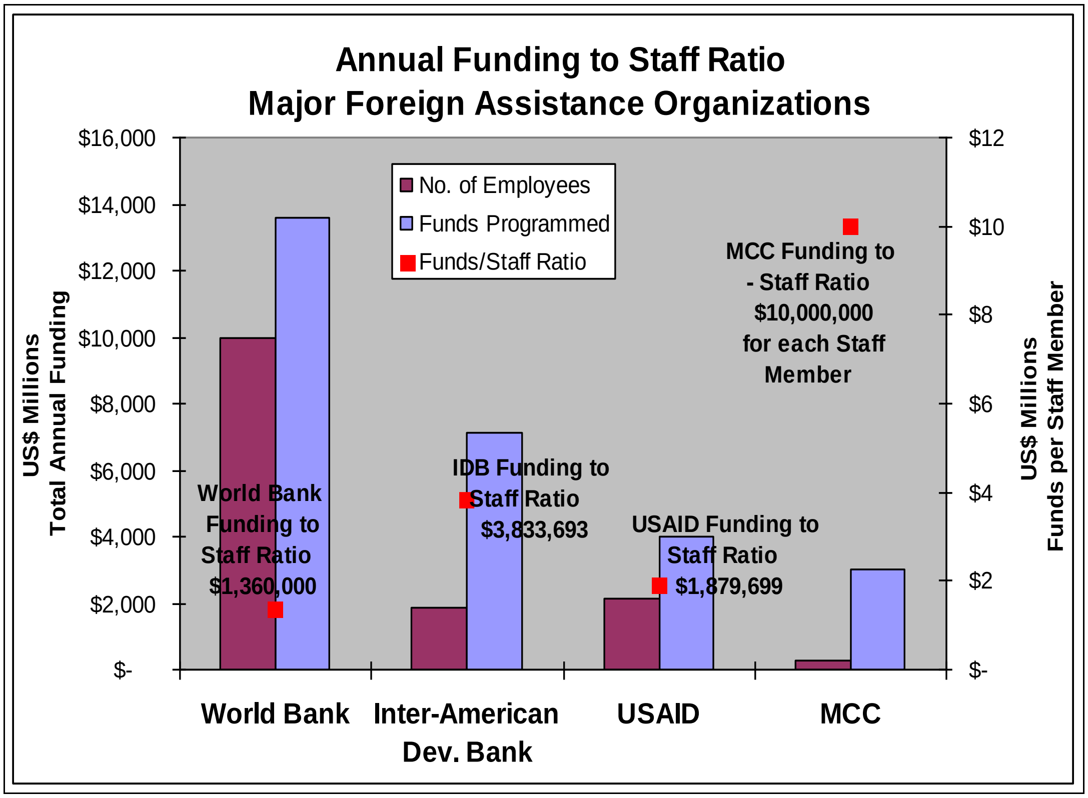
Improving Program Execution
Millennium Challenge Corporation (MCC)

