MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL BUDGET JUSTIFICATION

FISCAL YEAR 2014

The Millennium Challenge Corporation
Congressional Budget Justification FY 2014

Executive Summary

(in $ millions)	FY 2012 Appropriated	FY 2013 CR*	FY 2014 Request
Total Appropriations/Request	**898.2**	**903.7**	**898.2**
Compact Assistance	700.2	683.7	676.2
Threshold Program	0.0	15.0	20.0
Compact Development/Oversight: 609(g) and Due Diligence	88.0	95.0	92.0
Administrative Expenses	105.0	105.0	105.0
Office of the Inspector General	5.0	5.0	5.0

* The FY 2013 column contains the annualized funding level made available by the continuing resolution (CR) expiring on March 27, 2013, P.L. 112-175.

The President is requesting $898,200,000 to fund the Millennium Challenge Corporation (MCC) in fiscal year (FY) 2014.

In December 2012, the Board selected five countries as eligible to develop a compact program: Liberia, Morocco, Niger, Sierra Leone, and Tanzania. These countries, together home to over 100 million people, are among the world's poorest, but each has taken concrete steps to improve governance and reach eligibility for MCC compact assistance. Even if the FY 2014 request is met, there will be more countries than available budgetary resources.

While MCC is committed to prudently managing its budget resources in this constrained environment, a certain minimum level of resources is required to incentivize and sustain policy changes in developing countries. MCC is an important tool the U.S. Government can use to encourage good policy performance in developing countries.

Recent examples of the MCC "incentive effect" include the efforts of Niger to establish a protected area the size of Indiana, which resulted in Niger passing MCC's Natural Resource Protection indicator for the first time in FY 2013. Sierra Leone also passed the MCC scorecard in FY 2013 after several years of policy reform that included strengthening its anti-corruption agency, investing more in public health, and reducing tariff rates. Also notable was Guatemala's enactment of a law against illicit enrichment as part of its efforts to control corruption. In every region, developing countries continue to make significant reforms to qualify for

MCC funding, and the relationships of these countries with the United States have been significantly strengthened because of MCC engagement.

This year's selection of high-quality, potential partner countries represents an extraordinary opportunity to reduce poverty and advance the interests of the United States. All of these countries demonstrate the MCC incentive effect by their efforts to qualify for MCC assistance.

The request also supports two threshold programs to assist Guatemala and Nepal to implement key policy and institutional reforms that support economic growth. The request supports resources for the development of quality compact programs, rigorous oversight over those programs, and agency administrative expenses necessary to ensure that MCC remains an effective and responsible steward of U.S. taxpayer dollars.

Compact Assistance

(in $ millions)	FY 2012 Appropriated*	FY 2013 CR	FY 2014 Request
Total MCC	898.2	903.7	898.2
Compact Assistance	700.2	683.7	676.2

* No Threshold Program funding was requested in FY 2012, leaving funding available for compact assistance higher in FY 2012 than in subsequent years.

For FY 2014, MCC plans to use $676.2 million for compact assistance to Liberia, Morocco, Niger, Sierra Leone, and Tanzania, which were selected by MCC's Board of Directors in December 2012, joining Benin, El Salvador, Georgia, and Ghana as compacts in development.

Given that the average compact size across MCC's portfolio is $352 million, $676.2 million is a modest request of budgetary resources to incentivize policy reform and impact growth and poverty across five countries. Even if the FY 2014 request is met, there will be more countries than available budgetary resources. Countries that do not successfully compete for FY 2014 resources will need to compete for any future resources that Congress may appropriate.

In selecting countries as eligible for compact funding, the Board considers performance on MCC selection indicators, the opportunity to reduce poverty and generate economic growth, and funds available to MCC. For subsequent compacts, the Board also considers the country's track record of performance on implementing its prior compact.

The final budget levels for potential compacts with Liberia, Morocco, Niger, Sierra Leone, and Tanzania will be determined not only by competition for resources, but also by the types of constraints to economic growth in each country, MCC's in-depth appraisal of project proposals, and each country's needs. In all cases, final compact budgets will be contingent on the ability of eligible countries to develop timely investment proposals that promise increased incomes for beneficiaries and can be implemented within a five-year compact period.

Selection of New Country Partners

MCC bases country selection heavily -- and transparently -- on publicly-available third-party data. MCC's Board of Directors selects country partners based on performance on indicators in three categories (Ruling Justly, Investing in People, and Encouraging Economic Freedom) and applies "hard hurdles", indicators that that must be passed to meet the eligibility criteria, in the areas of both democratic governance and control of corruption. MCC publishes annual scorecards of country performance on its 20 selection criteria. This transparency allows countries to target policy reforms that matter for economic growth and provides stakeholders with the data that drive MCC selection decisions.

In addition to performance on MCC selection criteria, MCC's Board considers several other factors when selecting countries as eligible for MCC assistance: the opportunity to reduce poverty and generate economic growth in the country, the funds available to MCC, and, for second compact eligibility, the country's track record of performance on implementing its prior compact. To assess implementation of a prior compact, the Board considers the nature of the country partnership with MCC, the degree to which the country has demonstrated a commitment and capacity to achieve program results, and the degree to which the country has implemented the compact in accordance with MCC's core policies and standards. To further increase the transparency of its country selection process for FY 2013, MCC publicly released the "Guide to the Supplemental Information Sheet" and the "Guide to the Compact Survey Summary" to inform stakeholders about the supplemental information the Board uses to make its annual selection.

MCC's Board selected five countries as eligible beginning in FY 2013. Of these, three (Liberia, Niger and Sierra Leone) were selected as eligible for the first time. Two (Morocco and Tanzania) were selected as eligible for their second compacts.

Liberia passed the MCC scorecard for the first time in FY 2013, after several years of improving economic governance and strengthening democratic institutions. Liberia elected the first female president in sub-Saharan Africa through two democratic elections held since the end of its civil war. Liberia's efforts to combat corruption have been recognized in numerous assessments, including MCC's control of corruption indicator, and the country has made significant macroeconomic management improvements in recent years. The Liberia Threshold Program, which focused on expanding girls' access to education, land rights and access and trade, will conclude in September 2013.

In FY 2013, MCC's Board selected five countries as eligible for a compact. Of these, three (Liberia, Niger, and Sierra Leone) were selected as eligible for the first time. Two (Morocco and Tanzania) were selected as eligible for their second compacts.

Morocco is a consistently strong performer on the MCC scorecard. In the wake of the Arab Spring, the Government of Morocco reacted in a relatively peaceful and responsive manner, including by expanding democratic rights through the adoption of new powers for the prime minister and the parliament. The first MCC compact, which will close in September 2013, has invested in expansion of fruit tree agriculture, support for small-scale fisheries and fish markets, enhancement of the artisanal sector in the Fez Medina, and training for small-scale businesses across all of these sectors, with an emphasis on literacy and other training for women and youth. Morocco's government established a high-capacity team to implement the first compact, one of the largest and most complex in MCC's history. A second compact can help solidify the economic reforms and growth necessary for the long-term stability of the country.

Niger is one of the poorest countries in the world, but has relatively strong policy performance, as indicated by its two consecutive years of passing the MCC scorecard. In 2011, Niger was the first country to demonstrate that with sufficient political will, countries can restore their MCC eligibility. In 2009, the Niger Threshold Program was suspended due to a pattern of undemocratic actions. Niger's constitutional reform, clean and competitive elections and peaceful transfer of power to civilian government prompted MCC to reinstate Niger's Threshold Program eligibility in 2011. Since that time, Niger has pursued democratic and economic governance reforms and contributed to efforts to promote stability in the region. Niger has been a strong MCC partner in its threshold program, operating a dedicated program and policy analysis unit through both elected governments and even during its period of suspension. Niger is currently finalizing its constraints to economic growth analysis and, as the country transitions to compact development, this analysis will form part of the basis for the design of the compact investment.

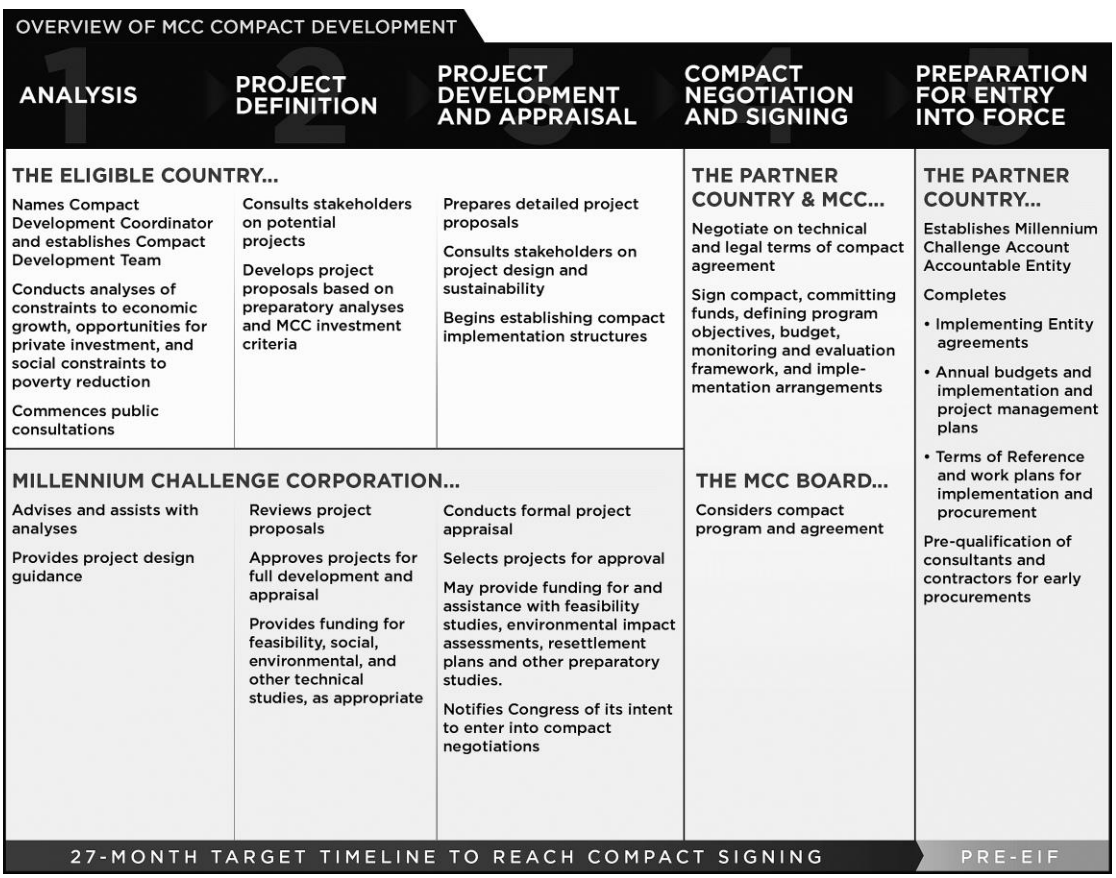
Sierra Leone has undergone dramatic reforms over the past several years. Many of these reforms are reflected in its FY 2013 scorecard, which Sierra Leone passed for the first time, after improvements in all scorecard categories. Sierra Leone recently held its third democratic election since the end of its civil war, and the election was widely recognized as peaceful, transparent and participatory. Sierra Leone strengthened its anti-corruption commission, provided free health care to children under five and pregnant or nursing women, expanded vaccine coverage, improved access to credit, and lowered trade barriers. Sierra Leone's reforms, direct engagement with MCC's indicator institutions, and success in passing the scorecard illustrate the strength of MCC's incentive effect.

Tanzania is a democratic nation working to reduce one of the highest poverty rates in the world through sustained economic growth. In FY 2013, Tanzania passed the scorecard for the eighth consecutive year. Tanzania is one of only four countries to be included in the U.S. Partnership for Growth (PFG) initiative. Tanzania's role as a pilot PFG country makes it uniquely situated to utilize compact resources effectively. In 2011, under the PFG initiative, Tanzania completed an analysis of constraints to economic growth. There is an engaged Millennium Challenge Authority (MCA) already in operation, and the Government of Tanzania and the U.S. Government have, through the PFG, both committed to focusing efforts toward combating specifically identified constraints to growth. Tanzania's current compact, which will close in September 2013, is investing in roads, access to potable water and improvements to the energy sector.

Compact development defines the content of compact investments, establishes relationships with country counterparts and sets the stage for compact implementation.

Status of Other Compacts in Development

In addition to the five countries that are newly eligible for compact funding, MCC is developing compacts with four countries for FY 2012 and FY 2013 funding: Benin, El Salvador, Georgia, and Ghana. MCC's partnerships with these countries will advance U.S. interests in West Africa, Central America and the Caucasus by providing targeted assistance to reduce poverty through economic growth. MCC's compact development process is summarized below. Further below are updates on compacts in development.



Benin | Estimated $250 million

Benin was selected as eligible to develop a proposal for a second compact in December 2011. Benin passed 11 of 20 indicators in the FY 2013 scorecard, including key indicators for control of corruption and democratic rights.

Selection: Benin was selected as eligible to develop a proposal for a second compact in December 2011. Benin passed 11 of 20 indicators in the FY 2013 scorecard, including key indicators for control of corruption and democratic rights.

Compact Development Status: In July 2012, Benin completed an integrated analysis of constraints to growth, drawing upon consultations with over 1,000 representatives of civil society, women's organizations, businesses, and local and national government. The project definition phase of compact development is proceeding, examining potential investments in energy and business environment improvement to increase Benin's competitiveness. Concept notes were submitted to MCC in November 2012, and the government is working on developing a concept paper (*i.e.*, a project proposal).

Results of First Compact: Benin successfully implemented a $307 million compact from 2006 to 2011 through four projects:

- The Access to Markets Project expanded the Port of Cotonou, a key transit point for Benin, Burkina Faso and Nigeria. Improvements included a new south wharf, sand-stopping jetty, enhanced intra-port transport and strengthened security measures. MCC will conduct a performance evaluation of the investments on increased port capacity on merchandise flows, improved port security and reduction in cargo storage times. The International Finance Corporation and Infrastructure Journal recognized the south wharf concession as a "top 40 public-private partnership" and with a "bronze" award among sub-Saharan African projects. The port was also awarded the gold prize of the International Association of Ports and Harbors Information Technology Award 2013 for systems modernization financed by the compact.

