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MILLENNIUM CHALLENGE CORPORATION
BUDGET JUSTIFICATION 2007

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MILLENNIUM CHALLENGE CORPORATION BUDGET JUSTIFICATION
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EXECUTIVE SUMMARY

The President is requesting in his FY 2007 Budget that the Millennium Challenge Corporation (MCC) receive an appropriation of \$3 billion. These funds are necessary to add momentum to MCC's efforts to reduce poverty and increase sustainable economic growth in developing countries that govern justly, invest in their people, and encourage economic freedom.

The year just concluded has been marked by significant achievements:

- MCC completed and signed compacts with five partner countries: **Madagascar, Honduras, Cape Verde, Nicaragua, and Georgia.**
- MCC has committed nearly \$1 billion to these countries to help them reduce poverty through economic growth.
- MCC has built its organizational capacity, in staff, policies and procedures, and lessons learned, to help eligible countries move more quickly through the compact development process.

In the current fiscal year MCC is poised for significant further gains:

- MCC will finalize at least six more compacts, including those countries already approved by the MCC board: **Armenia, Benin, and Vanuatu.**
- When completed, these compacts will represent MCC funding commitments of another \$1.7 billion in FY 2006, almost twice the level committed in FY 2005.

Fully funding the President's request for FY 2007 will enable MCC to make further progress:

- MCC will be able to sign 9 to 12 new compacts comprising commitments of more than \$3 billion.
- MCC will have total commitments approaching \$6 billion with 20 or more countries.

- MCC disbursements will accelerate in FY 2006 and 2007 as the first group of signed compacts move beyond the initial stages of implementation.

Because of the robust demand for funding of the 23 eligible countries, the FY 2007 request for MCC is critical to its success. Conservative projections show that sometime in FY 2007, MCC's existing compact program funding levels of \$3.8 billion will be exhausted. This would cover 14 to 15 compacts. Without full funding of the President's request, MCC will not be able to commit to transformational compacts with the remaining eligible countries, much less any newly chosen countries.

MCC Funding Projections

23 Countries Currently Eligible for MCA Assistance

\$3.8 billion
Current funding available for compact programs

Fiscal Year	FY 2005	FY 2006		FY 2007	
# of compacts signed or planned to be signed	5 Countries	6 Countries		9-12 Countries	
Countries	Madagascar, Honduras, Cape Verde, Nicaragua, Georgia	Armenia, Benin, Vanuatu	3 MCC countries	3 MCC countries	Remaining 6-9 countries (Plus unknown number of newly selected countries)

		\$600 Million	\$1.1 billion		
Funding committed	\$905 million	\$1.7 billion		\$1.1 billion	President's FY07 Request of \$3 billion
Average compact size per period	Average: \$181 million	Average: \$283 million		Average: \$365 million	

Millennium Challenge Account Compact-Eligible Countries

Total (23)

Low Income	
<p>Africa Benin Burkina Faso¹ The Gambia Ghana Lesotho Madagascar Mali Morocco Mozambique Senegal Tanzania¹</p>	<p>Eurasia Armenia East Timor¹ Georgia Mongolia Sri Lanka Vanuatu</p> <p>Latin America Bolivia Honduras Nicaragua</p>
Low-Middle Income	
<p>Africa Cape Verde Namibia</p>	<p>Latin America El Salvador</p>

¹Newly eligible in fiscal year 2006 while continuing Threshold Program eligibility

Threshold Program Compact-Eligible Countries

Total (18)

Low Income		
Africa	Eurasia	Latin America
Burkina Faso ¹	Albania	Guyana
Kenya	East Timor ¹	Paraguay
Tanzania ¹	Indonesia ²	
Malawi	Kyrgyz Republic ²	
Sao Tome and Principe	Moldova ²	
Uganda	Philippines	
Zambia	Ukraine ²	
	Yemen ³	
Low-Middle Income		
Eurasia		
Jordan ²		

¹Newly eligible in fiscal year 2006 while continuing Threshold Program eligibility

²Newly selected for Threshold funding for fiscal year 2006

³Currently suspended from participating in the Threshold Program

BUDGET JUSTIFICATION: **OVERVIEW**

The Millennium Challenge Corporation (MCC), now beginning its third year, has set the stage for significant progress this year toward the goal of reducing poverty and increasing sustainable economic growth in developing countries that govern justly, invest in their people, and encourage economic freedom. There is strong and increasing demand for MCC funding, as countries respond to the incentives created by the MCC process by implementing reforms and setting development priorities. MCC has hired and trained additional staff to increase the speed of negotiations with partner countries, monitor program results, and ensure fiscal accountability. MCC funds have begun to flow to the first compact countries. Fully funding the President's FY 2007 budget request will be critical to continuing this progress in 2007 and beyond.