Summary

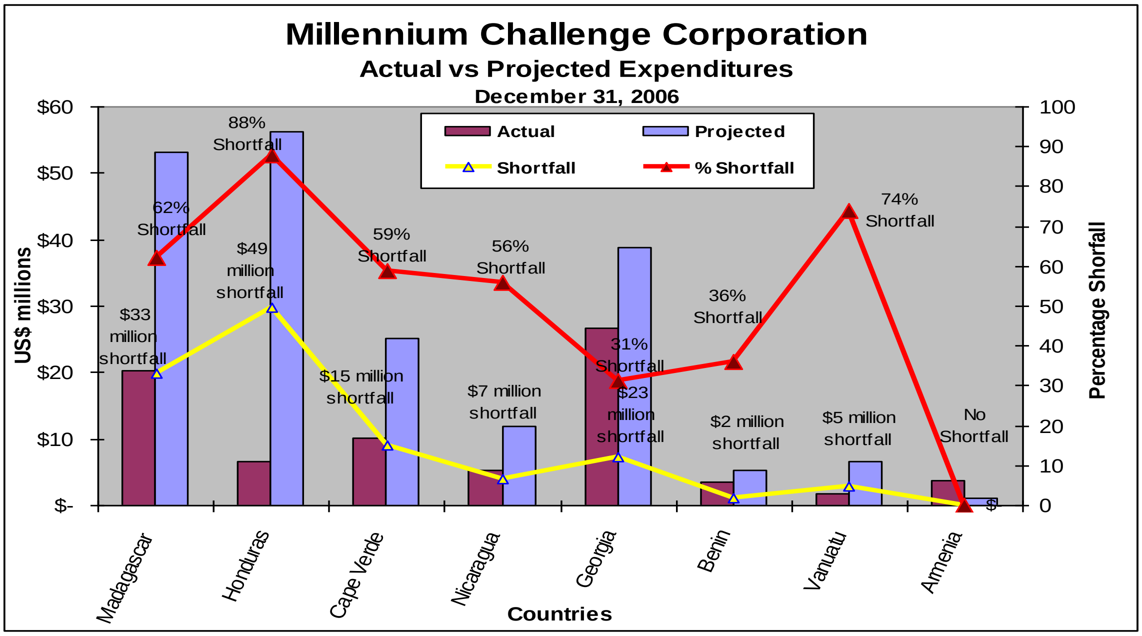
MCC is off to a strong start, with 11 Compacts approved to finance $3 billion in programs benefiting 22 million people. There are indications of positive, upfront changes as countries compete to improve critical social and economic policies and increase their likelihood of obtaining MCC support. The potential for sustained economic development and growth through incentives created by MCC is high. However, this unique, market-driven approach has a 63 percent shortfall in planned financial disbursements under existing Compacts. Reports to the Federal Register show little progress in implementation. Limited implementation capacity could affect future MCC funding levels.

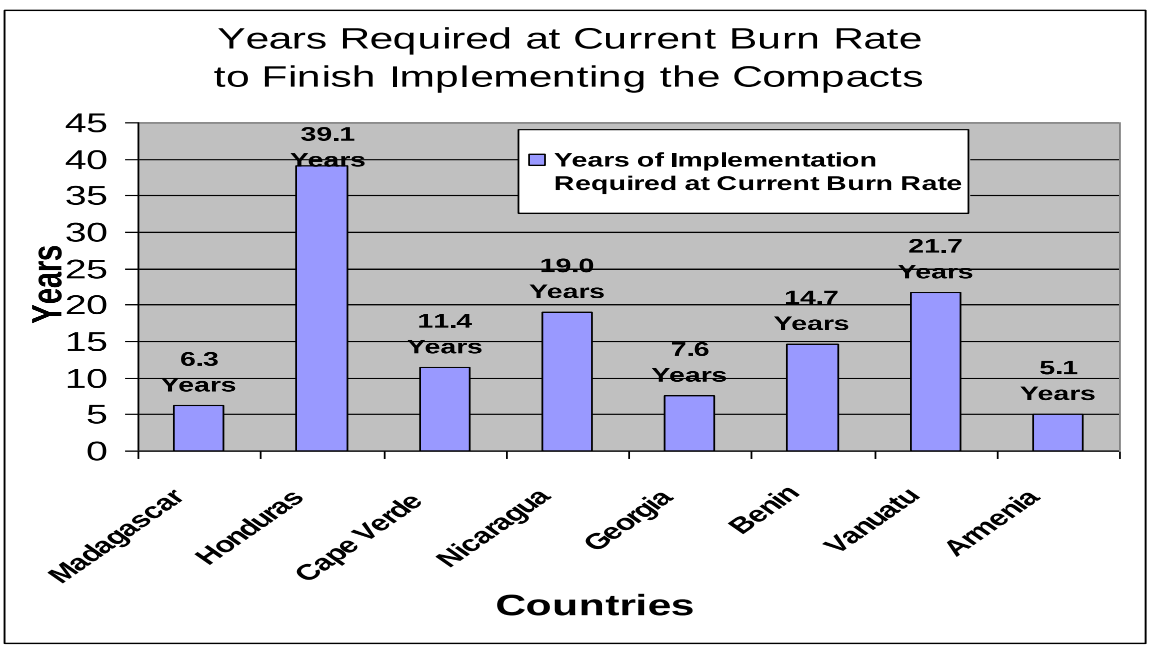
Unrealistic financial projections, optimistic implementation targets, and a relatively short program time frame contribute to this shortfall in planned expenditures. Other causes include (1) a “project” approach in Compact design, which may be inappropriate for the streamlined, lightly staffed MCC, (2) a lack of a standard economic growth model, and (3) too rigid a focus on randomized controlled trials for program evaluation. This paper recommends actions to identify and address program execution constraints.