- The Access to Land Project had mixed results. While the certificates of rural landholding and title numbers fell significantly short of compact targets, the government has continued titling after the compact ended, made significant progress in rural areas, and passed the Land Code supported by the compact in January 2013.

- The Access to Financial Services Project finished in a largely satisfactory manner, including strengthening supervision of microfinance institutions and providing cost-sharing grants to support microfinance and entrepreneurship.

- The Access to Justice Project made improvements to Benin's legal and judicial environment through reformed court processes and a new code of administrative procedure, the construction of five courts, training of judges and clerks, establishment of a public legal information center, and establishment of additional one-stop shops for business registration.

For Benin's first compact, one impact evaluation and three performance evaluations are being done in order to understand the impact of the four projects. For example, the impact evaluation of the Access to Land Project aims to determine the impact of land tenure on investment and income. The initial results from the Access to Financial Services, Justice and Land evaluations are expected in FY 2015, while the Access to Markets evaluation results are expected in FY 2016.

El Salvador | Estimated $277 million

Selection: MCC's Board selected El Salvador as eligible to develop a proposal for a second compact in December 2011. El Salvador passed 13 indicators on the FY 2013 scorecard, including strong performance on control of corruption and democratic rights.

Compact Development Status: El Salvador completed an economic constraints analysis as part of the PFG process, finding crime and low productivity in goods and services traded internationally as binding constraints to growth. The government has submitted concept papers in three areas: human capital, investment climate and logistical infrastructure. MCC anticipates presenting a proposed compact to the Board during FY 2013.

Results of First Compact: El Salvador successfully implemented a $461 million compact from 2007 to 2012. The compact focused on the economic development of the country's impoverished northern region through three projects:

- The Connectivity Project rehabilitated more than 220 kilometers of a transnational highway to help improve connectivity with the rest of the country.
- The Human Development Project provided over 33,000 households with electrical services, 7,190 households with improved water and sanitation services, and 30,000 students with enhanced education through scholarships, improved educational facilities and teacher training.
- The Productive Development Project assisted an estimated 17,500 producers through the provision of training, seeds, equipment, and technical assistance. In addition, the project supported work to improve more than 23,500 hectares under production on which producers have planted short-season vegetables and fruits, and improved pasture lands. The investment program provided 30 loans to small- and medium-size businesses in the Northern Zone to develop new projects in agriculture, tourism and handicrafts. These loans totaled $5.7 million, of which about 20 percent went to women.

Across the El Salvador Compact's three projects, there are 11 evaluations, seven of which are impact evaluations. Results from the Production and Business Services interim evaluation have been received and publicly disseminated, describing what was learned about the activity's impact on outcomes such as business production levels, employment creation and household income. Remaining evaluation results for El Salvador are expected in FY 2014 and FY 2015.

MCC's Board selected El Salvador as eligible to develop a proposal for a second compact in December 2011. El Salvador passed 13 of the indicators on the FY 2013 scorecard, including strong performance on control of corruption and democratic rights.

Georgia | Estimated $140 million

Selection: MCC's Board selected Georgia as eligible to develop a second compact in January 2011. Georgia passed half of the indicators on the FY 2013 scorecard, including democratic rights and control of corruption.

MCC's Board selected Georgia as eligible to develop a second compact in January 2011. Georgia passed half of the indicators on the FY 2013 scorecard, including democratic rights and control of corruption.

Compact Development Status: Georgia has been developing an MCC compact proposal designed to improve Georgia's human capital, identified as a binding constraint to economic growth, with the objective of expanding access to high-quality education, particularly in rural areas, and contributing to workforce development, economic growth and private investment. The Government of Georgia submitted concept papers for rural school improvements, teacher development programs and technical vocational and higher education. MCC anticipates presenting a proposed compact to the Board during FY 2013.

Results of First Compact: Georgia successfully implemented a $395 million compact from 2006 to 2011 through two projects:

- The Regional Infrastructure Rehabilitation Project focused on road and natural gas pipeline rehabilitation. The improvements to the 220 kilometer Samtskhe-Javakheti Road, which connects Tbilisi to the Turkish and Armenian borders, opened an underserved agricultural corridor to national and regional markets and reduced travel time from more than eight hours to under three hours. The project also rehabilitated 22 sites of the main gas pipeline in Georgia and improved energy delivery, reliability and security throughout the country.

- The Enterprise Development Project created more than 3,400 jobs and spurred wage increases of almost $1.7 million. Project equity, loan and grant investments increased firm income by more than $3.8 million, including income related to dairy production, cold storage facilities, greenhouses and fruit, vegetable and nut processing, and drying equipment.

The results of most activities are being measured by three evaluations, one of which is an impact evaluation. The impact evaluation on the road rehabilitation activity will examine whether constructing main roads is sufficient to foster economic growth in nearby settlements and whether it is also necessary to construct secondary roads. The results from these evaluations are expected in FY 2013.

Ghana | Estimated $300 million

Selection: MCC's Board selected Ghana as eligible to develop a proposal for a second compact in January 2011. Ghana passed 17 of the 20 indicators in the FY 2011 scorecard. Since then, Ghana has maintained stable and strong policy performance. In FY 2013, Ghana is again in the top five percent of all low income countries in the Ruling Justly category, which measures control of corruption, political rights, civil liberties, and other areas of democratic governance.

Compact Development Status: Ghana completed an economic constraints analysis in June 2011 as part of the PFG initiative. Based on the analysis, Ghana identified the power sector as the main focus of compact development. Following consultations with a diverse group of stakeholders, the government submitted concept papers in November 2012 focused on power sector governance, institutional and regulatory reform, reducing electricity distribution losses, improving reliability and access, and creating an enabling environment for private investment in the sector. MCC is working with the government to refine the program with a goal of presenting the compact to the MCC Board for approval in late 2013.

MCC's Board selected Ghana as eligible to develop a second compact proposal in January 2011. Since then, Ghana has maintained stable and strong policy performance.

Results of First Compact: Ghana successfully implemented a $547 million compact from 2007 to 2012 that invested in three major projects spread across three regions of the country:

- The Agriculture Project focused on improving commercial agriculture for smallholder farmers by training over 66,000 farmers, assisting 1,700 agribusinesses, supporting over 52,000 hectares of land under production, and building ten processing facilities to improve the quality and quantity of market-bound produce.

- The Transportation Project complemented the compact's agricultural investments by linking rural communities to markets to reduce transportation costs. More than 445 kilometers of trunk and feeder roads were completed, including an important section of the national highway in Accra.

- The Rural Development Project supported basic services for rural farm communities, such as drinking water, schools, electricity, and banking. More than 27,000 households were given access to clean water, 250 schools that serve 41,000 students were constructed or rehabilitated, and 547 rural bank branches now provide rural communities with access to the national payment system.

Evaluations are being done in all three compact projects. There are 12 evaluations, four of which are impact evaluations. The impact evaluation results of the Agriculture Project's Commercial Training Activity were released in the first quarter of FY 2013, describing the assessed impact of training on outcomes such as increased crop income, land cultivation, farmer access to credit, and farm employment. The remaining evaluation results for Ghana are expected in FY 2014 and FY 2015.

Threshold Program

(in $ millions)	FY 2012 Appropriated	FY 2013 CR	FY 2014 Request
Total MCC	898.2	903.7	898.2
Threshold Program	0.0	15.0	20.0

For FY 2014, MCC plans to use $20.0 million for threshold programs in Nepal and Guatemala.

Background

MCC's first generation of threshold programs invested roughly $500 million in 23 programs in 21 countries around the world. Twenty of these programs have been completed. Active programs in Liberia, Niger and Timor-Leste are winding down, and MCC is developing threshold programs under its new model with eligible partners in Guatemala, Honduras, Nepal, and Tunisia.

The Redesigned Threshold Program

MCC's new Threshold Program is designed to assist countries to become compact eligible by supporting key policy and institutional reforms.

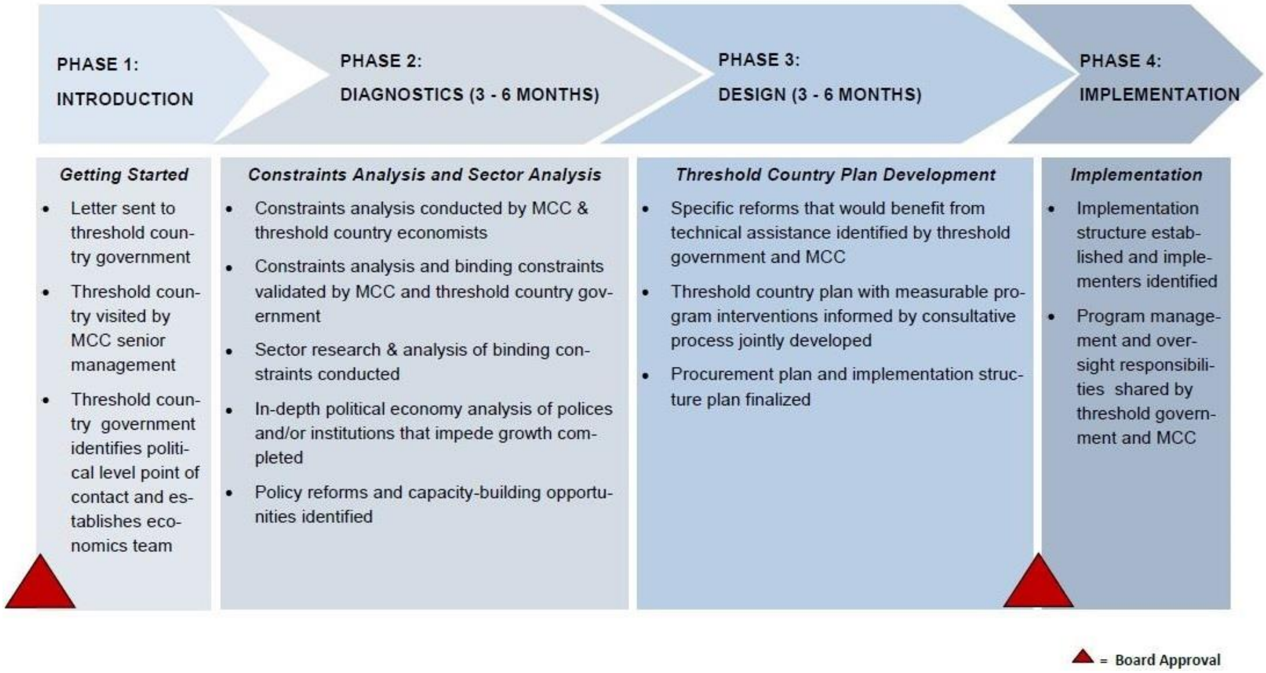
MCC's Threshold Program has been redesigned to assist countries to become compact eligible by challenging them to implement key policy and institutional reforms. If successfully implemented, these reforms will reduce constraints to faster economic growth and will provide MCC critical information about the country's political will and capacity to undertake the types of reforms and investments that would have the greatest impacts in compacts.

Not all countries with threshold programs will be selected for compact eligibility; but for those that are, there will be significant advantages for the compact. MCC will have greater confidence in the country partner's ability to design and implement those investments that will generate the greatest results, and MCC will also have a head start on the work and relationship necessary to design a high-impact compact. In some cases, MCC may also be able to make early progress in longer duration reforms that ultimately enhance compact success, if the country becomes compact eligible.

The new threshold programs are being developed through a structured and disciplined diagnostic and design process. They begin with a rigorous analysis of the constraints to economic growth and the policies and institutions that reinforce those constraints to growth. MCC will support government efforts at reform in these areas, which have the potential for the greatest impact on growth.

The prospect of a compact program will create incentives for countries to implement the targeted reforms of the Threshold Program effectively and expeditiously and provide MCC with important information about the country's commitment to reform.

Phases of Threshold Program Development



Threshold Programs under Development

The redesigned Threshold Program approach is currently being applied in four countries: Honduras, Nepal, Tunisia and newly-selected Guatemala. Below are brief updates on these countries. MCC had been developing a threshold program with Niger, but in December 2012, MCC's Board selected Niger as eligible to develop a compact. MCC will not continue with the development of a threshold program with Niger, and the country will transition to compact development. The constraints analysis completed during the design stage of the threshold program will form part of the basis for the design of the compact investment.

Guatemala was selected by MCC's Board as eligible for Threshold Program assistance in FY 2013. Guatemala passed 10 of 20 indicators on the scorecard, including both democratic rights indicators, and performs on the median on control of corruption. Guatemala has engaged in a series of reforms to improve the fight against corruption and to strengthen the rule of law.

Honduras was selected by MCC's Board as eligible for Threshold Program assistance in FY 2012. A threshold program in Honduras will provide support to the government to undertake reforms to help improve government effectiveness in two areas identified as critical barriers to faster economic growth and poverty reduction: (1) public financial management and (2) the transparency and efficiency of public-private partnerships. At its March 2013 meeting, the Board approved an investment of up to $15.7 million for Honduras.

Nepal was selected by MCC's Board as eligible for Threshold Program assistance in December 2011. A threshold program in Nepal will address underlying binding constraints to economic growth in a country that continues to make slow but steady progress in further institutionalizing democratic governance and reforming its economic governance. An MCC-led team, with the participation of U.S. Agency for International Development (USAID) economists, is undertaking a constraints to growth analysis that will provide the basis for support to Nepal's efforts to undertake more aggressive economic policy reform.

Tunisia was selected by MCC's Board as eligible for Threshold Program assistance in September 2011. A threshold program in Tunisia will leverage MCC's important analytical work on the constraints to economic growth to support Tunisia's efforts to build a stronger foundation for sustained, job-generating economic growth following the January 2011 revolution. MCC and Tunisia, in partnership with the African Development Bank, USAID and the U.S. Department of State, completed a diagnostic analysis of the constraints to growth in Tunisia's economy. The analysis identified two binding constraints: the lack of public sector accountability and the rule of law; and the high fiscal and regulatory costs of employing workers.

MCC and the government are now working to develop a threshold program that will address these constraints through targeted policy and institutional reforms. As program development continues, MCC continues to monitor carefully Tunisia's political stability and progress toward the institutionalization of democratic governance.

Compact Development and Oversight: 609(g) and Due Diligence

(in $ millions)	FY 2012 Appropriated	FY 2013 CR	FY 2014 Request
Total MCC	898.2	903.7	898.2
Total for compact development	88.0	95.0	92.0
609(g)	22.0	27.0	20.0
Due Diligence	66.0	68.0	72.0

For FY 2014, MCC plans to use $20 million for 609(g) assistance and $72 million for due diligence to support:

- five new compacts under development;
- post-completion work, such as data gathering and evaluation, for five compacts reaching completion in FY 2013; and
- programmatic oversight, quality control and other support for compacts in development and implementation.