MCC takes an investment-oriented approach to development, an approach that is already demonstrating results in the actions of partner countries:

- In the first round of MCC compact countries, the MCC process is proving to be very important beyond the consultation stage. For example, by involving local and grassroots leaders early on in the proposal development process, national leaders have set the stage for success by ensuring broad partnerships for the implementation stage.
- Political will is important for long-term, sustainable poverty-reduction, and MCC funding creates incentives for countries to make policy reforms. MCC partner countries are working to meet rigorous requirements to ensure that aid will not be misapplied or fall victim to corruption. For example, in El Salvador, President Antonio Saca issued an executive order establishing a code of ethics for public servants and creating a Public Service Ethics Commission. In Georgia, anti-corruption efforts have included the dismissal of notoriously corrupt traffic police, the reduction in reported bribe payments, and dramatic reductions in the time and cost necessary to register private property. The World Bank reports that it has received word from 24 different nations on their efforts to meet MCC reform requirements.

- MCC compacts quantify the intended results, so that U.S. taxpayers and partner countries both know exactly what our investment is designed to achieve.

The calendar year just concluded has been marked by significant achievements. MCC completed and signed compacts with five partner countries: Madagascar, Honduras, Cape Verde, Nicaragua, and Georgia. MCC has committed nearly \$1 billion to these nations to help them reduce poverty through sustainable economic growth. MCC is engaged in various stages of the compact development process with 18 additional nations, including six new countries selected in November 2005 for compact status.

In the current fiscal year MCC is on track to finalize at least six more compacts, which when completed, will represent MCC funding commitments of up to \$1.7 billion, which is almost twice the level committed in FY 2005. In FY 2007, MCC expects to sign 9 to 12 new compacts, comprising commitments of more than \$3 billion. As a result, MCC will have total commitments approaching \$6 billion with 20 or more countries by the end of FY 2007. Disbursements will also increase significantly in FY 2006 and FY 2007 as the first group of signed compacts move beyond the initial stages of implementation.

MCC has built up its organizational capacity – through hiring staff, formalizing policies and procedures, and implementing lessons learned – which will assist eligible countries to move more quickly through the compact development process. MCC conducted a major reorganization in the first quarter of FY 2006 and is moving to fully staff the agency by the end of the current fiscal year, increasing to the planned capacity of 300 from the current staffing level of 175.

Because of the robust demand of the 23 currently eligible countries, the FY 2007 funding request for MCC is critical to its success. Without full funding of the President's request, MCC will not be able to commit to transformational compacts with all of the eligible countries, much less any newly chosen countries. Conservative projections show that sometime in FY 2007, MCC's existing funding levels will be exhausted. To be truly transformative, MCC has moved in the direction of awarding larger grants commensurate with the country proposals.

There is still considerable work to be done, and MCC is applying the lessons learned from the past two years to its ongoing work:

- Through its Threshold Program and other outreach efforts MCC is helping countries meet the governance, economic, and social investment criteria for compact eligibility.

- MCC is investing more time and money up front to help eligible countries develop successful compact proposals and put in place the necessary management and financial accountability capacity.
- Building on the clean audit it received for FY 2005, MCC is continuing to develop and refine its internal management procedures to increase efficiency and ensure accountability for taxpayer funds.

Almost half of the world's population is struggling to survive on less than \$2 a day. As developing countries take steps to qualify for MCC eligibility, it is vital that Congress show its commitment to their efforts by providing the necessary funds to invest in multiyear projects in areas such as agriculture, education, private sector development, and infrastructure. This support will allow MCC to help these countries lift themselves from the cycle of poverty, famine, corruption, and emergency aid requests – a cycle that has proven all-too-familiar for decades. By helping these countries achieve a sustainable level of economic growth, we will help create the conditions to satisfy unfulfilled promises and make the global community more peaceful and prosperous.



Cape Verde: An Example of How a Successful Compact Development Process Works

Each step of the Compact development process is critical to making sure that resulting Compacts are based on a close, flexible, collaborative working relationship. MCC's work with the Government of Cape Verde shows how the compact development process works to develop sound programs.

