella at (202) 521-2695.

Sincerely,

/s/
Paul Weinberger
Vice President
Congressional and Public Affairs

Enclosure:
As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

March 21, 2013

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	FY 2013 Program Funds FY 2008 Program Funds
OBLIGATION AMOUNT:	\$14,250,000 (FY 2013 Program Funds) \$1,400,000 (FY 2008 Program Funds)

In accordance with the heading, "Millennium Challenge Corporation," and section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012, as carried forward by the Continuing Appropriations Resolution, 2013, and section 615(c) of Department of State, Foreign Operations, and Related Programs Appropriations Act, 2008, this is to advise that the Millennium Challenge Corporation ("MCC") intends to negotiate and sign an agreement with the Government of Honduras obligating up to \$15,650,000 for a program authorized under section 616 of the Millennium Challenge Act of 2003, as amended (the "Threshold Program"). Threshold Program assistance will support efforts to improve Honduras' public financial management and the efficiency and transparency of public-private partnerships in Honduras.

SUPPLEMENTAL INFORMATION

HONDURAS THRESHOLD PROGRAM

Background:

Honduras was first selected as eligible for MCC Threshold Program assistance in December 2011 and re-selected in December 2012.

The first step in MCC's engagement with partner countries under the revised Threshold Program model – which is designed to assist countries to become compact eligible by giving them the opportunity to demonstrate their commitment to the policy areas measured by MCC's eligibility criteria through implementation of critical policy and institution reforms – is to undertake an analysis of the constraints to growth in partnership with the eligible country. In Honduras, this process involved an extensive review of the available data and was supplemented by interviews with the private sector, Government of Honduras ministries and civil society. The Honduras constraints analysis identified two binding constraints to economic growth: i) crime and security, and ii) the efficiency and transparency of the government.

The proposed threshold program with Honduras (the Program) focuses on the second constraint. Specifically, the Program focuses on public financial management and public private partnerships, and is designed to generate cost savings to the Government of Honduras in its provision of public services, improve public service delivery, and reduce opportunities for corruption. The Program will also allow MCC to observe if the Government of Honduras has the political will and capacity to carry out important, but difficult reforms that are critical for faster growth, which in turn will provide important information to any future consideration of Honduras for compact eligibility.

Projects and Activities:

The Program includes the following two projects and activities:

Project 1 – Improving Public Financial Management

Project Objective: Improve Government of Honduras' public financial management including planning, budgeting, procurement, payment, and audit in order to reduce inefficiency and corruption in public financial management.

Activity 1.1 Improving Budget and Treasury Management:

This activity will build capacity to improve budget analysis and treasury management in the Ministry of Finance. Also, the activity will help build congressional capacity for oversight of budget, improve congressional budget discipline by developing safeguards to ensure that planned deficit targets are not breached, and provide better analysis and transparency of the cost implications of congressional mandates.

Activity 1.2 Improving Procurement Capacity, Planning and Controls:

This activity will improve procurement transparency and controls (in particular on sole source contracting and contract modification). The activity will provide training to procurement staff in line ministries to ensure knowledge of existing procedures and new policies for sole source and contract amendments. It is also designed to expand the Government of Honduras' online supply catalogue to include more products and more ministries in order to expand benefits from bulk pricing and reduce the administrative burden and fiduciary risks of thousands of small procurements.

Activity 1.3 Improving Capacity of Supreme Audit Institution:

This activity will support the supreme audit institution to strengthen its capacity in management and forensic auditing and will support audits of some specific new controls being introduced in other Program activities.

Activity 1.4 Grant Facility for Social Accountability:

This activity will provide funding to Honduran civil society organizations to undertake social accountability projects that have the ultimate objective of improving government efficiency and/or effectiveness. Social accountability refers to citizens directly demanding greater accountability and responsiveness from public officials and service providers by gathering stakeholders to monitor and evaluate government performance.

Project 2 – Improving the Efficiency and Transparency of Public-Private Partnerships (PPPs)

Project Objective: Improve the Government of Honduras' capacity to develop, implement and oversee PPPs.

Activity 2.1 Develop Core PPP Capacity:

This activity will provide support to improve the capacity and procedures of government agencies with key PPP responsibilities to develop and implement PPPs in accordance with best practice. This may include support to develop manuals and internal procedures needed to properly select, prioritize, structure and award PPP projects; identify and manage fiscal risks in the Government of Honduras' PPP portfolio; and training in using these manuals and procedures.

Activity 2.2 Implementation of PPPs:

In order to institutionalize practice, the Program will support specific current and potential concessions by providing: (i) specialized PPP expertise to advise on the administration of the existing concessions in accordance with best practice (which will also help sustain related MCC investments under the Honduras Compact; (ii) a study to identify and analyze options for structuring a new PPP, e.g. a PPP to improve efficiency and reduce fiscal burden of the electricity sector; (iii) subject to a commitment from the new government taking office in January 2014 to use the structure(s) recommended under this study, the Program will assist the Government of Honduras in the design of the concession; and (iv) assistance with the implementation of PPPs to make regulatory processes more transparent, consistent, and efficient.

Planned Program Budget:

Project 1: Improving Public Financial Management	\$8,600,000
Project 2: Improving the Efficiency and Transparency of PPPs	\$5,500,000
Program Administration	\$850,000
Monitoring & Evaluation	\$700,000
Total	\$15,650,000

Note: U.S. Treasury's 15 percent indirect cost rate for OTA programs is included above, which accounts for about \$600,000 of budget.