

PHASE II: PROJECT DEFINITION

Informed by stakeholder consultations and analyses of constraints to economic growth, social and gender inequality, and private sector investment opportunity, a core team will present MCC with project proposals, first through brief concept notes, and subsequently through more detailed concept papers, which MCC will use to assess a project's suitability and viability.

Project Concept Notes

Shortly after the first draft of the constraints analysis, MCC should provide the core team with up-front guidance and coaching regarding MCC's investment criteria, as well as an illustrative list of MCC projects done to date, projects MCC has rejected, and why. On the basis of this guidance and more intensive, sustained dialogue with MCC (including coaching by technical sector staff on critical aspects of MCC's requirements in key functional areas that country counterparts need to understand), countries will begin the process of project selection. On the basis of this guidance, countries should provide MCC with notes (not to exceed five pages) outlining potential projects for consideration. These concept notes should provide MCC with an initial outline of basic project characteristics, including a project description, economic logic linked to unlocking an identified constraint to growth, whether feasibility or design studies already exist, and whether the project builds on or complements existing government or donor projects. The purpose of the concept notes is to identify the pool of potential projects in country, facilitate earlier project appraisal by MCC, and earlier engagement of MCC technical staff in order to determine which project concepts are viable enough to develop more comprehensive project concept papers.

Project Concept Papers

Based on the constraints analysis, analysis of social/gender inequalities, and investment opportunity analysis, initial stakeholder consultations, and MCC's technical assessment of the concept notes, the core team then analyzes more thoroughly specific problems and opportunities to identify possible projects for MCC funding through more detailed project proposals, called project concept papers. Project concept papers describe for each proposed project: (i) project rationale, activities, and costs, (ii) sector context and policy, institutional, legal and regulatory environment, (iii) existing preparatory work, such as feasibility and design studies, (iv) analysis of expected costs and benefits, and beneficiaries, (v) environmental, social and gender opportunities and risks, (vi) mechanisms in place or contemplated to ensure financial and technical sustainability, and (vii) proposed implementation arrangements. The project concept paper is designed to minimize investment risk by:

- ★ Providing countries an opportunity to clarify, organize, and prioritize their own investment ideas in written form, as well as to establish the programmatic logic that underlies them, before substantial time and resources are invested into full project development;
- ★ Informing detailed discussions between MCC and the candidate country on the rationale, feasibility, costs and benefits, evaluability, and risks of projects still at the conceptual stage, and agreement on which projects merit resources for further development;
- ★ Giving MCC an opportunity to provide guidance to countries on the structure, approach, activities, and other aspects of project concepts before they are fully developed; and
- ★ Helping MCC and partner countries reach agreement on outstanding issues that need to be addressed to develop fully the project concepts into detailed investment proposals; the related assessments, studies, and data that will be required; and the funding and timing of this work.

In order to enhance the quality of the project concept papers, MCC has adopted the *Results Focused Project Design and Logical Framework* methodology used by the Asian Development Bank and other donors. Core teams are encouraged to use this or similar results-focused approaches to analyze and describe projects. The objective of this methodology is to provide a clear analysis of the economic problems the compact intends to solve, and the alternative courses of action considered. The methodology also relies on focused stakeholder consultations, as well as consideration of current and expected assistance provided by other donors, the role of the private sector, and public sector financing. Further, the analysis will include an assessment of how gender and other social differences and inequalities contribute to opportunities and constraints for poverty reduction

through growth. MCC should provide assistance to the core team during the project definition phase, including advice and examples on how to integrate the private sector into compact activities through public-private partnerships or other means.

Concept Paper Assessment and Peer Review

Upon receipt of project concept papers, MCC undertakes an initial assessment of them, conducts an internal and external peer review, and prepares the concept assessment memorandum, which once cleared by MCC senior management is transmitted to the partner government.

1. **Initial Concept Paper Assessment:** The MCC transaction team conducts an initial assessment of the project concept paper, and on the basis of its analysis provides a recommendation to proceed to full project development, postpone a decision pending receipt of further information from the country or further investigation by MCC staff, or reject the project concept outright. The transaction team's assessment focuses on a range of project questions, including:
 - **Rationale:** MCC staff will assess the following questions: Is the project rationale sound? Does the project address a key constraint to growth? Will it lead to poverty reduction through a set of clearly defined project outcomes resulting from project outputs generated through investments in specific activities? Will the project displace or crowd out private investment? Does the project complement rather than duplicate the activities of other major donors?
 - **Expected Impact:** MCC economists will review the economic analysis provided by the country core team, and prepare if necessary an initial economic rate of return model for each project. The purpose of this initial model is to capture the main drivers of the costs and benefits to determine a preliminary estimate of each projects' viability. A more sophisticated model will be developed for those concepts that MCC and the country agree to pursue. Questions will include: Do the benefits sufficiently outweigh the costs? Does the preliminary economic analysis provide a rate of return above an established hurdle rate, based on internationally accepted models for benefit-cost analysis? Do substantial benefits flow to the poor?
 - **Sustainability:** Is the project sustainable? Is the project concept supported by national policies, institutions and practices that will ensure the financial sustainability of investments? Will the legal and regulatory framework allow the project to continue to provide benefits in the future? Does the government have the technical capacity to operate and maintain the project after the conclusion of the compact?
 - **Environmental, Social and Gender Issues:** Does the project enhance environmental or social benefits, or enhance the sustainable use of natural resources? Does the project contribute to or remove barriers to social and gender equality? Does the investment pose serious risk to the natural and human environment that must be mitigated, or require significant land acquisition, resettlement and other forms of compensation?
 - **Implementation Risk:** Can the project be implemented in five years? Do the institutions that are proposed to implement each project have the demonstrated capacity to manage the project? Can the scope and complexity of work be completed within five years using MCC implementation procedures, and based on relevant local and international experience?
 - **Level of Preparation:** What additional studies are needed to develop the project concept into an investment proposal suitable for consideration by MCC senior management and Board of Directors?
1. **Peer Review:** Once the transaction team has conducted its initial analysis, it will share that analysis both within MCC (e.g., within Practice Groups) and to outside experts (e.g., in a particular technical area) to ensure that MCC's analysis is sound and technically accurate. Outside expertise can also assist MCC in technical or regional areas outside the existing knowledge base of MCC staff.

2. Recommendation: Following internal and external peer reviews of MCC's initial concept assessment, the Country Team prepares a Concept Paper Assessment Memorandum for approval by MCC senior management. Upon approval of that memorandum, the country team will prepare a letter to the government and country core team outlining MCC's decisions and next steps. It is important to note that a decision by MCC to support further project development does not constitute a commitment to finance proposed projects.