1. Proposal Development: Cape Verde was declared eligible for MCC funding in May 2004. Following consultation with its citizens to identify national priorities, Cape Verde submitted to MCC an initial concept paper on August 10, 2004. Cape Verde succeeded at this stage by building a strong MCC team and involving high-level decision makers, building on activities undertaken with other donors, and by taking advantage of the country's tradition of good governance.

These successful initial efforts enabled Cape Verde and MCC to move from its initial concept paper to a more focused, final proposal on October 4, 2004.

2. Opportunity Memo: Based on Cape Verde's final proposal, MCC staff prepared an Opportunity Memorandum for the MCC investment committee describing the proposed program and requesting resources for a full review of the activities proposed.

3. Due Diligence: From October 2004 until May 2005, MCC and its experts engaged in the Due Diligence Process, in close cooperation with their Cape Verdean technical counterparts. This involved technical and economic analyses of the feasibility and design of all elements of the proposed program, as well as the identification of policy reforms necessary for the success of the program. Meanwhile, Cape Verde continued its ongoing consultation process with its stakeholders.

4. Congressional Notification: On March 18, 2005, MCC notified Congress of its intent to begin formal compact negotiations with Cape Verde. MCC's staff briefed appropriate Congressional committees on details of the planned negotiations.

5. Investment Memo: After the required consultation with Congress and months of due diligence, the MCC team determined in May 2005 that it was ready to negotiate the terms of a final compact with Cape Verde. After the Compact negotiations, MCC staff documented its recommendations in an Investment Memorandum for consideration on May 26, 2005, by MCC's Investment Committee.

6. MCC Board Approval: In early June 2005 MCC's CEO sent the final Compact proposal to the MCC Board with a recommendation to approve. On June 13, 2005, the Board approved the five-year, \$110 million Compact. Upon Board approval, MCC notified Congress of its intent to obligate funds for the purpose of financing the Cape Verde Compact.

7. Compact Signing: MCC signed the Compact on July 4, 2005, in Cape Verde, as the country celebrated 30 years of independence. Cape Verde's final Compact program involves capital investments in road networks, port facilities, water resources, and private sector development. The program also supports reforms to privatize port operations, maintain roads, manage water use, improve farmers' access to expertise and financial services, and to enhance private sector investments. These activities will help Cape Verde move from dependence on outside aid to private sector-led economic growth.

8. Entry into Force: On October 17, 2005, after completing final legal documentation and financial accountability standards, the Compact entered into force. Simultaneously, MCC made its first disbursement and program implementation began.

Conclusions:

- The Cape Verde process took far less time than most economic development program cycles and easily meets or exceeds the project preparation time frame for private sector investments – from concept to implementation.
- MCC is already hard at work with other eligible countries to make use of this practical illustration that commitment, intensive and directed teamwork, and shared perspectives can deliver real, timely development results.
- As with Cape Verde, such committed teamwork will not only leverage the financial contributions of MCC and others, but will also support and add management and technical expertise, meaningful participation, a focus on measurable results, and a culture of transparency and accountability.

3 The Three Essential Elements of MCC Activity

1 Reward Good Policy

Using objective indicators, countries are selected to receive assistance based on their performance in governing justly, investing in their citizens, and encouraging economic freedom.

2 Operate in Partnership

Countries that receive MCA assistance are responsible for identifying the greatest barriers to their own development, ensuring civil society participation, and developing a multi-year MCC compact.

3 Focus on Results

MCA assistance goes to those countries that have developed well-designed programs with clear objectives, benchmarks to measure expected results, procedures to ensure fiscal accountability for the use of MCA assistance, and a plan for effective monitoring and objective evaluation of results. Programs are designed so that recipient countries can sustain progress after the funding under the Compact has ended.

MISSION & ACTIONS

MISSION STATEMENT:

MCC's mission is to reduce poverty by supporting sustainable, transformative economic growth in developing countries which create and maintain sound policy environments.

The Millennium Challenge Account (MCA) and the Millennium Challenge Corporation (MCC), the organization that oversees and manages the Account, are unlike any other in America's history of foreign assistance. MCC specifically focuses on promoting sustainable economic growth that reduces poverty through investments in areas such as agriculture, education, private sector development, and infrastructure. MCC is designed to support innovative strategies and to ensure accountability for measurable results.