Analyses funded with 609(g) assistance ensure that partner countries develop projects that will provide returns on MCC's investment and can be implemented within the fixed five-year timeframe.

609(g) Assistance

Although assistance provided under section 609(g) of MCC's authorizing statute only represents 2.2 percent of MCC's overall request, the assistance is critical for compacts to succeed. MCC uses 609(g) funding for key project preparation work such as feasibility and environmental impact studies, engineering designs, baseline surveys, financial management and procurement technical assistance, and other specialized analysis to help MCC determine the final suitability and scope of investments, costs, implementation risks, and mitigation measures. Such analysis also ensures that partner countries develop projects that will provide returns on MCC's investment and can be implemented within the fixed five-year timeframe. MCC will allocate the requested 609(g) funds among Liberia, Morocco, Niger, Sierra Leone, and Tanzania based on the needs and progress of each country in the compact development process.

Due Diligence

Due diligence funds allow MCC to obtain sufficient information to evaluate, assess and appraise projects during compact development, effectively oversee performance and conduct quality assurance during implementation, and assess the results of a compact project during and after implementation. Due diligence funds also enable MCC to continue to operate on a lean administrative budget relative to the size and diversity of its investment portfolio. Rather than permanently hiring technical experts whose services might be underutilized depending on the mix of projects MCC is overseeing at a given time, MCC uses due diligence funds to procure technical expertise from the private sector only when strictly necessary to support compacts in development and implementation.

Due diligence funds are critical to MCC's monitoring and evaluation, supporting the development, design, implementation, and dissemination of MCC's evaluations. The design activities need to be done very early in the process, and implementation activities can run throughout the compact and well after compact closure.

Due diligence funds supported MCC's first set of independent impact evaluations, which were released in October 2012 and were designed to use rigorous statistical methods to measure changes in beneficiary income related to farmer training activities. In addition to offering valuable lessons on how MCC can improve, the impact evaluations provide encouraging news about program successes:

- The average completion rate of output and outcome targets specific to the activities covered by these evaluations was: Ghana (103 percent), Armenia (103 percent), Nicaragua (112 percent), El Salvador (131 percent), and Honduras (158 percent). That said, despite successfully meeting output and outcome targets, none of the five evaluations were able to detect changes in household income.
- In El Salvador, the evaluators found that dairy farmers doubled their farm incomes.
- In Ghana, northern region farmers' annual crop income increased significantly relative to the control group above any impacts recorded in the other zones.
- In Nicaragua, project participants' farm incomes went up 15 percent to 30 percent after two-to-three years of project support.

The chart below illustrates how due diligence funds support MCC's oversight during the lifecycle of a compact.

Compact Pipeline and Due Diligence-Funded Activities in FY 2014

	Compact Development	Compact Implementation	Compact Closure and Post-Closure Activities*
Examples of Due Diligence-Funded Activities	- Conducting engineering and environmental designs and appraisals - Appraising project design - Obtaining legal counsel on local laws related to proposed projects - Providing assessments of procurement and financial management systems	- Performing quality control through independent engineers and technical consultants - Assisting project oversight through specialized expertise in agriculture, land, health, education, finance, and other sectors -Conducting procurement and financial oversight of MCA operations - Design and oversight of baseline and mid-term evaluation surveys	- Implementation of post-compact evaluation surveys - Reporting and dissemination of evaluation results
Applicable Compacts (Start of FY 2014)	Benin Ghana Liberia Morocco Niger Sierra Leone Tanzania	Cape Verde El Salvador Georgia Indonesia Jordan Malawi Moldova Philippines Senegal Zambia	Lesotho Mongolia Morocco Mozambique Tanzania

* Only compacts in the closure period are listed. That said, due diligence-funded monitoring and evaluation activities can take place after the closure period.

Administrative Expenses

(in $ millions)	FY 2012 Appropriated	FY 2013 CR	FY 2014 Request
Total MCC	898.2	903.7	898.2
Total Admin Budget	105.0	105.0	105.0
Salaries & Benefits	53.3	53.5	54.3
Overseas Operations	19.3	20.0	19.2
Contracted Services	9.7	9.5	10.2
Information Technology	9.0	8.3	7.6
Rent, Leasehold & Improvements	7.5	7.4	7.4
Travel	5.3	5.3	5.3
Training	0.9	1.0	1.0

MCC plans to use $105.0 million for administrative expenses. The flat budget reflects MCC's focus on the Administration's priority of gaining efficiencies while at the same time making necessary, prudent investments that increase overall productivity and organizational effectiveness. Important cost drivers in FY 2014 are addressed in this section, including human capital and overseas operations, which comprise 70 percent of MCC's administrative budget.

The flat administrative expenses request reflects MCC's focus on efficiency and prudent investments to offset cost drivers in human capital, overseas operations and other areas.

Salaries & Benefits

MCC plans to use $54.3 million in FY 2014 for salaries and benefits, a 1.9 percent increase from FY 2012. Given the budget constraints for FY 2014, MCC will seek to maintain an average full-time equivalent (FTE) level of 267 for Washington-based staff (an 89 percent fill rate). MCC has also frozen its salary tables for calendar years 2011 and 2012 for all federal employees, consistent with the Administration's guidance.

FTE	FY 2012 Appropriated	FY 2013 Budget	FY 2014 Request
Washington, DC Headquarters	272	264	267
Overseas	40	40	41
Total	312	304	308

MCC is a performance-based organization, and MCC employees do not receive an automatic cost of living adjustment (COLA), locality pay adjustment (LPA), or any step increase based on years of service. Employees must work at MCC at least 90 days before the end of the fiscal year to be eligible to receive performance merit increases based solely on their prior year's performance.

In FY 2014, MCC will continue its program of providing performance-based awards to employees who excel in their accomplishments during the prior fiscal year.

Additionally, MCC provides a standard package of benefits that is commensurate with other U.S. Government entities. Based on prior year actuals, total benefits for FY 2014 are expected to cost an average of 27 percent of salary.

Overseas Operations

MCC plans to use $19.2 million for overseas operations in FY 2014. While MCC maintains a small support footprint of not more than two U.S. direct hire staff and three locally engaged staff (LES) in each compact country, the costs of maintaining overseas staff are facing upward pressures. International Cooperative Administrative Support Services (ICASS) costs continue to be especially significant in posts where there are fewer agencies to share overall costs. As MCC begins implementation for the first cohort of countries in the revised Threshold Program, MCC might maintain a smaller footprint, with up to one FTE in each country, depending on program needs.

MCC's small footprint in partner countries is facing upward cost pressures, such as for ICASS services, but is critical to the effective oversight of MCC assistance.

As a result of the presidentially mandated salary freeze, ICASS cost increases for LES in FY 2011, FY 2012 and FY 2013 were generally limited to benefit increases imposed by the various local compensation plans and lease increases. If no salary freeze is in effect for 2014, ICASS costs may jump significantly. In addition to the salary increases for LES, MCC has already experienced an increase in ICASS costs as the State Department continues to complete new embassy compounds worldwide, which can have new staffing and maintenance costs.

As a result of these and other fixed costs of supporting MCC staff overseas, the average initial cost to assign an employee at a U.S. embassy is approximately $500,000. Such costs include salary, office space, support services, pay differentials and cost of living allowances, educational allowances, educational travel, other family costs, home leave, in-country travel, consultation travel, medical evacuations, housing, information technology support, relocation, storage of household effects, and security.

In September 2013, MCC will complete five compacts in Lesotho, Mozambique, Morocco, Mongolia, and Tanzania. This is the first time that so many compacts will be closing at one time. As a result, costs will increase significantly as MCC will need to cover the following: numerous relocations for employees and their family members back to the United States, airfare and shipping costs for personal effects, severance pay for locally engaged staff, transition per diem, and, in some cases, separate maintenance allowance for families that relocate ahead of the employee for seamless school year transition back in the United States.

MCC is attempting to minimize overseas operations costs through a number of efforts, including those listed below.

- ICASS Services: MCC has attempted to forego certain ICASS services, such as travel, procurement and motor pool, where feasible and cost-effective.
- Embassy Office Space: MCC will continue to work with the Department of State to place all of its employees in office space provided by the host government, where viable from a security standpoint. At the same time, MCC continues to work with new compact countries to ensure that the host government contributes office space to MCC that is co-located with the accountable entity. In addition to reducing administrative costs, this will help support the close working

relationship that MCC staff have with their country counterparts at no additional cost to the U.S. Government.

- Hiring LES as Consultants: MCC is also exploring hiring local staff as consultants. This has the potential of affording MCC the ability to hire employees to meet both long- and short-term needs without incurring severance costs when compact oversight requirements decrease. Moreover, this will reduce the significant ICASS costs associated with LES employed through an embassy.

Other Administrative Cost Controls and Drivers

Although salaries and benefits and overseas operations comprise 70 percent of the administrative budget, MCC is controlling costs and making sound investments in other administrative expense areas, including information technology (IT), rent and travel.

Information Technology: MCC requests $7.6 million to maintain and invest in IT for FY 2014. The request will support a variety of activities including, but not limited to, the following:

- General Support System: MCC's IT strategy is geared toward a cloud-first approach. As MCC implements this strategy more fully going into FY 2014, MCC will reduce general support system costs, while improving collaboration capabilities and enhancing MCC's ability to effectively manage its core operations.
- Telecommunications and Mobile Phones: In FY 2013, MCC plans to begin evaluation of alternative mobile devices with the objective of reducing operational costs while providing better functionality for staff who frequently travel overseas. MCC leadership hopes to be able to implement the selected alternative(s) in FY 2014.
- Enterprise Applications: MCC's Enterprise Content Management System (ECM) and Integrated Data Analysis System (MCC MIS) were launched in FY 2013 to help MCC effectively support data-driven decision-making and to facilitate MCC's knowledge management goals. In FY 2014, MCC will continue to enhance governance over these applications, assess their sufficiency in supporting mission requirements, and identify opportunities to most optimally support the mission.
- Compliance and Continuous Monitoring: In FY 2014, MCC will continue to fund IT security and privacy activities including continuous monitoring of MCC IT systems and compliance with federal mandates.
- Open Data: Transparency is core to MCC fulfilling its mission by ensuring accountability and that important partners, such as foreign governments, development experts and policymakers, have the data they need to partner with MCC. MCC's request supports the development of a modern information architecture to provide useable, up-to-date and interactive tools to the public by pulling from data sources across the agency.

MCC's headquarters leases expire in FY 2015, and MCC is working to identify potential cost savings, while maintaining organizational effectiveness.

Rent: MCC plans to use $7.4 million for rent in FY 2014. MCC will continue to have two leases covering the 2nd through 6th floors of 875 15th Street, NW, and the 6th floor of 1401 H Street, NW, for a total square footage of approximately 129,000 sq. ft. MCC's lease costs in both buildings compare favorably to current market rates in these buildings. MCC's leases both expire in FY 2015 and, in order to weigh options well in advance of these deadlines, MCC initiated a comprehensive space utilization analysis to identify potential cost savings, while maintaining organizational effectiveness.

Travel: MCC plans to use $5.3 million for travel in FY 2014, which is unchanged compared to FY 2012. In order to ensure the principle of country ownership that underlies the MCC model, a significant portion of the work involved in compact development and due diligence must take place in MCC partner countries. Travel of MCC staff must continue during the pre-entry-into-force phase of a compact as well as for ongoing oversight and evaluation of compact-funded projects. Travel by MCC staff serves as a cost-effective and critical means of providing oversight and allows MCC to station only the minimal level of staff overseas necessary to ensure taxpayer funding is being well-spent. MCC continues to control travel costs with the tactics listed below:

- Combining trips in the same geographic regions when possible.
- Increasing the use of video teleconferencing where practical.
- Introducing a more intensive travel management process designed to take advantage of less expensive restricted and nonrefundable tickets when available.
- Maintaining more stringent travel guidelines than the General Services Administration's Federal Travel Regulations.
- Reducing conference-related travel.
- Reducing the number of MCC staff required on mission-related trips.
- Using corporate frequent flyer miles.

Office of the Inspector General (OIG)

(in $ millions)	FY 2012 Appropriated	FY 2013 CR	FY 2014 Request
Total MCC	898.2	903.7	898.2
Total Inspector General Budget	5.0	5.0	5.0

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

The USAID OIG/MCC FY 2014 Budget Request sent to MCC is $5 million. The President's Budget requests the same amount.

For FY 2012, the OIG conducted 38 audits of which 28 were financial audits and 10 were performance audits. The OIG is planning to conduct 40 audits for FY 2013 and will determine the number of audits for FY 2014 at a later date.

Proposed Legislative Changes

MCC appreciates the support it has received from Congress to improve aspects of the country partner selection process to make the eligibility pool more stable. As part of MCC's continuous efforts to efficiently and effectively pursue its mission, the FY 2014 President's Budget proposes the five legislative changes described below. The language is being proposed as a general provision in MCC's appropriations bill. In the event that the proposed general provision language does not pass, MCC would support the inclusion of appropriations language to effect the changes below for FY 2014.

- *Authority for the Board to extend the duration of a compact from up to five years to up to six years due to exceptional circumstances.*
  This change was included in the Senate's FY 2013 State and Foreign Operations Appropriations Bill. MCC's experience shows that providing a limited ability to extend a compact for up to one year under well-defined, justified circumstances is consistent with good development practice and the effective stewardship of U.S. taxpayer funds. MCC believes that having this authority, which would be exercised by the Board only in exceptional circumstances and well after implementation has started, could enhance the impact and sustainability of our investments in select cases. The ability to grant limited, short-term extensions to MCC's five-year compact term under select circumstances would be very useful in completing civil works and other programs that experience unforeseeable delays.

- *Adjustments to the definition of low income (LIC) and lower middle income (LMIC) candidate pools, including allowing a candidate country to maintain its income classification for assistance purposes in the fiscal year that a reclassification occurs and for two subsequent fiscal years.*
  This provision was included in the FY 2012 appropriations act, as well as in the FY 2013 House and Senate appropriations bills. MCC is seeking to make those changes permanent. Sudden shifts in income category, due in part to changes in global inflation and exchange rates, pose serious policy and structural issues for MCC. Each year, countries abruptly shift from one income category to another with no transition period. These and other economic trends mean that a substantial number of compact-eligible countries are now in the LMIC category. The proposed legislative changes, which would establish the poorest 75 countries as the LIC category and allow countries to gradually transition between the LIC and LMIC categories, help ensure that the agency can continue to work with high-performing countries. Making these changes permanent will ensure MCC can continue to work with the best-governed poor countries and avoid the significant instability that would be caused by reverting back to the pre-2012 status quo.