MCC is trying to manage significantly more money per staff member than any other foreign assistance organization.

The rate of MCC expenditures, a key metric for implementation progress, through December 2006 indicates actual disbursements were 63% less than projected (see Attachment Two – Analysis of Compact Disbursements). According to the financial plans of the approved 11 Compacts (8 of which have entered into force), approximately $198 million should have been disbursed by the end of 2006. A $78 million disbursement resulted in a shortfall in expenditures of almost $120 million. The graphs below indicate expenditures by country and years required for implementation at the current investment rate.[1]





[1] This graph includes all expenditures, program administration, evaluation and monitoring, and financial management.

Factors affecting expenditure rate include overly optimistic financial planning, difficulty obtaining consensus and decisions during implementation, complicated procurement procedures and fiscal accountability requirements, and weak counterpart institutions. MCC staffing levels need to reflect the scope of activities in existing Compacts. High "transaction costs" in how MCC manages internal processes for the design and implementation of Compacts may limit efficiency. An unclear approach to economic growth strategy increases debate (note: one staff said: " We seem to be a debating club.") Difficulties addressing evaluation and program monitoring requirements complicate design and implementation. An internal assessment is needed to identify significant constraints and recommend corrective actions.

Implementation capacity becomes increasingly crucial as Congress focuses on MCC budget requirements. A proactive approach is needed to highlight issues and recommend solutions during an ongoing discussion with key stakeholders. Quarterly reports are posted to the Federal Register, making Compact financial plans available online. These documents provide information on disbursements and implementation progress. At some point, the public will begin reviewing actual versus projected expenditures and implementation progress. Congress will likely check this information in its deliberations over future funding levels for MCC.