To carry out its mission, MCC draws lessons from the past 50 years of efforts to bring lasting development to poor nations:

- Aid is most effective when it reinforces sound political, economic, and social policies; therefore, we require that our partner nations embrace pro-growth policies, fight corruption, promote good governance, and invest in their people.
- When local leaders take responsibility for development, success is more likely to follow; therefore, we require countries to set their own priorities.
- The best way to improve accountability and gauge success is to establish basic measures of development, right from the beginning; therefore, we integrate monitoring and evaluation into the design and implementation of our efforts.

MCC's HISTORY

2002

03.14.02

President Bush proposes the creation of the Millennium Challenge Account, calling for a “new Compact for global development,” to link greater contributions from developed nations to greater responsibility from developing nations.

2004

01.23.04

Congress formally creates the MCA and establishes MCC. With bipartisan support, Congress provides \$1 billion in initial funding for FY 2004.

02.02.04

MCC's Board of Directors holds first meeting. The Board adopts Corporation's by-laws, announces the initial 63 Candidate Countries, and names an interim CEO, Under Secretary of State Alan Larson.

02.27.04

At the earliest possible date, MCC submits criteria and methodology for selecting eligible countries for FY 2004.

05.05.04

Paul V. Applegarth confirmed as MCC's first CEO.

05.06.04

After the 90 day notification period expires, MCC's Board of Directors selects 16 countries from among the 63 candidate countries to be eligible to submit proposals for FY 2004 MCA assistance.

06.04

MCC staff travel to all 16 newly eligible countries to explain what MCA eligibility means, to articulate the process of compact development, and invite them to submit a proposal.

08.23.04

MCC receives the first compact proposal from Honduras, one of 16 countries chosen to be eligible in 2004.

08.26.04

MCC submits criteria and methodology for selecting eligible countries for FY 2005.

11.08.04

MCC's Board of Directors selects 17 countries to be eligible to submit proposals for FY 2005 MCA funds. These included 16 of the countries who were eligible to apply for FY 2004 funds, as well as one new addition.

12.08.04

Congress passes the Foreign Operations Appropriations bill including \$1.488 billion for MCA funding for FY 2005.

2005

- 02.07.05** The President submits his budget for FY 2006 funding including a request of \$3 billion for MCA.
- 02.28.05** MCC announces plans to establish a working group to look into the possibility of establishing a Natural Resources Management Indicator. The group is chaired by MCC Board member and former EPA Administrator, former Governor Christine Todd Whitman.
- 03.14.05** MCC Board of Directors approves a four-year \$110 million Compact with Madagascar as the first Millennium Challenge Compact country.
- 04.18.05** MCC signs four-year Compact with Madagascar.
- 05.20.05** MCC Board of Directors approves a five-year \$215 million Compact with Honduras.
- 06.13.05** MCC signs five-year Compact with Honduras.

MCC Board of Directors approves two Millennium Challenge Compacts—a five-year \$110 million with Cape Verde and a five-year \$175 million with Nicaragua.
- 07.04.05** MCC signs five-year Compact with Cape Verde.
- 07.08.05** MCC Board of Directors approves the first Threshold Country Program with Burkina Faso to improve girls' primary education completion rates.
- 07.14.05** MCC signs five-year Compact with Nicaragua.
- 07.28.05** MCC makes its first disbursement of MCA funds to Madagascar, totaling \$2.5 million.
- 08.08.05** Charles O. Sethness named interim CEO, pending nomination and confirmation of new CEO.
- 08.16.05** MCC Board of Directors approves a five-year \$295.3 million Compact with Georgia.
- 09.08.05** MCC announces the criteria and methodology for selecting eligible countries for MCA assistance in fiscal year 2006.

2006

- 09.12.05** MCC signs five-year Compact with Georgia.
- 09.23.05** MCC signs the second Threshold Country Program with Malawi for \$20.9 million to reduce corruption and to improve fiscal management.
- 11.07.05** Ambassador John J. Danilovich assumes duties of MCC CEO.
- 11.08.05** MCC's Board of Directors selects a total of 23 countries to be eligible to submit proposals for FY 2006 MCC assistance.
- MCC CEO Ambassador Danilovich meets with the President of Yemen to announce that Yemen has been suspended from being eligible for MCA funding due to slippage in its indicators.
- 11.14.05** Congress passes the Foreign Operations Appropriations bill including \$1.77 billion for MCA funding for FY 2006.
- 11.16.05** MCC announces a reorganization to streamline internal processes.
- 12.12.05** MCC compiles and issues updated guidance to countries on the MCC process.
- 12.19.05** MCC Board of Directors approves a five-year \$235 million Armenia Compact.
- 12.20.05** President Bush attends the formal swearing-in of Ambassador Danilovich, conducted by MCC Chair and Secretary of State Condoleezza Rice.
- 01.23.06** Millennium Challenge Corporation holds second-year anniversary conference at the American Enterprise Institute.