- *Authority for nongovernmental MCC Board members to serve until a successor is appointed.*
  MCC's Board of Directors consists of nine members, five from the U.S. Government and four nongovernmental members, with at least one nongovernmental member required for a quorum. To promote continuity and ensure the presence of a quorum, MCC is seeking a legislative change to allow nongovernmental members to remain on the Board for one year after their term

expires or until, in the case of members serving their first terms, they have been confirmed for a second term, or their successor has been confirmed. This approach is widely used by other U.S. Government boards, and its need was highlighted in December 2010 when MCC's Board could not achieve a quorum to select compact-eligible countries for FY 2011 because the terms of its nongovernmental Board members had expired before a new member had been confirmed.

- *Deletion of the provision for an interim Chief Executive Officer (CEO).* A presidential memorandum, dated May 21, 2012, designates an order of succession for MCC officials to act as CEO and is sufficient to provide leadership during the vacancy of the office of CEO.

- *Elimination of the requirement to publish compacts in the Federal Register.* This change would reduce publication costs and staff resources required to prepare the documents for publication. MCC would continue to post the full text of new compacts on its website and publish a summary in the Federal Register.

Appendix A – Program Portfolios and Results

Highlights of Recently Closed Compacts

BENIN MCC and the Government of Benin recognized that a poor investment climate and lack of dynamic private sector activity impeded sustainable economic growth and poverty reduction. The compact sought to address problems related to insecurity of property rights, lack of access to capital, an inefficient judicial system, and a lack of competitiveness at the Port of Cotonou, all of which constrained investment and economic growth. The five-year, $307 million compact was signed in February 2006, entered into force in October 2006 and ended in October 2011.	
POLICY REFORMS	• Passage of the rural landholding law in October 2007 has been a key step in developing the legal and policy framework for strengthening property rights in Benin. • The 2007 National Microfinance Policy complements other compact projects by articulating the government's commitment to ensuring that financial services are accessible to low-income households and microenterprises, enhancing the professional status of this sector and improving its integration into the financial sector. • The Code of Civil, Commercial Administrative and Social and Accounting Procedure was enacted in February 2011 to modernize the procedural rules of courts, speeding case processing and enhancing efficiency in the justice sector. The code went into effect on February 28, 2012. • MCA-Benin supported the passing of decrees creating the new Business Registration Center management and regulating formalities required for business registration and operation. • The government took numerous steps at the Port of Cotonou to reduce corruption and receive certification under the International Ship and Port Facility Security Code.
OUTPUTS	• The Port of Cotonou is now expanding its capacity, improving security and increasing efficiency due to MCC-funded assistance. Modernized port services and investments by a competitively selected private port operator are making a significant contribution to Benin's long-term economic growth potential. Fees from the private sector concessionaire will allow the Port Authority to make additional investments to supplement the project. • Average time for treating an application for microfinance institution authorization is 42 days, down from 90 days in 2006. • 294 rural communities had approved rural landholding plans. • Improved case management systems and a complete overhaul of Benin's outdated civil procedures code, new primary courthouses, a legal information center and a new court of appeals should reduce the time and cost of enforcing contracts and improve the overall efficiency and quality of the judicial system. MCC's support completed the construction of five new courthouses. These investments in the justice system, along with improvements in alternative dispute resolution and in streamlining and modernizing the process for formal business registration, are important steps toward improving the business climate in Benin.
PRELIMINARY	• The Port of Cotonou is a key trading hub for neighboring countries, including Niger, Mali, Nigeria, and Burkina

OUTCOMES AND EXPECTED IMPACT	Faso, and is the driver of economic growth in Benin. By the end of the compact, the volume of merchandise flowing through the port increased from 4 million metric tons in 2004 to nearly 7 million metric tons in 2010. Over the next 20 years, increased growth resulting from MCC's investments is expected to benefit the country's entire population.
SUSTAINABILITY AND PARTNERSHIPS	• MCC and the European Union collaborated in developing and implementing judicial reform projects from the start of the compact to avoid duplication, maximize value and influence Government of Benin policy reforms. • The Government of Canada launched a program supporting the microfinance sector in Benin, including a component designed to follow and continue MCC's work with the Ministry of Finance's Microfinance Supervision Unit. • Requiring the concession management of the MCC-financed operating terminal at the south wharf, and requiring the concessionaire to make complementary investments, are important factors in the sustainability of the port investments.
GHANA The Government of Ghana focused its MCC compact on increasing the production and productivity of high-value cash and food staple crops in certain areas of Ghana and on enhancing the competitiveness of Ghana's export base in horticultural and other traditional crops. The five-year, $547 million compact was signed in August 2006, entered into force in February 2007 and ended in February 2012.	
POLICY REFORMS	• Ghana's parliament passed landmark legislation in June 2010 to promote access to improved seed varieties, certified fertilizer and pest-free plant material. This current law, which took 12 years to pass, brings Ghana's legislation into conformity with the protocols of the Economic Community of West African States on these issues, opens up the opportunity for higher yielding varieties to be used in Ghana and helps support the modernization of Ghana's agriculture sector. • The Lands Commission Act, Act 767, 2008 was published in the Government of Ghana Gazette on December 12, 2008 to restructure the five public land sector agencies into a single agency. • The Axle Load Policy was approved by the Cabinet and an official action plan prepared. The new Road Traffic Regulation has incorporated the requirements of the policy and the action plan. • The Policy on Fuel Levy was approved by the Cabinet to ensure a sustainable road maintenance regime.
OUTPUTS	• 250 school blocks were rehabilitated and constructed. • 66,930 farmers were trained in commercial agriculture. • 5,729 land parcels have been surveyed, and 1,481 land parcels have been registered. • Investments in post-harvest infrastructure have resulted in installing 10 cooling facilities. • Nearly 14 kilometers of the N-1 highway—renamed the George Walker Bush Motorway—were rehabilitated to link Accra, the capital city, with a major port, the international airport and the country's major agricultural regions. • Over 357 kilometers of feeder roads have been completed in rural areas, linking them to markets and social service networks. • 134 rural banks across Ghana have been connected to the national payment system through a satellite-based

	wide-area network.
PRELIMINARY OUTCOMES AND EXPECTED IMPACT	• As of March 2012, the N-1 highway is facilitating the effective movement of 51,055 vehicles per day and expediting the transport of perishable high-value horticultural exports by reducing travel time at peak hours from 60 minutes prior to construction in 2009 to 19 minutes on the nearly 14 kilometers of MCC intervention and reducing wear on vehicles from rough roads. The number of vehicles per hour at peak hours has increased slightly from 4,021 to 4,078. Annualized average daily traffic has increased greatly from 27,737 to 51,055. • Enrollment in all schools affected by the education activity increased from 37,733 prior to commencement of construction in 2009 to 41,019 at compact closeout. • The construction of 392 water points, including boreholes, pipe extensions and small-town water systems, was intended to improve health and reduce the incidence of illness and loss of productivity due to unsafe drinking water and reduce the time and effort spent fetching water. Prior to construction in 2010, the distance from a potable water source was an average of 1,190 meters. Following completion of the activity, the distance had been reduced to 522 meters.
SUSTAINABILITY AND PARTNERSHIPS	• MiDA (or the Millennium Development Authority that implemented Ghana's MCC compact) attracted VegPro, a Kenyan vegetable exporting company known for working with small- and mid-size farmers, to the irrigation scheme in the southern region. VegPro secured the lease of 1,050 hectares adjacent to the hectares that will be served with the MCC-financed irrigation perimeter. VegPro will source some of its vegetables from MiDA-trained farmers, who receive water from the irrigation scheme. VegPro also will potentially employ up to 800 people on its 1,050-hectare farm. MiDA is working with Syngenta, a Swiss company, to provide agricultural inputs for farmers served by the irrigation scheme in the southern region. Working with these two companies helps to ensure the sustainability of MCC's irrigation investment. • MCC, MiDA and the UN World Food Program (WFP) identified opportunities for MCC-funded farmers to be suppliers for WFP's Purchase for Progress initiative. This innovative program is designed to respond to food security needs in developing countries by providing a structured market for smallholders as they transition to commercial agriculture. WFP is purchasing grain from MiDA-trained farmers through two grain buyers linked to the compact program.
EL SALVADOR The Government of El Salvador focused its MCC compact on improving the lives of Salvadorans through strategic investments in education, public services, agricultural production, rural business development, and transportation infrastructure. The largest of the compact's components, the Transportation Project, unified El Salvador's Northern Zone with the rest of the country, enabling new economic opportunities for rural households, lowering transportation costs and decreasing travel times to markets. The five-year, $461 million compact was signed in November 2006, entered into force in September 2007 and ended in September 2012.	
POLICY REFORMS	• El Salvador´s legislature passed a decree that enabled the transfer of revenues from traffic fines, license plates and other fees directly to the national road maintenance fund. This decree significantly increased the prospects for sustainability of the road system through appropriate road maintenance.
OUTPUTS	• Over 33,000 households have benefited from a connection to the electricity network.

	• MCC improved the access of 7,634 households to improved water and of 7,190 households to improved sanitation. • MCC funded the construction, rehabilitation and/or equipping of 22 educational facilities, with 30,632 students participating in MCC-supported educational activities. • MCC funding has assisted about 17,500 producers by providing training, seeds, equipment and technical assistance. MCC funding has supported work to improve 25,400 hectares under production on which producers have planted short-season vegetables and fruits and improved pasture lands. • The FIDENORTE investment program has granted 44 loans to small- and medium-sized businesses in the Northern Zone to develop new projects in agriculture, tourism and handicrafts, amounting to more than $7.5 million.
PRELIMINARY OUTCOMES AND EXPECTED IMPACT	• MCC financed the rehabilitation and construction of more than 220 kilometers of road (equivalent to the distance between Washington and Philadelphia), three large bridges and 20 smaller bridges in northern El Salvador to help improve connectivity with the rest of the country. This east-west highway in the north stretches close to the borders with Guatemala in the west and Honduras to the east, and the improvements are anticipated to reduce travel time by 50 percent (12 hours to six hours). • Based on the preliminary findings of an impact evaluation, within one year of receiving assistance, dairy farmers increased their annual productive income by an estimated $1,850 on average compared to those who did not receive assistance. These farmers sold a larger volume of milk and more secondary dairy products than farmers who did not receive assistance, even when controlling for their baseline sales. Handicrafts producers did not realize an increase in income compared to producers who did not receive assistance. However, on average, each artisan receiving assistance employed over one month of additional full-time labor relative to those who did not receive assistance.
SUSTAINABILITY AND PARTNERSHIPS	• FOMILENIO (which implemented El Salvador's MCC compact) and the Kriete Foundation agreed to continue support for young people through the scholarship program. • MCC is committed to funding sustainable projects, and Salvadorans in the Northern Zone will have reliable access to electricity thanks to a public-private partnership between the Government of El Salvador and AES Corporation. The contract required AES to ensure all operations and ongoing maintenance of the transmission lines in accordance with local law and industry best practice. • In partnership with Super Selectos, a national chain of grocery stores, USAID provided a Global Development Alliance grant of $500,000 to El Salvador Produce, a commercial cooperative society composed of 20 fruit and vegetable producer organizations established with the support of the MCC-funded Productive Development Project. The grant was used to build cold-storage and transport for the commercialization activities of El Salvador Produce.

Compact and Threshold Program Portfolios

Compact Obligations/Commitments by Year Appropriated as of September 2012 ($ millions)[1,2]

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Armenia		177.7								177.7
Benin		301.8								301.8
Burkina Faso					480.9					480.9
Cape Verde	110.1									110.1
Cape Verde II									66.2	66.2
El Salvador			369.0	91.9						460.9
Georgia	295.3	27.0		17.0	56.0					395.3
Ghana		547.0								547.0
Honduras	205.0									205.0
Indonesia		55.0						545.0		600.0
Jordan						55.0	220.1			275.1
Lesotho				362.6						362.6
Madagascar	85.6									85.6
Malawi							209.9	140.8		350.7
Mali			460.8							460.8
Moldova	90.7	16.4	8.6	0.9	9.0	86.6	49.9			262.0
Mongolia				284.9						284.9
Morocco		72.0	625.5							697.5
Mozambique				506.9						506.9
Namibia				224.1	80.4					304.5
Nicaragua	112.7									112.7
Philippines							433.9			433.9
Senegal						540.0				540.0
Tanzania					698.1					698.1
Vanuatu		65.4								65.4
Zambia									354.8	354.8
Total	899.4	1,262.3	1,463.9	1,488.4	1,324.3	681.6	913.8	685.8	421.0	9,140.4

[1] Amounts are net of deobligations, where applicable.

[2] MCC currently complies with the statutory limit on assistance provided under lower middle income country (LMIC) compacts by continuously re-calculating the limit based on changes in compact spending for each appropriation year. Going forward, MCC will develop a policy to set a fixed dollar amount LMIC limit for each year's appropriation based on planned compact spending after MCC receives its appropriation for the year. Use of a fixed LMIC limit will improve administration of the compact program, provide greater certainty in the LMIC cap from year-to-year, and guarantee that LMIC funding remains within the cap set by statute.

