



Millennium Challenge Corporation

Reducing Poverty Through Growth

May 20, 2005

CONGRESSIONAL NOTIFICATION

Pursuant to the requirements of Section 515 of Pub L. 108-199, we wish to notify Congress of the intent of the Millennium Challenge Corporation (“*MCC*”) to enter into a Millennium Challenge Compact with the Government of the Republic of Honduras (“*GOH*”), through which *MCC* will grant up to two hundred and fifteen million US Dollars (USD\$215,000,000) of FY 2004 Millennium Challenge Account (“*MCA*”) funds. Although the full amount of these funds will be obligated at the time the agreement enters into force, funds will be disbursed in tranches over the course of the Compact’s five-year term upon satisfaction or waiver of relevant conditions precedent. This Compact will implement a program, proposed by the Republic of Honduras, which will advance Honduras’ progress towards achieving lasting poverty reduction through economic growth. The Program is designed to:

- Increase 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.

Pursuant to Section 610(a) of the Millennium Challenge Act of 2003 (Section 610(a) Pub. L. 108-199, Division D) (the “*Act*”), the appropriate Congressional committees were notified of *MCC*’s intent to commence negotiations with the *GOH* on October 12, 2004. These negotiations have resulted in a mutually agreeable program described herein, which will be formalized in a Compact on substantially the terms of the text of the Compact that is being forwarded with this notification. A summary of key elements of the Compact is set forth in the accompanying “Executive Summary.” *MCC* will provide the final agreed text of the Compact, along with a detailed summary of the text, to the appropriate Congressional committees no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

**Millennium Challenge Compact between
The United States of America,
Acting through the Millennium Challenge Corporation, and
The Government of the Republic of Honduras**

Executive Summary

After considering feedback from the consultative process and the efforts of other donors, the GOH and MCC mutually agreed that the program to be financed under the Compact will focus on alleviating two key impediments to economic growth and poverty reduction: low agricultural productivity and high transportation costs. The duration of the Compact is five years, during which time MCC will authorize, assuming satisfactory performance and satisfaction or waiver of other requirements, periodic disbursements of funds to an account in Honduras. A fiscal agent will certify re-disbursements from such account for Project Activities in accordance with agreed conditions.

The fiscal accountability mechanisms, governance structure, and audit and review requirements (including monitoring and evaluation) set forth in the Compact and to be further detailed in ancillary agreements and documents will ensure that appropriate oversight and accountability measures are built into the implementation of the program. In accordance with its Congressional mandate, MCC will only disburse funds consistent with the limitations Congress has placed on the use and treatment of MCA assistance. These limitations are expressly set forth in the body of the Compact. MCC also has retained, through the Compact, approval rights over key agreements and implementation actions, *e.g.* selection of key service providers (such as the fiscal agent and auditor), certain payments, certain procurements, key personnel decisions for MCA-Honduras, financial plans and budgets, and the monitoring and evaluation plan. Finally, prior to the Compact entering into force, the GOH must, among other things, execute a Disbursement Agreement and term sheets in connection with certain ancillary agreements.

MCA-Honduras, a legal entity comprised of a Board of Directors and a Program Management Unit (PMU), will be established as an independent government agency under Honduran law to implement the Compact and is the entity ultimately responsible for Program success. The duties of MCA-Honduras will include program management, financial management and reporting, and coordination of monitoring and evaluation. The Board will be composed of five voting members, three of whom will be government ministers and two of whom will be from non-government organizations selected from among the Honduran Board observers. The Board will have six Honduran observers (four from government ministries and two from non-government organizations)¹ and one observer from MCC. The PMU will be composed of full-time professional staff that will provide daily management of the entire MCC Program. In addition to having observer status on the MCA-Honduras Board, MCC will retain approval rights at a number of key decision points during implementation, including key steps in procurements, budgets for Project Activities, major re-disbursements and key personnel decisions.

¹ Four non-government organizations will be represented at the Board of Directors of MCA-Honduras, two as voting members and two as non-voting observers. The representatives of these four non-government organizations will rotate between observer and voting status during the Compact Term.

Where to Find Key Provisions

Compact:

- Article I: Objectives
 - Article II: Funding and Disbursement Provisions; Government Contributions
 - Article III: Implementation (including procurement, audit, reporting);
Government Responsibilities and Assurances
 - Article IV: Deliveries and Conditions Precedent to Entry in Force
 - Article V: Final Clauses, including Termination and Suspension
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- Annex I: Descriptions of the two program elements: (1) Rural Development Project;
(2) Transportation Project
 - Annex II: Multi-Year Financial Plan Summary
 - Annex III: Description of the Monitoring and Evaluation Plan