THE FIRST FIVE COMPACT COUNTRIES

CAPE VERDE



The MCC Compact with Cape Verde will help it achieve its national development goal of transforming its economy from aid-dependency to sustainable, private sector-led growth. The five-year, \$110 million Compact focuses on increasing rural incomes of the poor by increasing agricultural productivity, integrating internal markets, reducing transportation costs, and developing the private sector through greater private sector investment and financial sector reform.

“The MCA program gives credibility to good governance, democracy, it protects the rights of citizens, their freedom, and also economic freedom. Another very important feature of this program, MCA, is that it’s developed through a very strong partnership between the U.S. government and the government of the beneficiary countries... Because of the MCA potential for positive growth, for encouraging profound changes and positive changes in our country, I think Americans should be all very proud of the MCA. And as the head of the Cape Verdean government, I must say I’m proud of my country. I’m proud because it was among the first to be selected to benefit from this program that will be building our future.”

*- Jose Maria Pereira Neves
Prime Minister of Cape Verde*

NICARAGUA



The MCC Compact with Nicaragua focuses on transforming the rural business sector in the northwest of the country into a high-value, sustainable engine of economic growth and linking it to regional and international markets. 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.

"This visionary program will play a pivotal role within the context of democracy, freedom, national security and trade. This new kind of assistance makes it clear that there is a shared commitment in the task of reducing poverty and creating prosperity and we are committed to this."

*-Enrique Bolanos
President of Nicaragua*

HONDURAS



The goal of the Compact with Honduras is to reduce poverty by alleviating the two key impediments to economic growth: low agricultural productivity and high transportation costs. The five-year, \$215 million Compact seeks to increase the productivity and business skills of farmers and to reduce transportation costs between key production centers and national, regional, and global markets.

"This compact comes at a good time for Honduras. It recognizes reforms that we have fought for and achieved. It rewards the sacrifices of a population that accepted short-term belt-tightening for longer-term stability and growth. It will help spur economic growth and reduce poverty at a time when our citizens must see that democracy delivers more than just promises."

*- Ricardo Maduro
President of the Republic of Honduras*

GEORGIA



The MCC Compact with Georgia is focused on reducing two hurdles to development in regions outside the capital city of Tbilisi: a lack of reliable infrastructure and the slow development of enterprises, particularly in agribusiness. The five-year, \$295 million Compact seeks to reduce poverty and stimulate economic growth in rural areas by rehabilitating regional infrastructure and promoting private sector development. The program will directly benefit approximately a 500,000 Georgians.

"It is a partnership between our two countries; it's a partnership primarily between our two peoples and peoples -- who share the same values, who have the same dreams for their children, and to support one another and to believe in supreme value of liberty and freedom."

*- Mikheil Saakashvili
President of Georgia*

MADAGASCAR



The key goal of the Compact with Madagascar is to help the island nation move from the subsistence to a market-driven economy, particularly in agricultural production. The four-year, \$110 million Compact with MCC will support a program designed to raise incomes in rural areas by enabling better land use, expansion of the financial sector, and increased investment in farms and other rural businesses.

"We want to make decisions ourselves. It is our country, and we have to take on leadership and responsibilities. Ladies and gentlemen, if you take a look at our vision and country ownership you will realize why the MCA is so important for us. Here we have a new approach which helps us to implement our vision."

*- Marc Ravalomanana
President of Madagascar*

FREQUENTLY ASKED QUESTIONS

How can MCC justify an additional appropriation of \$3 billion?

1) **Unobligated balances will soon be obligated:** MCC has signed five Compacts and is working with another 18 countries in various stages of the process. Because of this robust pipeline, MCC will obligate all of its remaining funding by the second or third quarter of 2007. This will exhaust all unobligated balances.