Compact Portfolio Amounts at Signing ($ millions)

Country Partner[3]	Sub-Saharan Africa	Europe, Asia and Pacific	Middle East & N. Africa	Latin America	Signing	Entry Into Force	Compact End Dates
Madagascar	109.7				04/18/05	07/27/05	08/31/09
Cape Verde	110.1				07/04/05	10/17/05	10/17/10
Benin	307.3				02/22/06	10/06/06	10/06/11
Ghana	547.0				08/01/06	02/16/07	02/16/12
Mali	460.8				11/13/06	09/17/07	08/24/12
Mozambique	506.9				07/13/07	09/22/08	
Lesotho	362.6				07/23/07	09/17/08	
Tanzania	698.1				02/17/08	09/17/08	
Burkina Faso	480.9				07/14/08	07/31/09	
Namibia	304.5				07/28/08	09/16/09	
Senegal	540.0				09/16/09	09/23/10	
Malawi	350.7				04/07/11		
Cape Verde (II)	66.2				02/10/12	11/30/12	
Zambia	354.8				05/10/12		
Georgia[4]		395.3			09/12/05	04/07/06	04/07/11
Vanuatu		65.7			03/02/06	04/28/06	04/28/11
Armenia		235.7			03/27/06	09/29/06	09/29/11
Mongolia		284.9			10/22/07	09/17/08	
Moldova		262.0			01/22/10	09/01/10	
Philippines		433.9			09/23/10	05/25/11	
Indonesia		600.0			11/19/11		
Morocco			697.5		08/31/07	09/15/08	
Jordan			275.1		10/25/10	12/13/11	
Honduras				215.0	06/13/05	09/29/05	09/29/10
Nicaragua				175.0	07/14/05	05/26/06	05/26/11
El Salvador				460.9	11/29/06	09/20/07	09/20/12

[3] Compact amounts do not reflect deobligations of funds, such as those due to terminations.
[4] In November 2008, MCC and the Government of Georgia signed an amendment to the compact which provided an additional $100 million (included in the table) in compact funding to expand existing activities under the compact.

Threshold Program Portfolio Amounts at Signing ($ millions)

Country	Sub-Saharan Africa	Europe and - Asia	Latin America	Middle East & N. Africa	Year Selected	Signing Date	Completion Date
Burkina Faso	12.9				FY04	07/22/05	9/30/2008
Malawi	20.9				FY04	09/23/05	9/30/2008
Tanzania	11.2				FY04	05/03/06	12/30/2008
Zambia	22.7				FY04	05/22/06	2/28/2009
Kenya	12.7				FY04	03/23/07	12/31/2010
Uganda	10.4				FY04	03/29/07	12/31/2009
Sao Tome & Principe	8.7				FY06	11/09/07	4/15/2011
Niger[5]	23.1				FY06	03/17/08	Est. 2015
Rwanda	24.7				FY06	09/24/08	12/31/2011
Liberia	15.1				FY09	07/06/10	Est. 2013
Albania I		13.9			FY05	04/03/06	11/15/2008
Philippines		20.7			FY04	07/26/06	5/29/2009
Indonesia		55.0			FY05	11/17/06	12/31/2010
Ukraine		45.0			FY05	12/04/06	12/31/2009
Moldova		24.7			FY05	12/15/06	2/28/2010
Kyrgyz Republic		16.0			FY05	03/14/08	6/30/2010
Albania II		15.7			FY08	09/29/08	7/31/2011
Timor-Leste		10.5			FY08	09/22/10	Est. 2014
Paraguay I			34.6		FY06	05/08/06	8/31/2009
Guyana			6.7		FY04	08/23/07	2/23/2010
Peru			35.6		FY07	06/09/08	9/30/2012
Paraguay II			30.3		FY08	04/13/09	7/31/2012
Jordan				25.0	FY05	10/17/06	8/29/2009

[5] MCC had a $23.1 million threshold program with Niger prior to suspension; however, only $14.6 million was spent prior to suspension and now $2 million of the original amount has been allocated to complete the girls' education component of the program.

Compact Modifications

MCC employs a risk-based approach to the management of its foreign assistance portfolio and uses a number of mechanisms for managing projects that face potential major modifications, including:

- Quarterly portfolio reviews of all compacts, with a focus on high-risk projects and activities;
- Early identification of high-risk projects;
- Close collaboration with partner countries to develop plans to prevent, mitigate and manage project restructuring; and
- Approval of modifications at the appropriate level.

MCC has also refined its compact development process to ensure that adequate due diligence is conducted on programs in advance of compact signing to increase the reliability of technical, cost and other estimates. During compact development MCC also makes project design modifications to mitigate potential completion risk, currency fluctuations and the potential for construction cost overruns.

Summary of Significant Restructurings and Re-Allocations in FY 2012

Country	Project/Activity	Cause	Solution Implemented
Mongolia	Road Project (Choir Activity and Nalaikh Activity)	Market bids were significantly higher than budgeted.	$31 million was re-allocated from the Nalaikh Activity to the Choir Activity.
Burkina Faso	Agriculture Irrigation Project	A 14 percent reduction in scope with an economic rate of return falling below the agency's ten percent "hurdle rate".	The irrigated perimeter was reduced from 2,100 to 1,740 hectares, with a contract option to build the additional 360 hectares should more funding become available.
	Roads Project	Bid prices received for the construction of the two primary roads exceeded original budget.	Used value engineering to reduce cost of road by $1.7 million, while covering increased costs through a reallocation of $20 million from Rural Roads Activity and $5 million from Incentive Matching Fund for Maintenance.

Summary of Project Holds, Suspensions and Terminations in FY 2012

Country	Description
Malawi	MCC's Board of Directors suspended the Malawi Compact in March 2012 due to actions by the Government of Malawi that were contrary to the democratic governance criteria for MCC eligibility. Following the death of President Bingu wa Mutharika and the assumption of power by President Joyce Banda, the Government of Malawi took significant steps to address concerns raised by the Board, which reinstated the compact in June 2012.
Mali	In response to a military coup that took place in Mali in March 2012, MCC's Board of Directors terminated the Mali Compact and directed an orderly wind-down of all compact activities.

Detailed Program Results Information

Estimating Compact Beneficiaries and Benefits

Under MCC's results framework, beneficiaries are defined as an individual and all members of his or her household who will experience an income gain as a result of MCC interventions. We consider that the entire household will benefit from the income gain and counts are multiplied by the average household size in the area or country. The beneficiary standard makes a distinction between individuals participating in a project and individuals expected to increase their income as a result of the project. Before signing a compact, MCC estimates the expected long-term income gains through a rigorous benefit-cost analysis. MCC may modify its estimates and/or the present value (PV) of benefits when project designs change during implementation.

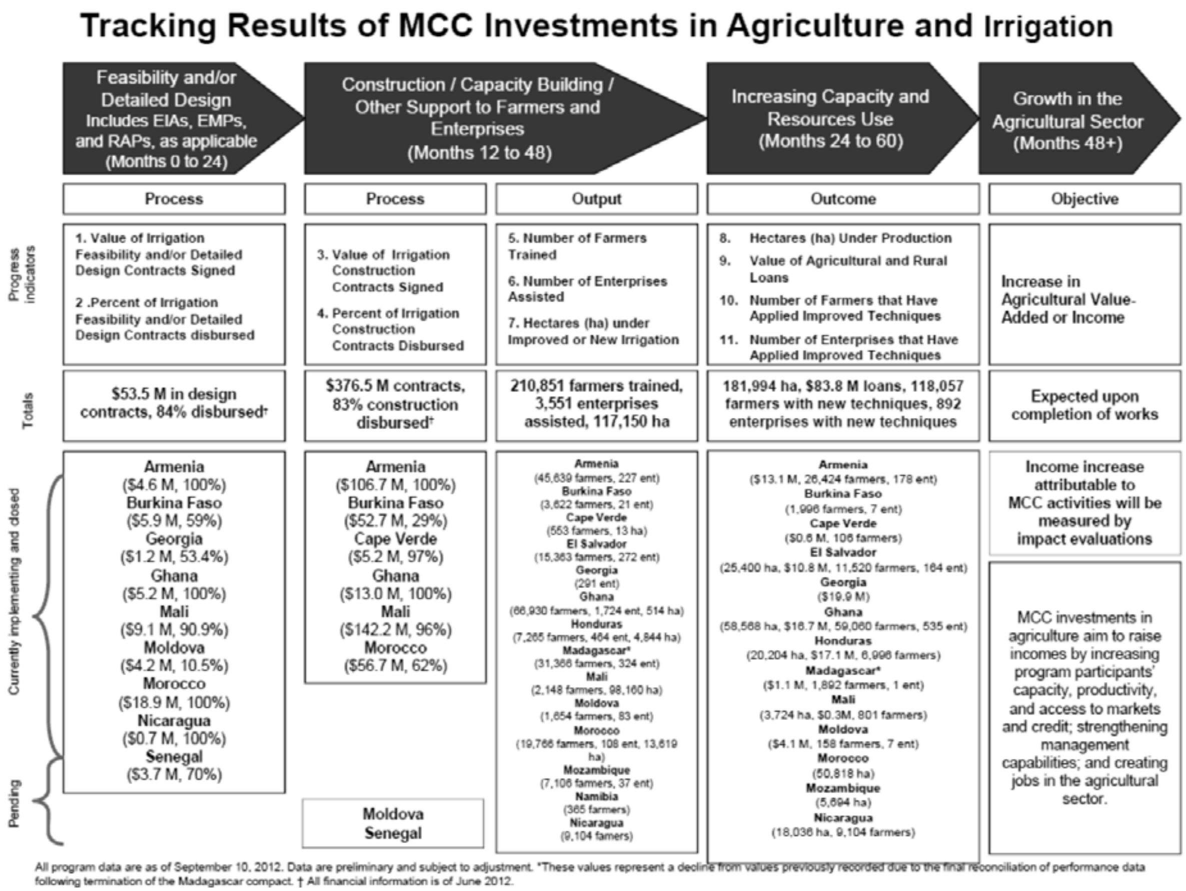
Projected Beneficiaries and Income Benefits by Compact[1]

Compact	Estimated Number of Beneficiaries	Estimated Long-Term Income Gain Over the Life of the Project (PV of Benefits)[2]	Benefit/Cost Ratio[3]
Armenia	426,000	$295,500,000	1.7
Benin	14,059,000	$409,600,000	1.8
Burkina Faso	1,181,000	$156,300,000	0.5
Cape Verde I	385,000	$149,500,000	1.8
Cape Verde II	604,000	$148,200,000	1.6
El Salvador	795,000	$366,700,000	1.0
Georgia	143,000	$301,300,000	1.0
Ghana	1,217,000	$690,300,000	1.7
Honduras	1,705,000	$237,300,000	1.5
Jordan	3,657,000	$800,300,000	4.1
Lesotho	1,041,000	$376,000,000	1.5
Madagascar	480,000	$123,200,000	1.7
Malawi	4,484,000	$2,209,300,000	9.2
Mali	2,837,000	$393,600,000	1.2
Moldova	414,000	$259,900,000	1.5
Mongolia	2,058,000	$314,800,000	1.7
Morocco	845,000	$907,200,000	1.8
Mozambique	3,325,000	$542,300,000	1.5
Namibia	1,063,000	$240,500,000	1.1
Nicaragua	118,000	$83,500,000	1.0
Philippines	125,822,000	$483,300,000	1.6
Senegal	1,662,000	$863,300,000	2.2
Tanzania	5,425,000	$1,335,800,000	2.6
Vanuatu	39,000	$73,800,000	1.4
Total for All[4]	**173,787,000**	**$11,761,500,000**	**1.9**

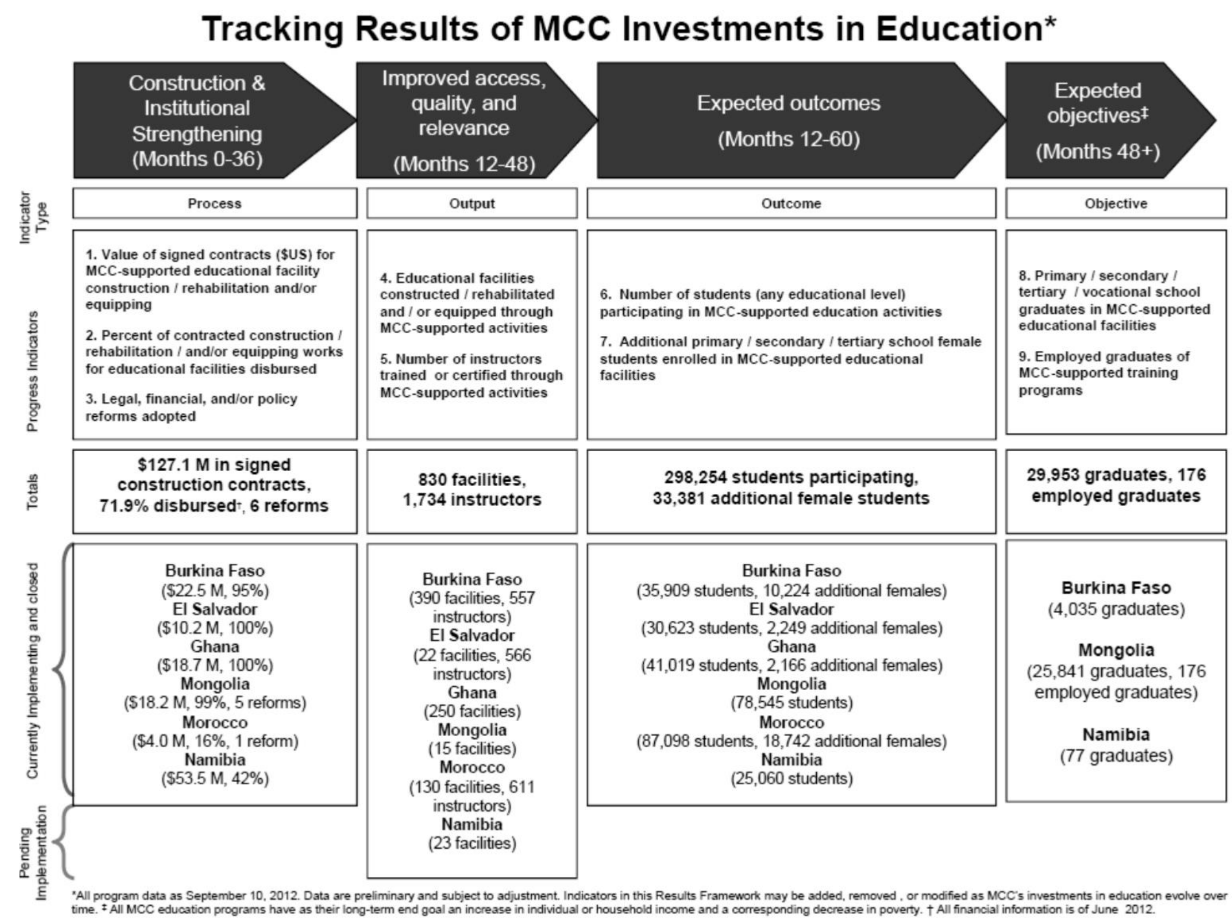
1. These estimates do not include the projected beneficiaries of projects or activities that have been terminated or suspended by MCC (Madagascar, Honduras, Nicaragua, and Armenia). In the case of Madagascar, the estimates account for the compact's early termination. The estimates for Mali will change, as MCC is recalculating costs and benefits following early termination of the compact.
2. The PV of benefits is the sum of all projected benefits accruing over the life of the project, typically 20 years, evaluated at a 10 percent discount rate. Estimates are reported in U.S. dollars in the year that the economic rates of return analysis was completed. Because the PV of benefits uses a discount rate, these figures cannot be compared directly to the undiscounted compact financial costs, but must be compared to the costs' PV instead.
3. The benefit/cost ratio is calculated by dividing the PV of benefits by the PV of costs. The PV of costs is the sum of all projected compact costs evaluated at a 10 percent discount rate.
4. Column totals may not equal the sum of the individual rows due to rounding.