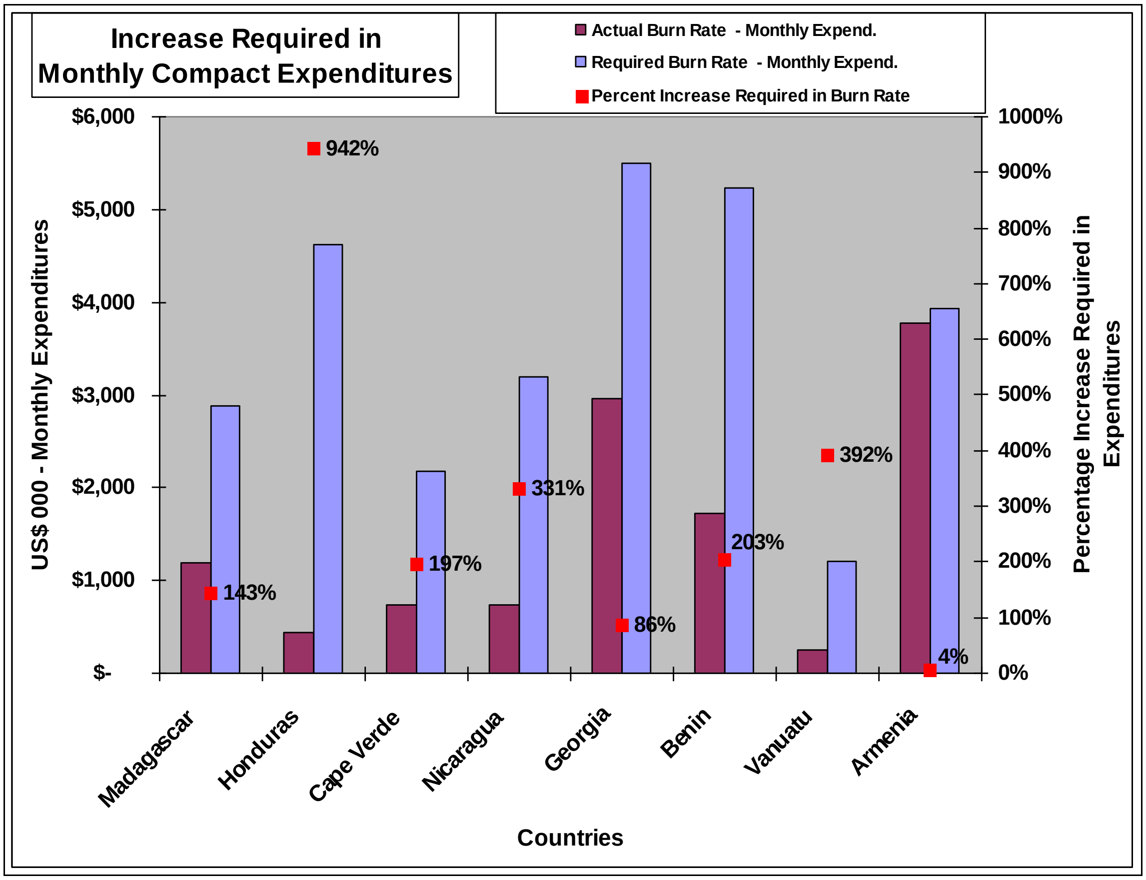
Congressional Research Service Report – February 7, 2006

"A growing question raised by some Members of Congress concerns the level of funding to support MCC Programs ...."

A program's "burn rate" is the expenditure level in a given time period. Comparing projected to actual expenditures provides a rough indication of implementation capacity and whether a program can finish implementing all activities by its program end date. Low burn rates may indicate problems with implementation. The table below shows the actual burn rate versus projected and reveals the percentage increase required in monthly expenditures to complete activities within the period of the Compact.

	Monthly Burn Rate Based on Expenditures through Dec. 2006	Monthly Burn Rate Required to Complete Compact	Percent Increase Required in Burn Rate
Madagascar	$ 1,187,305	$ 2,889,962	143%
Honduras	$ 444,429	$ 4,629,635	942%
Cape Verde	$ 731,237	$ 2,170,460	197%
Nicaragua	$ 744,442	$ 3,203,564	381%
Georgia	$ 2,957,952	$ 5,498,966	86%
Benin	$ 1,726,199	$ 5,238,718	203%
Vanuatu	$ 245,929	$ 1,206,953	392%
Armenia	$ 3,778,465	$ 3,930,026	4%

This chart graphically demonstrates the information contained in the previous table regarding the increase needed in burn rate by each country to complete activities within the time remaining under its Compact.



The table below shows the time remaining for implementing Compacts that have already entered into force.