2) **Unobligated balances serve an important role in creating incentives for reform and positive action:** MCA funding is unlike any other development assistance funding stream because it is demand driven. Congress appropriates funds for the account before decisions are made about where it will be spent and how. These appropriations serve an important purpose by creating an incentive for countries to undertake reforms in order to become eligible for the funding.

What is MCC doing to increase the speed of funding disbursements?

1) **An MCC compact is a long-term engagement:** The word “compact” means agreement or promise, and an MCC compact is just that, mutual promises between the U.S. Government and a partner country. The U.S. Government promises to fully fund the compact and to provide assistance necessary to develop and monitor the compact. A partner country promises to implement the program according to certain performance benchmarks and policy reforms throughout the life of the compact. In order to demonstrate that the U.S. is serious about funding a four or five-year compact, we put all of the money aside up front. In the case of Honduras, we have put aside \$215 million of MCA funding that cannot be spent on anything else. Then, over the course of the five years, we disburse the funding according to performance benchmarks.

2) **We are moving with urgency:** MCC is working hard to reduce the time it takes to make initial disbursements but will not take unwarranted risks that would jeopardize the confidence of the American taxpayers and Congress. MCC understands the urgency to get resources on the ground to affect lives, but history has shown that shoving money out the door does not bring results. The process of making sure that the money is spent well will

bring a measurable benefit to those it is intended to help by instilling ownership and building capacity in recipient countries.

How does MCC make sure that Compacts with partner countries are going to produce results that will satisfy the U.S. taxpayers and meet the goals of MCC?

After a country is selected as eligible for MCA assistance, it goes through the process of developing a compact proposal. MCC requires that a proposal be driven by the country and be the result of a broad consultative process so that compact components reflect the country's priorities. MCC also requires that a country link its proposal components directly to sustainable economic growth and poverty reduction.

For every dollar that MCC invests, we seek to get more than a dollar increase in the incomes of poor people. The return on investment for MCC is not measured by how much money we have spent, but rather by how much benefit is realized by those living in poverty.

How is MCC accelerating and improving its processes?

MCC is streamlining the compact development process in ways that do not compromise key principles. Under the leadership of Ambassador Danilovich, MCC streamlined its organizational structure to cut out inefficiencies, and made aggressive plans to build the internal capacity of MCC to provide the resources and assistance necessary to help eligible countries be successful in accessing the MCA.

How will MCC ensure that the funds will be spent properly?

Compacts are predicated on financial accountability standards to ensure that the recipient countries manage MCA funds properly and spend MCA funds in an open and transparent manner. MCC's Inspector General approves independent auditor reviews of compacts on an annual basis, and MCC staff or outside experts will review the financial accountability mechanisms several times a year to ensure that compacts are operating as agreed. Furthermore, MCC will not tolerate abuses of MCA funds at any level and has made this clear in published guidance.

What is new about the MCC approach?

MCC's approach is innovative for three primary reasons: First, MCC focuses its funding on impoverished nations that have a proven record of reform, democracy, promoting economic freedom and investing in their people. Second, MCA is predicated on funding projects that have the support of a broad cross-section of the country's population as a result of a consultative process. Third, MCA funding requires eligible countries to establish time-based benchmarks to track the progress of compact projects and to set verifiable standards for measuring poverty reduction and economic growth.

STRATEGY & **IMPLEMENTATION**

At the beginning of FY 2005, the Millennium Challenge Corporation had been in existence for less than one year. MCC had 49 permanent employees, most of whom were responsible for multiple jobs. MCC had not yet entered into any Compacts or Threshold Programs. In every sense of the word, MCC was a “start-up.”

The MCC of 2006 bears little resemblance to that “start-up” of a year ago. At the beginning of FY 2006, MCC had over 140 employees, and had signed compacts with five countries, and had two threshold programs in place. MCC is likely to sign at least six additional compacts in FY 2006, and 9 to 12 compacts in FY 2007. Numerous internal processes and procedures are in place that are speeding up the compact development process while ensuring accountability, and internal financial controls have been strengthened, as indicated by a clean audit by the Inspector General last year.

This transformation is based on the progress made by each operating unit of MCC. The highlights of these actions are detailed below:

■ Operations

Operations staff work on country-specific transaction teams to lead the compact development and implementation processes, to provide technical leadership, to conduct due diligence, and to maintain effective communication with partner countries. During FY 2005, these teams increased staffing levels from 26 to 69. In FY 2006, the Operations Department will build its team to the planned level of 138 professionals. At the end of calendar year 2005, MCC Resident Country Directors were in place in Honduras, Nicaragua, Cape Verde and Madagascar.