Sector Results – Agriculture, Education, Property Rights/Land Policy, Roads, and Water

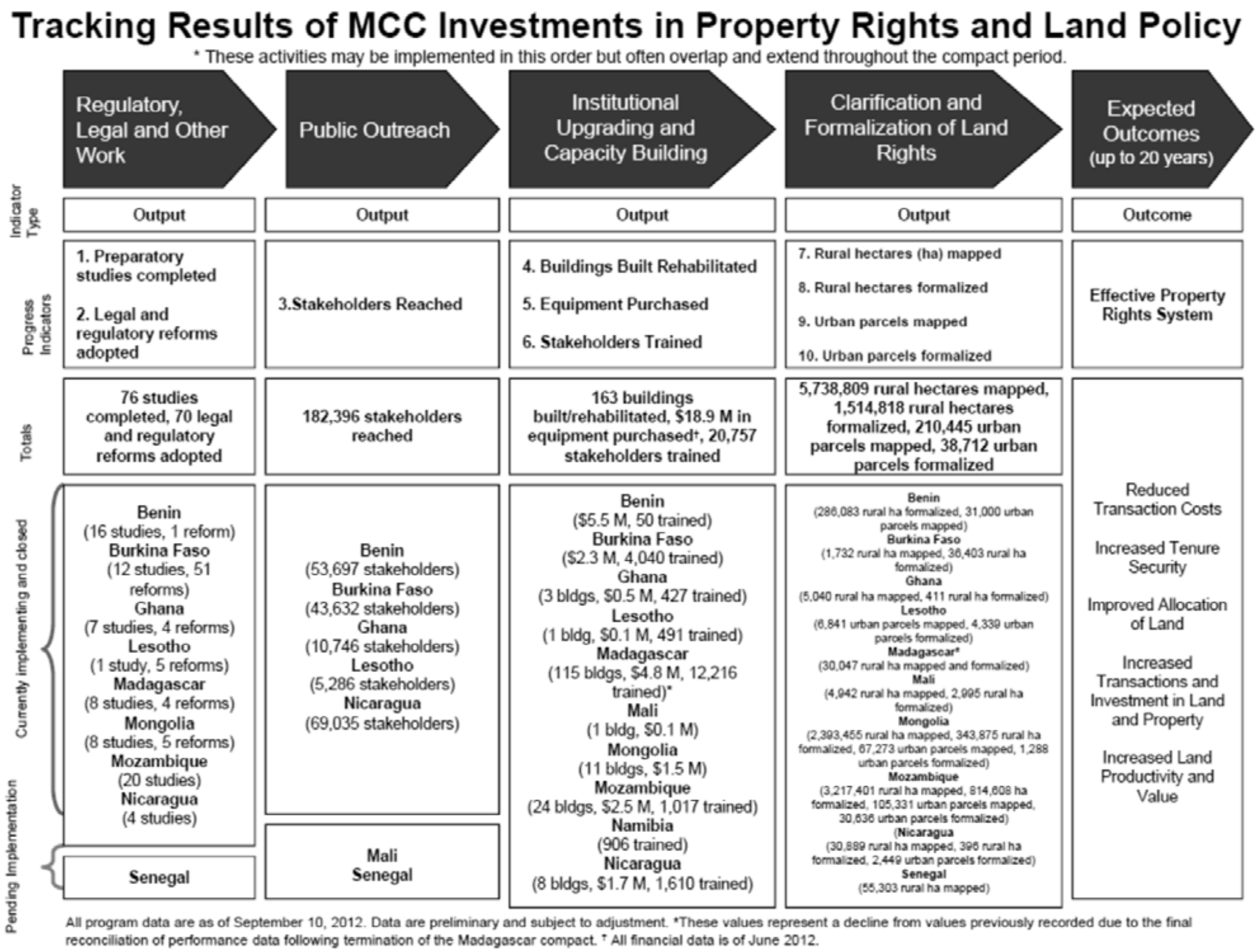
Agriculture and Irrigation – MCC investments in agriculture and irrigation aim at increasing income and reducing poverty. This is done by providing technical assistance and training and increasing access to agricultural inputs, including water and credit, thereby expanding technical and physical capacity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



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



Property Rights and Land Policy – MCC's Property Rights and Land Policy investments are designed to contribute to poverty reduction and economic growth by establishing secure and efficient access to land and property rights. Property Rights and Land Policy investments support legal and regulatory reforms, clarification and formalization of land and property rights, capacity building of national and local institutions, and land-related outreach and education that are aimed at reducing transaction costs, increasing tenure security and improving access to land. This, in turn, will result in increased transactions and investment in land and property and higher land productivity and value.



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

Tracking Results of MCC Investments in Roads

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (12 to 36 months)		Procurement for Construction Contractors (6 to 9 months)		Construction (1 to 3 years)		Expected Outcomes (up to 15 years)
Indicator Type	Process	Process	Process	Process	Process	Output	Outcome
Progress Indicators	1. Value of signed contracts for feasibility, design, supervision, and program mgmt. contracts	2. Percent disbursed for contracted studies 3. Kilometers of road under design	4. Value of signed contracts for road works	5. Percent of contracted roads works disbursed	6. Kilometers of road under works contracts	7. Kilometers of road completed	8. IRI: International Roughness Index (IRI)
Totals	$107.5 million in studies contracted†	81.1 % of contracted studies disbursed†, 4,646.8 km of roads under design	$1,731.2 million in works contracted†	65% of contracted roads works disbursed†	3,005.5 km of roads under works contracts	1,712.1 km of roads completed	IRI
Currently implementing and closed	Burkina Faso ($8.3 M) Cape Verde* ($3.5 M) El Salvador* ($17.8 M) Georgia ($12.0 M) Ghana ($4.5 M) Honduras ($9.5 M) Mongolia ($6.1 M) Mozambique ($13.4 M) Nicaragua ($6.9 M) Philippines ($14.5 M) Senegal ($2.3 M) Tanzania ($3.3 M) Vanuatu ($5.3 M)	Burkina Faso (30%, 536 km) Cape Verde (90%, 63.4 km) El Salvador (97%, 223 km) Georgia (99%, 220.2 km) Ghana (100%, 943.4 km) Honduras (75%, 671.8 km) Moldova (93 km) Mongolia (65%, 19.3 km) Mozambique (67%, 253 km) Nicaragua (100%, 376 km) Philippines (86%, 222 km) Senegal (30%, 406 km) Tanzania* (77%, 470 km) Vanuatu (100%, 149.7 km)	Burkina Faso ($61.3 M) Cape Verde ($24.0 M) El Salvador ($230.4 M) Georgia ($197.3 M) Ghana ($250.6 M) Honduras ($184.5 M) Mali ($42.9 M) Moldova ($92.7 M) Mongolia ($65.8 M) Mozambique ($130.6 M) Nicaragua ($56.5 M) Tanzania ($339.8 M) Vanuatu* ($54.8 M)	Burkina Faso (13%) Cape Verde (100%) El Salvador (87%) Georgia (100%) Ghana (100%) Honduras (70%) Mali (27%) Moldova (7%) Mongolia (17%) Mozambique (27%) Nicaragua (100%) Tanzania (42%) Vanuatu (97%)	Armenia*** (24.4 km) Burkina Faso (145 km) Cape Verde (40.6 km) El Salvador (223 km) Georgia (220.2 km) Ghana (446.4 km) Honduras (671.8 km) Mali (18 km) Moldova (93 km) Mongolia (176.4 km) Mozambique (253 km) Nicaragua (74 km) Philippines (0) Tanzania (470 km) Vanuatu (149.7 km)	Armenia (24.4 km) Cape Verde (40.6 km) El Salvador (150.3 km) Georgia (217.9 km) Ghana (445.2 km) Honduras (610.1 km) Nicaragua (74.0 km) Vanuatu (149.7 km)	Armenia (3.47 IRI) Cape Verde (2.0 IRI) Georgia (1.5 IRI) Mozambique (3.0 IRI) Nicaragua (2.3 IRI) Vanuatu (3.0 IRI)
Pending Implementation			Philippines Senegal	Philippines Senegal		Burkina Faso Mali Moldova Mongolia Mozambique Philippines Senegal Tanzania	

All program data are as of September 10, 2012. Data are preliminary and subject to adjustment. *Additional studies associated with compacts have been funded by the governments in El Salvador and Tanzania, and by another donor in Cape Verde. **Design-Build contract, where the value of design work is included in the value of the works contract. Contract amount listed in first column is a supervision contract only. ***Due to the operational hold on the roads project in the Armenia and Honduras compacts, MCC will no longer be funding additional works contracts that were previously reported. ^^Design numbers for Ghana have decreased due to a rescoping of the roads project. †All financial information is of March 2012.

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

Tracking Results of MCC Investments in Water and Sanitation*

	Feasibility and/or Detailed Design Includes EIAs, EMPs, and RAPs, as applicable (Months 6 to 24)	Construction / Persons Reached (Months 12 to 48)		Expected Outcomes (Months 24 to 60)	Expected Objectives (Months 48+)
Indicator Type	Process	Process	Output	Outcome	Objective
Progress Indicators	1. Value of Feasibility and/or Detailed Design Contracts Signed 2. Percent of Contracted Feasibility and/or Design Studies Disbursed	3. Value of Construction Contracts Signed 4. Percent of Contracted Construction Works Disbursed	5. Persons Trained in Hygiene and Sanitary Best Practices 6. Water Points Constructed 7. Sanitation Systems Constructed	8. Volume of Water Produced 9. Access to Improved Water Supply (households) 10. Access to Improved Sanitation (households)	11. Water Consumption (Domestic/Commercial); 12. Incidence of Water-borne Diseases
Totals	$36.1 M in design contracts, 84.5% disbursed†	$440.1 M in construction contracts, 39% disbursed†	10,674 persons, 852 water points, 11,756 sanitation systems	281.6 M liters/day, 35,041 hh with improved water supply, 109,631 hh with improved sanitation	
Currently implementing and closed	**El Salvador** ($6.5 M, 96%) **Georgia** ($0.3 M, 100%) **Ghana** ($1.5 M, 100%) **Lesotho** ($4.5 M, 66%) **Mozambique** ($21.3 M, 82%) **Tanzania** ($2.1 M, 100%)	**El Salvador** ($10.5 M, 96%) **Georgia** ($54.3 M, 94%) **Ghana** ($13.9 M, 100%) **Jordan** ($134.9 M, 10%) **Lesotho** ($41.0 M, 53%) **Mozambique** ($137.8 M, 28%) **Tanzania** ($47.6 M, 49%)	**El Salvador** (2,406 persons) **Ghana** (778 persons, 392 water points) **Lesotho** (170 persons, 60 water points, 11,756 sanitation systems) **Mozambique** (7,320 persons, 400 water points)	**El Salvador** (7,634 hh water, 7,190 hh sanitation) **Ghana** (27,407 hh water) **Jordan** (102,441 hh sanitation) **Tanzania‡** (281.6 millions/liters/day)	**El Salvador** ( ) **Ghana** (36 domestic liters/capita/day) **Jordan** (89 commercial liters/capita/day) **Lesotho** ( ) **Mozambique** ( ) **Tanzania‡** (135 domestic liters/capita/day)
Pending Implementation				**Mozambique**	

*Indicators in this Results Framework may be added or removed as MCC's investments in Water and Sanitation evolve over time. All program data as of September 10, 2012. Data are preliminary and subject to adjustment. †All financial information is of June 2012. ‡ This is a monitoring indicator; any change over baseline data represents the current trend and does not represent the direct impact of the MCC-investment.

Appendix B – Examples of MCC Contributions to Economic Development Policy and Practice

Policy Reform

MCC's model is predicated on the notion that smart public policy is key to economic growth, private investment and the sustainability of development investments, and that aid is most effective when it reinforces sound public policies and finances activities within supportive policy environments. Effective legal, regulatory, policy, and institutional reform can be critical to such efforts. There are two areas in which policy reform is relevant to MCC: policies upon which countries are evaluated for selection and those related to compact and threshold program investments.

MCC's experience with Malawi illustrates how a focus on policy performance helps hold countries accountable for good governance and can contribute to and invigorate country-led policy reform. In July 2011, the $351 million Malawi Compact was placed on hold because of MCC's concerns regarding the Government of Malawi's response to nationwide public protests. Sustained negative trends in democratic governance within Malawi led MCC's Board to suspend the compact in March 2012. This decision was based on several factors, including changes to democratic rights and institutions, and a growing number of human rights violations. When President Joyce Banda took office in April 2012, she immediately began to address the concerns that had led MCC to suspend the compact. By June, Malawi adopted new policies, new patterns of action, a renewed respect for human rights and a stronger, more sustainable economic policy. In response, MCC's Board reinstated Malawi's compact, demonstrating that with political will a country can restore compact eligibility.

In Moldova, two examples of policy and institutional reform are the Water User Association Law (2010) and the Water Law (2011), both of which are critical to the compact's Transition to High-Value Agriculture Project. These two laws, which have been passed and implemented, provide Moldova with the policy framework to support the sustainability of the soon-to-be rehabilitated irrigation systems as well as enhance the country's overall water resource management. With regard to the Water User Association Law, MCC and the Moldovan team concluded that irrigation system management would be best placed in the hands of end-users, rather than the state-owned water agency. The new Water User Association Law transfers responsibility for the operation and maintenance of state-owned irrigation systems to water user associations, clarifies the rights and responsibilities of these associations and includes the need to set cost-recovery tariffs. With regard to the Water Law, MCC assisted the Government of Moldova in developing a modern Water Law based on a system of water rights and integrated water resource management, including climate modeling to identify the risk of climate impacts on water availability over the long term.