	Date of Compact Signing	Date of Entry in Force	Date of First Disbursement	No. of Months of Implementation	No. of Months Remaining
Madagascar	28-Apr-05	27-Jul-05	27-Jul-05	17	31
Honduras	13-Jun-05	29-Sep-05	22-Feb-06	15	45
Cape Verde	4-Jul-05	17-Oct-05	17-Oct-05	14	46
Nicaragua	14-Jul-05	26-May-06	14-Jun-06	7	53
Georgia	12-Sep-05	7-Apr-06	28-Apr-06	9	51
Benin	22-Feb-06	6-Oct-06	9-Nov-06	2	58
Vanuatu	2-Mar-06	28-Apr-06	15-Jun-06	7	53
Armenia	27-Mar-06	29-Sep-06	28-Nov-06	1	59

Slow disbursements may require an extension of the Compact period or a redesign of the activities and funding levels within the Compact. An example of the impact on implementation time, if disbursement levels do not increase, is shown in the table below; Madagascar would require an additional 6.3 years to complete its program. With the slowest disbursement rate, Honduras would need 39 years to complete its program.

	Total Funding	Number of Months of Implementation	Cumulative Disbursements Dec. 2006	Remaining Funding as of December 31, 2006	Additional Years of Implementation Required at Current Burn Rate
Madagascar	$109,773,000	17	$ 20,184,189	$89,588,811	6.29 years
Honduras	$215,000,000	15	$ 6,666,433	$208,333,567	39.06 years
Cape Verde	$110,078,488	14	$ 10,237,317	$99,841,171	11.38 years
Nicaragua	$175,000,000	7	$ 5,211,096	$169,788,904	19.01 years
Georgia	$295,300,000	9	$ 26,621,210	$268,678,790	7.57 years
Benin	$307,298,040	2	$ 3,452,398	$303,845,642	14.67 years
Vanuatu	$65,690,000	7	$ 1,721,503	$63,968,497	21.68 years
Armenia	$235,650,000	1	$ 3,778,465	$231,871,535	5.11 years

There may be increasing pressure to accelerate disbursements from MCC to Compact accountable entities to increase disbursements. According to four audit reports last year, the "re-disbursement" of these funds has become an issue with the Inspector General, who found that the MCC is not in compliance with an OMB requirement that advances do not exceed cash requirements of thirty days. Whether this requirement applies to MCC may be debatable, but the issue could become part of the discussion of burn rate and implementation capacity. It might appear that MCC is advancing funds under Compacts in amounts more significant than needed to increase disbursement rates.

Inspector General Audits – Four reports in 2006 – Cape Verde, Vanuatu, Semi-annual Report to Congress & Audit of Financial Statements –

"... MCC policies for disbursing advances to Grantees do not accommodate effective cash management (material weakness and non-compliance)."

Implementation Issues – Slow implementation may signal problems in two areas: (1) Program Design and MCC Institutional Capacity – Compacts have a "project" approach where sector issues are addressed by a variety of activities that require technical support and oversight by MCC staff, there may also be a lack clarity on the economic growth model among MCC staff which creates confusion and conflict during program design and implementation, and weak counterpart institutions may impede the ability of countries to take "ownership" creating an additional need for MCC to provide hands-on design and implementation support; and (2) Life of Program Time Frame and Bureaucratic