Operations has achieved significant progress working with other government agencies and private sector consultants and firms, including the Army Corps of Engineers, the Agency for International Development, the Census Bureau, and the Departments of the Treasury, Transportation, Interior, and Agriculture. Also in FY 2005, the Operations Department developed or refined policies and procedures to provide better guidance for newly eligible countries.

■ Accountability

The Accountability Department is responsible for monitoring and evaluation, economic analysis, fiscal accountability and environment and social assessment. This department started fiscal 2005 with a total of seven employees and completed it with 25 staff and additional detailees and consultants.

Accountability units played a vital role in reviewing compacts to produce indicators to measure success; to assess the financial management and procurement capacity of government systems; to assess and account for the environmental and social impacts of the proposed programs; to ensure that projects are likely to produce a meaningful reduction in poverty; and to help determine targets as triggers for disbursements.

Accountability has issued updated guidelines for economic analysis and for monitoring and evaluation. In addition, the Board has approved a revised and extensively consulted set of Environmental Guidelines.

■ General Counsel

MCC's Office of General Counsel (OGC) has two divisions – Administration and Operations. OGC completed staffing for the Administration Division in 2005 and made substantial progress in staffing the Operations Division. The Administration Division helped MCC's effort to improve its internal controls by drafting and reviewing new policies covering such items as overseas staffing, travel policies, and compensation policies. OGC also drafted and oversaw the approval of an Audit Committee Charter and Board Governance Policy.

In FY 2005, the OGC Operations Division played a critical role in the preparation, negotiation and signing of five Compacts and in FY 2006 completed the negotiation and drafting of three more Compacts. Specifically, OGC accompanied transaction teams through the Compact development and due diligence process to ensure the legal sufficiency of the poverty reduction and economic development programs. They drafted Compact and related legal agreements reflecting the clear expectations of the MCC about each party's responsibilities and obligations.

■ Policy and International Relations

MCC's Department of Policy and International Relations (PIR), established in November 2005, combined the offices of Threshold Programs, Development Policy and International Relations under a new Vice President. In FY 2005, the department completed MCC policies and procedures for the Threshold program and for donor coordination, revised guidelines for the consultative process, and took a leading role in development of the MCC Strategic Plan.

International Relations facilitated on-the-ground cooperation with the World Bank and other donors in existing compacts and potential cooperation in future compacts and ensured that donor coordination is integrated into each step of MCC's internal decision process.

Threshold Programs developed two Threshold Country Programs that were officially approved by MCC's Board in 2005, and several more concept papers that were approved by MCC's investment committee. Development Policy provided the Board of Directors with updated indicator scores and rankings, interpretations of these rankings, and relevant supplemental information needed to select FY 2006 eligible and threshold countries.

Development Policy has created in-depth indicator analyses for each newly selected Threshold country to better enable Threshold proposals to focus on the indicators that are targeted for improvement by potential Threshold Program activities.

■ Administration and Finance

The Office of Administration and Finance is responsible for budget and financial management, human resources, procurement, information technology, administrative services, security, and travel. In FY 2005, Administration and Finance put into place the key structures needed to transform the MCC from a start-up agency to a well functioning government corporation. The department received clean opinions from the Inspector General on MCC's FY 2005 financial statements; developed and implemented a pay-for-performance system; helped move the entire MCC staff to new quarters in May; processed over 200 individual contracting actions for over \$30 million in obligations; implemented MCCnet and MCC's internal information networks; and established the Security Control Office.

In FY 2006 and 2007, Administration and Finance will focus on continued efforts to strengthen internal control systems to ensure accountability and transparency by filling key positions; increasing MCC staff to the full planning level of approximately 300 in FY 2006; implementing a comprehensive application environment and establishing reimbursable agreements with Department of State to provide security services support.

■ Congressional and Public Affairs

In 2005, the Department of Domestic Relations was renamed as the Department of Congressional and Public Affairs (CPA). CPA manages MCC's relationships with Congress, media, Non-Governmental Organizations, the private sector, other executive branch departments, and other key groups. CPA also launched a public newsletter in 2005 called "Millennium Challenge Monthly." CPA coordinated more than 50 public events in 2005, including public outreach meetings, speeches, and presentations. For each of the five Compacts signed in 2005 CPA worked closely with congressional staff, held regular meetings with agency stakeholders, submitted legislative initiatives for clearance, and worked with other agencies and organizations. In addition, CPA conducted press briefings, produced press and public materials, and maintained regular contacts with the broader public.