Identifying and Applying Lessons Learned

Over the last year, MCC has made significant contributions to global learning about economic development. The public release of its first impact evaluations set a high standard for transparent sharing of findings and lessons that will contribute to improvements in MCC's practice, inform the work of the broader development community and contribute to a stock of evidence about what works to increase incomes. Four new publications in MCC's *Principles into Practice* series share frank lessons from implementation of MCC's model and programs. [6]

MCC's First Impact Evaluations

In October 2012, MCC released its first set of independent impact evaluations, which are designed to use rigorous statistical methods to measure changes in beneficiary income. These first five impact evaluations—for farmer training activities in Armenia, El Salvador, Ghana, Honduras, and Nicaragua—reflect a small portion of both MCC's investment and evaluation portfolios. However, they offer valuable lessons and a first look at how MCC uses evaluations for accountability, learning and improving its work.

According to MCA monitoring data, we were very successful in meeting or exceeding our output and outcome targets for these activities. The average completion rate of output and outcome targets specific to the activities covered by these evaluations is: Ghana (103 percent), Armenia (103 percent), Nicaragua (112 percent), El Salvador (131 percent), and Honduras (158 percent). MCC is proud of these achievements but because its mandate is to reduce poverty, MCC also tests whether and how these outcomes lead to changes in income—first farm income and ultimately household income for program participants. This cannot be measured with monitoring data alone, so MCC uses independent impact evaluations to verify that output and outcome results measured by monitoring data are actually attributable to MCC's investments.

These five impact evaluations provide encouraging news about MCC program successes:

- In El Salvador, the evaluators found that dairy farmers doubled their farm incomes.
- In Ghana, northern region farmers' annual crop income increased significantly relative to the control group, over and above any impacts recorded in the other zones.
- In Nicaragua, project participants' farm incomes went up 15 percent to 30 percent after two-to-three years of project support.

These evaluations show increases in farm income in selected activities in three out of the four countries where methodologically sound evaluations were possible. While MCC was successful in meeting or exceeding its output and outcome targets and saw increases in farm incomes in these three countries, none of the five evaluations was able to detect changes in household income. This raises interesting questions about traditional assumptions of how program interventions lead to increased household income and the challenges associated with producing and measuring changes in household income.

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[6] The full Principles into Practice series is available at www.mcc.gov/principlesintopractice.

MCC is applying lessons from these impact evaluations to improve the effectiveness of its future program investments and evaluation practice and has already found opportunities to apply lessons to its current portfolio with course corrections of ongoing programs and evaluations.[7]

MCC Principles into Practice

MCC was founded with a focused mandate to reduce poverty through economic growth. MCC's model is based on a set of core principles essential for development to take place and for development assistance to be effective—good governance, country ownership, focus on results, and transparency. The MCC's *Principles into Practice* series offers a frank look at what it takes to make these principles operational. The experiences captured in this series will inform MCC's ongoing efforts to refine and strengthen its own model and will allow others to benefit from and build on MCC's lessons. In 2012, MCC released four papers in the *Principles into Practice* series:

- **Impact Evaluations of Agriculture Projects.** This paper describes why learning through impact evaluation matters and describes both challenges and lessons to getting it right in the agriculture sector. The paper offers five practical lessons drawn from program and evaluation *implementation* rather than impact evaluation *findings*. This paper reflects a collaborative effort between MCC and the U.S. Agency for International Development's Bureau of Food Security and contributes learning to Feed the Future, the U.S. Government's global hunger and food security initiative.

- **MCC's Approach to Gender Equality.** MCC recognizes that gender inequality can be a significant constraint to economic growth and poverty reduction. The paper takes a frank look at MCC's experience implementing its commitment to gender equality. It offers ten lessons about the dynamics among gender equality and MCC core principles of country ownership, policy performance and focus on results. It recognizes that the dynamics can be complex and describes how MCC's approach to gender is maturing as it learns.

- **Irrigated Agriculture.** This paper captures five lessons learned in implementing MCC's investments in irrigated agriculture. The five lessons share two common themes: managing irrigation investments in the context of country ownership; and addressing the tradeoffs inherent in an ambitious approach that includes both infrastructure investments and complementary activities to increase impact and sustainability.

- **Property Rights and Land Policy.** This paper includes eleven lessons learned in implementing MCC's investments in property rights and land policy (PRLP). The paper includes deep discussion of the planning necessary for impact and sustainability of PRLP programs, as well as practical lessons on managing the complexity and sensitivity associated with these projects.

Transparency and Open Data at MCC

MCC is fully committed to transparency and accountability that is based on the core principle of transparency in our model for effective development assistance. MCC has operationalized this commitment internally by prioritizing transparency within the FY 2013 Annual Corporate Goals, and

[7] Please see MCC Issue Brief, *MCC's First Impact Evaluations: Farmer Training Activities in Five Countries,* for a full discussion of lessons and how MCC is applying these lessons to change its practice. http://www.mcc.gov/documents/reports/issuebrief-2012002119501-ag-impact-evals.pdf

externally within the 2012 Open Government Plan. In 2012, the Publish What You Fund Aid Transparency Index ranked MCC ninth out of 72 donor organizations that were evaluated globally.

MCC has been a leader in U.S. Government efforts to publish high-quality, timely and comparable information on foreign assistance through the Dashboard at foreignassistance.gov. Complete information on financial obligations and disbursements for all MCC compacts is currently submitted on a quarterly basis. MCC is working to build internal systems to allow for quarterly reporting of headquarters and Threshold obligations and disbursements, as well as for submission of performance data on all of MCC's activities.

MCC now publishes much of the data and evidence used to make decisions and measure results online in a variety of accessible, machine-readable formats. Through data.mcc.gov, MCC provides open access in machine-readable format to country selection data for FY 2012 and FY 2013, MCC quarterly financial data, key performance indicators, and economic rates of return analyses.

MCC is currently working to develop appropriate institutional processes to allow for publication of a rich collection of household survey data collected for evaluation work. While these datasets were collected to rigorously evaluate MCC program investments, much of the information will also be useful to private sector, civil society, government, and other actors who aim to support more effective economic development in countries where MCC does business, which are largely data-poor environments.

Moving forward, MCC aims to continue and expand on these transparency efforts through:

- Continued leadership on the Foreign Assistance Dashboard.
- An improved website that allows MCC to unlock the financial and performance data currently in machine-readable formats on data.mcc.gov.
- Increased collaboration with stakeholders to ensure continual improvement in efforts to provide the public with high-quality, timely information required for MCC to fulfill the highest standards of accountability.
- Working on building a road map to higher levels of maturity in using MCC's data as tools to improve programming, and to create value for MCC by opening up data for the public to freely use.

Appendix C – FY 2012 Annual Performance Report and FY 2013 Annual Corporate Goals

In accordance with the Government Performance and Results Act of 1993 and the GPRA Modernization Act of 2010, this appendix sets forth MCC's FY 2012 Annual Performance Report (APR). MCC's Agency Financial Report for Fiscal Year 2012 has been produced separately and can be accessed at www.mcc.gov/documents/reports/report-fy2012-afr.pdf.

The APR summarizes MCC's progress in achieving its annual corporate goals for FY 2012. Each goal relies on a number of milestones and targets, which MCC officials are available to discuss in further detail with congressional stakeholders upon request. This appendix also identifies MCC's corporate goals for FY 2013.

FY 2012 Annual Corporate Goals by Strategic Goal

Strategic Goal 1 – Achieve demonstrable results that lead to sustainable economic growth and poverty reduction in partner countries.

1.1 Compact and Threshold Programs deliver significant measurable performance-based outcomes to partner country populations.

During FY 2012, MCC:

- Completed 549 kilometers of roadway;
- Mapped 3.2 million rural hectares and formalized 1.2 million hectares;
- Constructed 11,756 sanitation systems; and
- Built 379 educational facilities that supported more than 142,000 students through educational activities.

These outputs will create new economic opportunities through improved transport, strengthened land rights, reduced incidence of disease, and better learning environments. In terms of outcomes, MCC released its first five impact evaluations for farmer training activities in five countries, the findings of which are summarized below.

- In El Salvador, the evaluators found that dairy farmers doubled their farm incomes.
- In Ghana, northern region farmers' annual crop income increased significantly relative to the control group, over and above any impacts recorded in the other zones.
- In Nicaragua, project participants' farm incomes went up 15 percent to 30 percent after two-to-three years of project support.

1.2 Compacts close out successfully.

During FY 2012, MCC closed compacts with Benin, El Salvador, Ghana, and Mali. The Benin and El Salvador compacts closed successfully and achieved their major programmatic goals. While the Ghana compact closed successfully, outstanding issues remain, including the completion of the Lake Volta ferry activity with Government of Ghana funding. In May 2012, the MCC Board voted to authorize termination of the Mali Compact, following a military coup. Despite the coup, MCC worked with MCA-Mali to ensure an orderly wind-down of compact activities.

1.3 MCC implements efficient and effective compact development and implementation processes.

MCC is implementing new compact development guidance completed in January 2012 with a target timeline of 27 months from economic constraints analysis to compact signing. The guidance emphasizes the importance of extensive project appraisal and preparation through technical feasibility and other studies so that MCC's assessments of completion, cost and other risks are more accurate.

Compact implementation was improved during FY 2012 through strengthened capacity building for MCAs, improvements to MCC knowledge management, strengthened emphasis on private sector investment and sector policy reform, and development of corporate values centered on collaboration, learning, excellence, accountability, and respect.

1.4 MCC implements efficient and effective Threshold Program development, implementation, closeout, and evaluation processes.

Under a new program model, including improved oversight, MCC is in the process of designing the threshold programs in Guatemala, Honduras, Nepal, and Tunisia, as discussed in detail in the Threshold Program section of the congressional budget justification. The threshold program in Peru concluded in September 2012. MCC maintains active threshold programs in Liberia, Timor-Leste, and Niger, which are expected to conclude in 2013, 2014, and 2015, respectively. MCC expects to release independent evaluations of the former Rwanda and Albania threshold programs in 2013.

1.5 MCC has the tools to identify and manage risk across the agency.

Over the past several years, MCC has increased the number of risk management tools and processes being used by both MCC and MCA staff. The goal in doing this has been to help staff and senior management to understand the potential risks and opportunities involved in compacts and projects and to support allocation of resources, investment decisions and effective project implementation. The emphasis with each of these tools is not to add an additional reporting requirement, but to serve as a basis for decision-making. As a result, the process by which risks are identified, discussed and addressed is even more important than simply the tools and processes on their own.

MCC uses its range of tools and processes at different points in the compact process. For example, during compact development, MCC uses project concept assessment memos, feasibility studies and investment decision memos to identify key risks and their related mitigation strategies. In compact implementation, MCC has a quarterly review process to review major risks facing each compact and also works with its MCA partners to develop tools such as risk registers and fraud and corruption risk matrices and action plans to identify, monitor and mitigate risk on an ongoing basis in implementation. Finally, MCC also analyzes high-risk issues within the agency and makes recommendations for improvement.

1.6 Continuum of valid, credible results expanded to more accurately and comprehensively capture the range of development impacts of MCC compacts.

MCC now publishes quarterly updates to Key Performance Indicators (M&E data) for compact programs in PDF format. MCC is in the process of publishing this data in a machine-readable format, which will assist researchers who would like to produce independent analysis of MCC data. MCC has expanded its evaluation portfolio by contracting for additional performance evaluations for activities for which impact evaluations were not feasible, thereby capturing more comprehensively the range of development impacts.

Strategic Goal 2 – Support development of a sound policy environment for economic growth and poverty reduction in partner countries.

2.1 Selection system based on policy performance for compacts and threshold programs is revised to reflect agency experience and to optimize effectiveness.

MCC revised its country selection system in 2012, drawing on new sources of data to measure priority policy areas. The new selection system was used successfully for FY 2012 and FY 2013 MCC country selection. For the FY 2013 process, MCC publicly released the “Guide to Supplemental Information Sheets” and the “Guide to Compact Surveys” in order to increase transparency around the supplemental information the Board uses to make its annual selection. In addition, MCC has posted all selection data in machine-readable formats on its open data catalogue (http://data.mcc.gov/) to give greater public access to the data used for country selection.

2.2 Macro level (eligibility indicator focused) policy reform focus results on policy improvement in candidate, Threshold Program, compact development and compact implementation countries.

In FY 2012, MCC held over 50 meetings with government officials from candidate countries, Threshold Program partners and compact partners specifically to discuss performance on the eligibility indicators and plans for improvement. Between FY 2012 and FY 2013, there was improvement in scorecard performance for several countries, including Sierra Leone and Liberia, both of whom passed the scorecard for the first time in FY 2013. Both were subsequently selected for initial compacts by the Board of Directors in December 2012.

2.3 Sector level policy reform is effectively incorporated in project design.

During FY 2012, MCC signed compacts with Indonesia, Cape Verde and Zambia. In the Indonesia Compact, the Procurement Modernization Project aims to reform Indonesia’s public procurement practices to improve transparency, efficiency and cost-effectiveness. A central focus of the Cape Verde Compact is to improve the policy and institutional environment for water and sanitation management; the compact is designed to incentivize water policy reforms through a competitive grant facility that rewards local tariff and related reform efforts with funding for additional infrastructure. The Zambia Compact builds upon over a decade of water policy reforms by the Government of Zambia through an investment in water and sanitation in Lusaka. The compact will build upon the successful reform efforts by strengthening sector planning and budgeting.

2.4 MCC's commitment to and role in promoting policy reform is communicated effectively to stakeholders and public.

During compact development, MCC requires countries to consult with a broad range of stakeholders representing private enterprise, labor, potential beneficiaries, women, local communities and other groups. Stakeholders are consulted on a wide range of issues, including policy and institutional reforms required to remove significant constraints to economic growth.

MCC communicates its commitment to policy reform not only through its guidance documents, but also through public meetings, workshops and its website, which includes policy-focused press releases, success stories, blog entries, and other media.

Strategic Goal 3 – Continually enhance MCC's ability to achieve poverty reduction through economic growth.

3.1 MCC is able to leverage its resources, improve functionality and enhance sustainability of projects through new product development, investment partnerships, flexible use of funding, and innovative approaches to achieving its mission.

During FY 2012, MCC launched a new Private Sector Strategy focused on better leveraging MCC funding to increase private investment in and around MCC programs. As a result of the strategy, MCC is now conducting a systematic process to more clearly identify key barriers to private investment in MCC countries and to develop private sector-oriented solutions to these constraints in order to increase private investment in MCC countries. A number of public-private partnerships were completed during FY 2012, including a $184 million build-operate-transfer deal for Jordan's largest wastewater treatment plant.