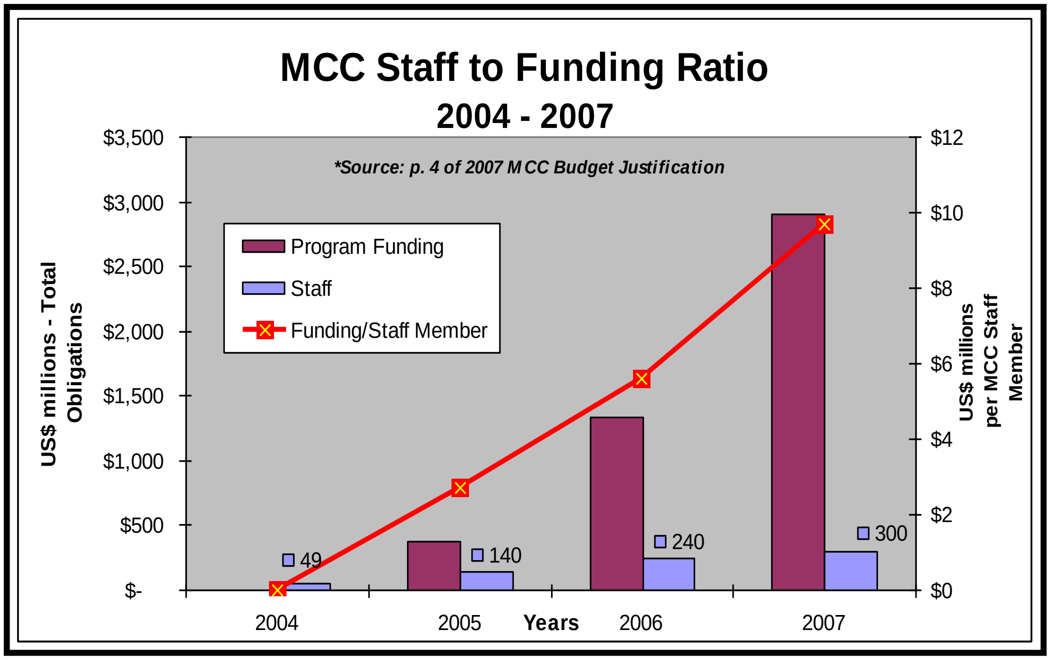
Mechanisms - Compact implementation in five years may be unrealistic, cause hurried decisions on execution of the program, and require staff to predict unrealistic disbursement levels, cumbersome evaluation requirements may slow implementation and limit the ability of MCC to assess program impact, and complex procurement and financial oversight requirements may further slow implementation.

Compact Design – The current MCC implementation model seems to run counter to the original idea of a foundation-like approach to foreign assistance where a small agile staff could (1) manage large amounts of funding expeditiously, (2) significantly increase the size of foreign assistance flows, and (3) streamline the delivery process to countries with the best chance of economic transformation. While relatively large amounts of financing are programmed, initial results indicate that expenditures are slow and that the MCC model has turned more toward a "project" approach, which may require significant staff support that is unavailable under current staffing levels. Attachment Seven provides a matrix of the economic growth activities of these Compacts. MCC appears to spend considerable effort to move implementation forward. Leadership must bring MCC staffing into line with the requirements of its oversight and coordination functions. New implementation mechanisms must be developed to allow agile, locally owned initiatives that, perhaps, follow a foundation or trust approach.

Staffing – Not since the battle of Thermopylae has 300 people taken on a more daunting challenge than the current programming levels MCC staff face. As more Compacts are funded, pressure to quickly implement programs with weak counterpart institutions will continue to increase and may require significant support. The MCC 2005 Annual Report highlighted this issue – "… we expect staffing numbers to stabilize by 2007, but expect workload issues—including activities kept as core competencies within MCC and those performed by outside entities—to be key challenges in out-years.” As MCC continues managing a rapidly growing portfolio in size, funding, and complexity, it will become increasingly challenging to meet implementation timelines and output targets. This situation may already be a factor in slow Compact implementation.

The graph on the next page illustrates the growth in funding and the increasing management challenge. The MCC is programming and managing $10 million in funding for each staff member. This amount of funding is six times more than the funding-to-staff ratio of the World Bank. See the graph comparing MCC funding to staff ratio with other foreign assistance organizations (World Bank, Inter-American Development Bank, and USAID) in the front summary of this paper and Attachment Six. Assuming $3 billion in annual obligations for the MCC, staff members will manage more per capita funding than any other foreign assistance organization.[2]

[2] The World Bank and IDB data were from their 2005 annual report. The USAID data comes from the 2007 Budget Submission to Congress.