In the year to come CPA will add further staff to manage public communications and internal staff communications. CPA is also planning a 2006 launch of a new MCC logo which will include strategic branding and the redesign of our current website.

BUDGET TABLES

	FY 2005 ACTUAL	FY 2006 PLANNED	FY 2007 REQUEST
PROGRAM BUDGET:			
Compacts And 609(G) Agreements	\$343,054	\$1,189,000	\$2,702,000
Threshold Programs	\$34,748	\$150,000	\$200,000
TOTAL PROGRAM BUDGET	\$377,802	\$1,339,000	\$2,902,000
ADMINISTRATIVE BUDGET:			
Salaries And Benefits	\$14,008	\$32,000	\$43,000
Contracted Services	\$8,625	\$4,000	\$5,000
Rent And Leasehold Improvements	\$8,674	\$8,000	\$5,000
Information Technology	\$2,723	\$5,000	\$8,000
Overseas Operations	\$0	\$10,000	\$12,000
Travel	\$4,241	\$15,000	\$21,000
Other Administrative Services	\$2,072	\$1,000	\$1,000
TOTAL - ADMINISTRATIVE COSTS	\$40,343	\$75,000	\$95,000
Audit Budget (USAID Inspector General)	\$2,304	\$3,000	\$3,000
TOTAL	\$420,449	\$1,417,000	\$3,000,000

Note: All figures in thousands

Key Assumptions for FY 2007 MCC Administrative Budget

The MCC administrative budget of \$95.0 million is critical to meeting its strategic goals of reducing poverty through economic growth. It reflects the costs associated with maintaining the lean and efficient organizational structure that MCC has built over the past two years. By FY 2007 a fully-staffed MCC will operate under clear and consistent internal policies and procedures, with effective internal management controls, appropriate and efficient information technologies, and a high-quality, and effective workforce.

MCC's FY 2007 administrative budget of \$95.0 million will fund:

- U.S. Direct Hire (USDH) salaries and benefits
- Travel
- Rent
- Information technology
- Overseas operations
- Contracted services

Salaries and benefits: USDH salaries and benefits represent over 45 percent of MCC administrative budget. MCC currently has a total staff of 175 employees, and due to a robust and innovative recruitment effort, expects to start FY 2007 with a full complement of 300 employees. MCC expects to start FY 2007 with a presence in 11 countries and end with a presence in 20 countries.

Contracted Services: As stated above, MCC has outsourced much of its administrative functions including: human resource and payroll management, travel management, and support services. The total cost of these services is estimated at \$5 million.

Rent and Leasehold Improvements: MCC will start the fiscal year with a full complement of staff and a corporate headquarters that can accommodate the resources required to carry out its mission. The annual cost of these facilities for FY 2007 will be approximately \$5.4 million.

Information Technology: MCC expects to begin the fiscal year having set up a technology infrastructure that meets all government security requirements. The costs associated with outsourcing most information technology functions and with funding additional upgrades to sustain business investments and keep up with all regulatory requirements will be approximately \$8 million.

Overseas Operations: A unique characteristic of the MCC model is country ownership and responsibility. As such, MCC's presence in compact countries is designed to monitor performance and ensure that the U.S. Government investment in the country's development program is effective.

MCC expects to have a total staff of 3 to 5 persons in each country. MCC expects to be co-located with the U.S. Embassy and, in keeping with its mandate of focusing on its core business functions, MCC will subscribe to all necessary International Cooperative Administrative Support Services functions. In addition, on behalf of MCC, the U.S. Embassy will hire and pay locally hired employees and continue to perform the fiscal responsibilities associated with its overseas presence. The cost of MCC's limited overseas presence will be approximately \$12 million using standard costs developed by the Department of State.

Travel: Travel is an essential element to carry out MCC's core business process which calls for a partnership with governments, and includes intensive consultation with all segments of the population, including civil society, private sector and public sector entities and groups. MCC headquarters staff is directly involved in reviewing and refining proposals, assessing fiscal capacity, environmental impact, negotiating compacts, and monitoring and evaluation. It is estimated that MCC employees will spend over 15,000 days a year in travel status.