3.2 Gender and social assessment are integrated fully into project design and tracking process.

During FY 2012, MCC conducted Social and Gender Constraints to Poverty Reduction Analyses for new compacts under development in Benin, El Salvador and Ghana. The analyses focus on de jure and de facto inequalities facing the poor, women, and racial, ethnic and linguistic minorities, as well as other vulnerable groups. MCC continued to implement the agency's Gender Policy and Gender Integration Milestones across all compact programs.

3.3 Environment and Health and Safety assessments are fully integrated into project design and tracking process.

During FY 2012, MCC amended its Environmental Guidelines to formally adopt the International Finance Corporation Performance Standards on Environmental and Social Sustainability as part of continuing efforts to enhance the sustainability and effectiveness of MCC compacts and improve its standards for managing environmental and social risks. Meeting the Performance Standards will be required for all MCC compacts signed in FY 2012 and later. During FY 2012, MCC also adopted a commitment to helping partner countries achieve climate resilient, low-carbon economic development where it is both consistent with MCC's core mission of reducing poverty through economic growth and economically and technically feasible.

3.4 Improved procurement, contracting and contract management processes result in increased value-for-money, greater cost-effectiveness, fewer delays in implementation and fewer contracting issues.

MCC's increased focus on contract management by MCAs and training workshops for MCAs are resulting in more effective contract management, fewer contracting issues and more timely intervention to address problems. MCC developed a substantially revised process for considering contractor past performance in the selection of new contractors for MCA compact work.

3.5 Effective knowledge sharing and management process in place to promote best practices on all MCC activities.

In 2012, MCC developed its first-ever knowledge management plan, including knowledge management priorities by department. MCC released four new papers in its Principles into Practice series, designed to capture frank lessons from MCC's model and operations, and its inaugural Knowledge and Innovation Network technical journal. MCC released its first set of independent impact evaluations, focused on farmer training in five closed-out compact countries. MCC has rigorously and publicly developed lessons from these evaluations and is applying them to its current portfolio of evaluations and agriculture projects, as well as to other MCC sectors.

3.6 Effective strategic planning process in place to support long term and annual corporate goals.

MCC adopted its current 2011-2015 Strategic Plan in June 2010. Each year the agency sets annual corporate and department goals focused on achieving the long-term strategic objectives, as well as new priorities which may have emerged since the Strategic Plan was put in place. The annual corporate goals, which take effect at the beginning of each fiscal year, are set through a process of consultation among the members of the senior management team, culminating in a Strategic Planning Retreat which is typically held in late June. Corporate goals identified at that retreat are disseminated to each department, which in turn develops its own departmental goals linked to but extending beyond the agency-level objectives. These form the basis for a senior management discussion in September which finalizes the corporate goals and ensures that all departments are aware of one another's commitments and coordinate their activities where appropriate.

The final version of the annual corporate goals is posted internally, so that all staff are aware of it. An interim retreat is held roughly six months into the fiscal year, at which point progress toward achievement of the corporate goals (and hence the over-arching strategic goals) is assessed, new areas of focus or initiative are identified and management reconfirms its objectives for the year. An assessment of the previous year's goals and their impact on agency activities is part of the June goal-setting exercise.

Strategic Goal 4 – Advance international development assistance and active engagement with USG and global counter-parties.

4.1 MCC is recognized in USG and global development circles as a leading innovator and rigorous evaluator in development assistance.

MCC's business model and policy focus are regularly cited as examples of thought and practice leadership. For example, MCC released the four Principles into Practice papers in FY 2012 on country ownership, property rights and land policy, irrigated agriculture, and gender equality and poverty reduction through growth, which fostered productive dialogue in the development community. Efforts taken during FY 2012 culminated in the October 2012 release of its first set of independent impact evaluations, which used rigorous statistical methods to measure changes in project participant's farm and household incomes. The evaluations demonstrated MCC's commitment to leading results and accountability in the development community.

Strategic Goal 5 – Manage relationships with key stakeholders to build broad-based support and achieve strategic objectives.

5.1 MCC status as unique development assistance agency receives broad support among key stakeholders, including Congress.

MCC effectively implemented an outreach strategy for key stakeholders, including Congress, to build an understanding of and support for MCC's model, activities and accomplishments. MCC also successfully proposed candidate pool provisions to congressional stakeholders for inclusion in its enacted appropriations language.

5.2 MCC is recognized as a key player in major USG development initiatives and important bilateral relationships.

MCC played an important role in administration development initiatives and in building bilateral and regional relationships. For example, MCC's independent, transparent eligibility criteria were the starting point for selecting Partnership for Growth partner countries in FY 2011. Following selection, MCC's diagnostic tool to identify key constraints to economic growth in its partner countries was used to establish program priorities and develop growth-oriented strategies with PFG partner countries. During FY 2012, MCC had compact programs in all four PFG countries (El Salvador, Ghana, Philippines, and Tanzania).

Strategic Goal 6 – Improve MCC's organizational effectiveness in order to ensure MCC's ability to deliver results and to achieve its primary strategic goals.

6.1 MCC organizational structure and staffing processes support MCC's business strategy and evolving priorities.

MCC's Strategic Staffing Working Group, chaired by the Vice President of Administration and Finance, has gathered data on how MCC currently deploys its federal employees and contractors to achieve its mission and is developing tools to analyze this and related data regularly to determine how MCC can more efficiently and effectively deploy its human capital resources in response to workload changes and fiscal constraints.

6.2 Staff productivity and effectiveness are increased through recognition and incentivization.

Performance-based pay increases and awards for the FY 2012 performance review cycle were successfully implemented across the agency. Agency leadership encouraged components to initiate timely recognition of outstanding contributions during the year through special act "spot" awards.

6.3 Programs are in place to enhance organizational effectiveness through workforce competency development and work-life balance.

In combination with FY 2012 individual performance planning, MCC required the completion of Individual Development Plans that are tied to employee competencies and concrete actions for development. MCC's Employee Viewpoint Survey results were reviewed for opportunities to enhance organizational effectiveness, including improvements to work-life balance and employee engagement. MCC also maintains a telework program consistent with the Telework Enhancement Act of 2010.

6.4 MCC has effective financial and administrative management platform for achievement of strategic objectives.

MCC financial management operations were significantly improved by the successful implementation of a major systems upgrade to the Oracle Federal Financial System. The upgrade standardized MCC system configuration, enhanced across the board transaction processing and decreased system costs. MCC developed and implemented a simplified MCA expense accrual methodology that eliminated a very labor-intensive, cost-prohibitive process. The Financial Management Division continues MCC financial management improvement efforts through ongoing development of revised policies and procedures and enhanced financial and budgetary management reports. In FY 2012, MCC received an unqualified opinion from its independent auditors, CliftonLarsonAllen, LLP.

6.5 All required programs and initiatives for USG entities applicable to MCC are fulfilled.

Overall, MCC surpassed the annual small business acquisition goals for FY 2012, exceeding targets in every subcategory with the exception of HUBZone Small Business. MCC's Emergency Response Plan received all green scores in the National Level Exercise (NLE) 2012.

6.6 Financial management, contracting, human resource management, IT and travel operations support agency initiatives and operations effectively and efficiently.

In FY 2012, MCC implemented cost-savings measures in compliance with administration directives. This included initiatives to increase management oversight of travel in order to maintain level funding in the face of increasing costs. In addition, MCC conducted a space utilization analysis of its headquarters leases with the goal of identifying options that reduce the amount of space used, achieve cost savings and enhance organizational effectiveness.

6.7 Enterprise Architecture and Information Systems effectively meet MCC's strategic business requirements.

In order to support strategic business investments, MCC established a Program Management Office (PMO) with agency-wide oversight and with standard life cycles and processes to support IT projects across the agency. MCC allows some tailoring of the processes depending on the business needs and size of the projects being undertaken. The PMO has begun to train and monitor ongoing projects to acclimate internal sponsors and project managers to the MCC PMO requirements. MCC expects to continue and improve these processes during FY 2013.

FY 2013 Annual Corporate Goals

The FY 2013 corporate goals are organized below by MCC priority themes.

Differentiating the MCC Model

- Secure new Threshold Program through strong implementation of policy reform.
- Improve impact evaluation design and application during compact development, implementation and close-out.
- Adapt program design based on lessons from performance and impact evaluation.
- Explore flexibilities within MCC's authorization and appropriation statutes to support new and innovative program concepts, such as cities as partners.
- Develop model for social and gender inequality assessment.

Communicating Information and Results

- Develop and apply clear standards for MCC's "continuum of results" reporting.
- Implement outreach strategy to communicate evaluation results.

Managing, Sharing and Applying Knowledge

- Implement knowledge management strategy and departmental action plans.
- Improve accuracy, timeliness and accessibility of performance and financial data and information.
- Incorporate into practice where appropriate and track application of lessons learned from operations reviews, impact evaluations, *etc*.
- Implement MIDAS 2.0 roll-out in MCC and MCAs.
- Recognize staff participation in knowledge-sharing activities and implementation of best practices as part of performance reviews.
- Support knowledge-sharing vehicles such as the Knowledge and Innovation Network (KIN) journal and the Principles into Practice series.

Promoting Transparency of Information

- Draft and implement a policy promoting public disclosure of MCC data and information in open and accessible format and monitor compliance.
- Rationalize reporting requirements across agency to increase accessibility and utility while avoiding duplication.
- Develop legal guidelines relating to data and information privacy, security and dissemination.
- Implement communications strategy to support open data.

Implementing Strategic Staffing

- Integrate strategic staffing data and recommendations into agency program for managing human capital.
- Monitor and adjust country team size, composition and workload to optimize staff resources as compacts and projects evolve.

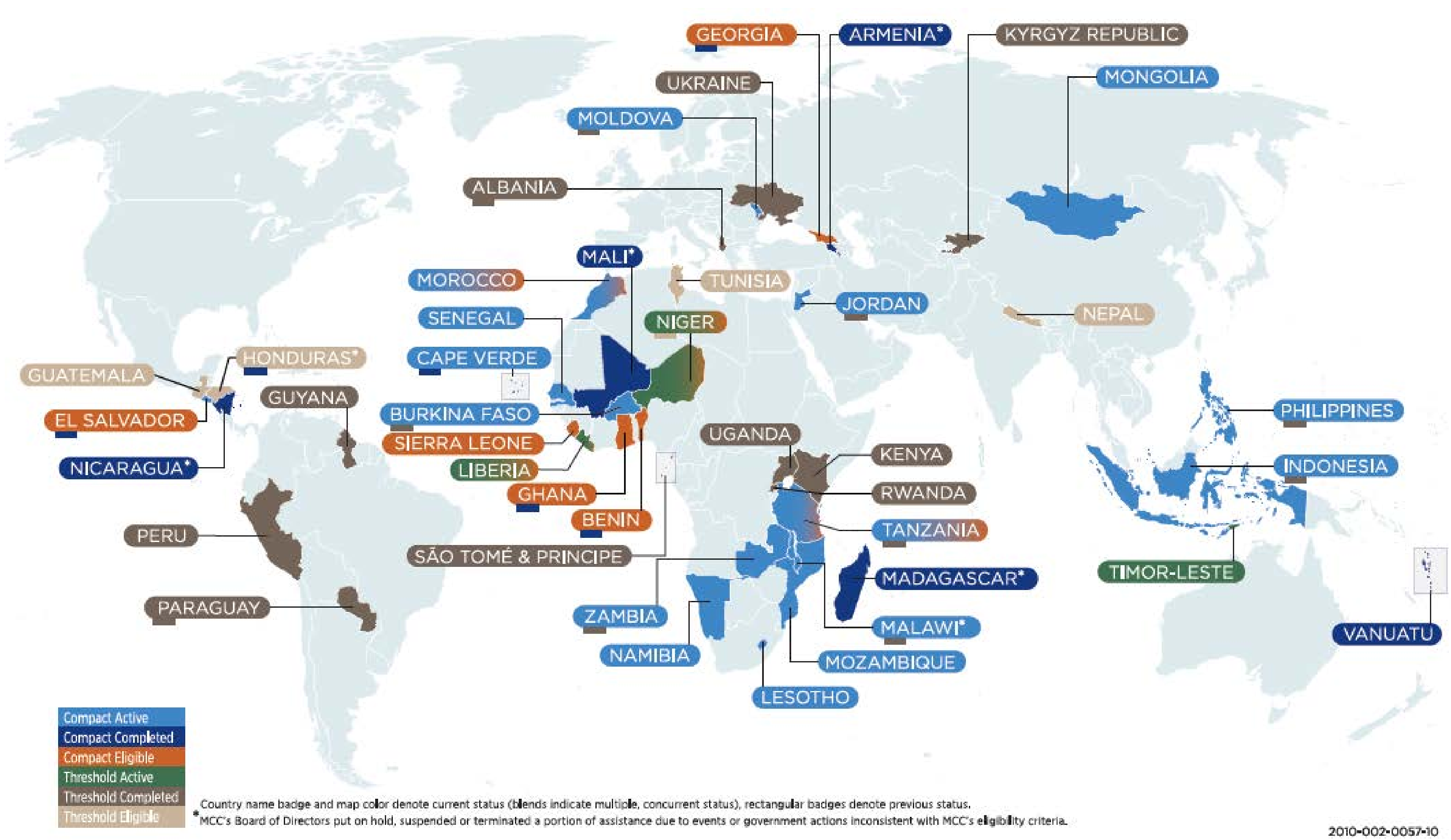
Ensuring Project Sustainability

- Prioritize analysis of project sustainability in the compact and project justification process.
- Explore flexibilities relating to late stage and post-compact activities which will increase sustainability and project impact.
- Implement new private sector strategy developed by Finance, Investment and Trade team.
- Pursue initiatives which have the potential to promote public-private cooperation to enhance sustainability (such as the "Thought + Action Partnership" concept).

Addressing Organizational Challenges

- Improve technology platforms to support business operations.
- Improve HR operations to facilitate rapid response to evolving business needs.
- Finalize guidelines on promotion policy and organizational constraints to promotion.
- Improve training and education opportunities, focusing on relevance and Support Leadership Education and Development program.
- Implement space utilization plan to optimize MCC budget requirements.

Map of MCC Partner Countries — Compact, Threshold Program and Eligible Countries



Reducing Poverty Through Growth

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