Economic Growth Strategy – There does not seem to be a standard, universally accepted economic model within the MCC. Leadership must delineate agreement on the determinants of growth, the most appropriate programs to address constraints, and methodologies for implementing these programs. (Note: MCC has 30 economists on staff- one in ten employees, and for each, there is the potential for a different interpretation of economic theory.) Consensus on an MCC economic model would ensure that staff speak the same development language and could reduce disagreements on design and implementation issues. Economic development literature indicates various approaches to promoting durable economic growth but provides little empirical evidence of successful programs. While the MCC economists propose an analytical approach that will "map the contours of the domestic economy" in a country and guide a consultative process, there needs to be agreement within the MCC on the economic growth theory guiding its strategic focus, clarity on what are the drivers of economic growth, and the identification of critical constraints impeding growth.[3]

"It is not difficult to see what must be the consequences when (an organization) embarks upon a course of planning which in its execution requires more agreement than in fact exists."

"The Road to Serfdom"
Friedrich Hayek

A common theoretical approach regarding crucial economic drivers, constraints to growth, and appropriate development interventions would allow MCC to collaborate better on compact design and implementation.[4] The lack of strategic focus flowing from

[3] Attachment Three provides a summary of economic growth models.

[4] Clarification of critical issues like -- What is a public good? What is a subsidy? When are technology and innovation (improved business processes, more productive processing capacity, and other value chain support activities) neither

an unarticulated economic growth model increases internal debate, delays decisions, creates inefficiencies and slows implementation. While efforts are underway to establish an analytical framework, identify constraints, and design activities that would have the most significant impact[5]

There is still a need for a clear theoretical context for MCC's strategic focus and development strategies. Depending upon which growth model you consider, one man's subsidy is another man's investment (see summary of economic growth models in Attachment Three). In the case of innovation and improved business processes under the Endogenous Economic Growth Model, support to generate new technology is seen as a non-rival, partially excludable good required for production. Research, innovation, and new technology may require public support in imperfect markets. On the other hand, the Neoclassical Growth Model assumes perfect competition and argues that the market makes the best allocation of resources, including investments in technology. The debate between public and private goods is essential. Public support can be justified in order to promote innovation, improve business processes, and create a more effective "value chain" model.[6]

Length of Compact – The five-year time frame for Compact implementation may be unrealistic, given funding levels and implementation issues. A change was proposed to extend the period to ten years under the Millennium Challenge Reauthorization Act of 2006 (H.R. 4014), which was introduced but not enacted by Congress. A copy of the legislation is on the MCC internal drive (S: divisions/MSA/Agriculture/M. Maxey Files – Improving MCC Program Execution/).

Evaluation and Monitoring – MCC may generate high expectations with its monitoring and evaluation approach. In attempting to achieve the highest possible standard of impact assessment, perfect could become the enemy of sound, and effective program evaluation could be limited. The complexity of the evaluation program may also delay implementation as randomized controlled trial design slows the startup of relatively complex assistance programs. The need to show implementation results (inputs/outputs) or narrative accounts of implementation impact as part of MCC public reporting is of immediate concern. MCC quarterly reports submitted to the Federal Register over the last year provide financial expenditures and the status of implementation indicators (see http://www.gpoaccess.gov/fr/index.html). According to the reports, MCC has had no impact on Compact indicators. While a "results" focus is a worthy goal, the lack of a way to indicate progress in implementation in the quarterly reports could become a public relations issue.

public nor private goods but necessary services financed by the public sector? --- can resolve issues that significantly slow implementation processes, delay disbursements, and jeopardize the Corporation.

[5] Frank Wiebe, Growth Diagnostics PowerPoint presentation at Millennium Challenge Corporation, Washington DC, December 2006.

[6] The value chain approach is a significant development strategy for the Agriculture and Rural Development Team. Its focus on "virtuous cycles" grounded primarily in the Endogenous Growth Model highlights the need for investment where technology, innovation, improved productivity, and business processes and the subsequent increasing returns are vital to promoting economic growth. The position of MCC economists is not officially defined. They may accept the Neoclassical Growth Model as the theoretical context for achieving economic growth. If that is true, then Operations and Accountability may speak different "languages" of development.

Other evaluation issues (see GAO-06-805 at http://www.gao.gov/new.items/d06805.pdf) focus on the need for MCC to ensure that (1) economic analyses better reflect country conditions and involve country participation, and (2) improve monitoring and evaluation by obtaining better baseline data, ensuring a clear linkage to economic analyses, developing criteria for establishing and adjusting targets, and ensuring the timely development of evaluation design. The GAO report criticized the approach and quality of economic modeling done on the early Compacts and expressed doubt that these models would allow assessment of impact. The State Department response to the GAO audit, which is an annex to the GAO report, basically states that the randomized controlled trials approach is flawed and not likely feasible for infrastructure and social development programs.

"... reliance on project evaluation criteria that make use of randomized controlled trials to measure success, while appropriate for judging scientific experiments, is not likely feasible for most infrastructure and social development projects."

State Department Reply to GAO Audit of MCC Evaluation Framework

A review of the literature indicates that the scale of the MCC approach in implementing randomized controlled trials is unique. While these trials are important, their use has been relatively limited in evaluating foreign assistance programs. The World Bank which is committed to expanding the randomized controlled trial evaluation of its programs[7] (see Attachment Four) has found it difficult. Howard White, a senior evaluation officer of the Bank's Independent Evaluation Group, commented recently, "(While) I agree that aid agencies should do more randomized impact evaluations, the search for technical rigor must not take precedence over practical lesson-learning … randomized approaches can be used to evaluate discrete, homogenous interventions, much like a pill in a drug trial but most of the projects of large official agencies— do not resemble the conditions of medical testing."

In the near term, there will probably be another update to the GAO audit work with MCC and they will look at progress in implementing country specific economic models, randomized controlled trials, and MCC overall monitoring and evaluation mechanisms. Also there will probably be another update of the Congressional Research Service assessment of MCC (the last CRS report on MCC was updated in February 2006). A modified evaluation mechanism that provides narrative accounts of implementation (inputs/outputs), relies heavily on cost benefit analysis, and uses randomized controlled trials appropriately could address program monitoring issues facing the MCC.

[7] The World Bank has established a far-reaching program of impact evaluations, many of them using a randomized-experiment approach. One measure of the Bank's commitment to impact evaluations is its successful partnership with the Jameel Poverty Action Laboratory (J-PAL) at MIT. Of the 34 developing-country JPAL projects listed with funding sources, 24 have been funded partly or wholly by the Bank, and in some cases World Bank researchers are conducting the evaluations together with JPAL staff. This effort still only encompasses a small portion of overall WB programs.

Action Required: An assessment is needed to (1) clearly identify issues, (2) initiate an open dialogue with MCC staff, policy-makers and stakeholders, and (3) recommend and implement corrective actions. It should focus on helping MCC develop a common economic growth model, a development framework based on that model, and a "program" mechanism allowing the use of a combination of approaches to quickly disburse funds and ensure local ownership of the development process.

Development is long term, local and low intensity – one type of program mechanism that could be effective is the use of local foundations. This mechanism could include project-like activities for infrastructure combined with social and economic programs that follow a "foundation" model."[8] The foundation approach combined with project-like activities in infrastructure and other areas would allow MCC to support local initiatives that increase country ownership and provide a mechanism for assessing specific types of development interventions.

The foundation approach would:

- Allow MCC staff to take on an advisory role in support of a country-owned initiative where project-like activities for infrastructure and other appropriate activities could have a more hands-on approach but with significant portions of Compact under a foundation model;
- Eliminate disbursement pressure and remove the five year time constraint on implementation since funding provided to the corpus of the foundation would count as a disbursement with the use of the funding already agreed upon under the foundation's rules for grant-making;
- Allow greater precision in measuring impact by incorporating evaluation criteria requirements into the foundation rules (for example, the use of randomized controlled trials could be a selection criterion used in the grant award process).

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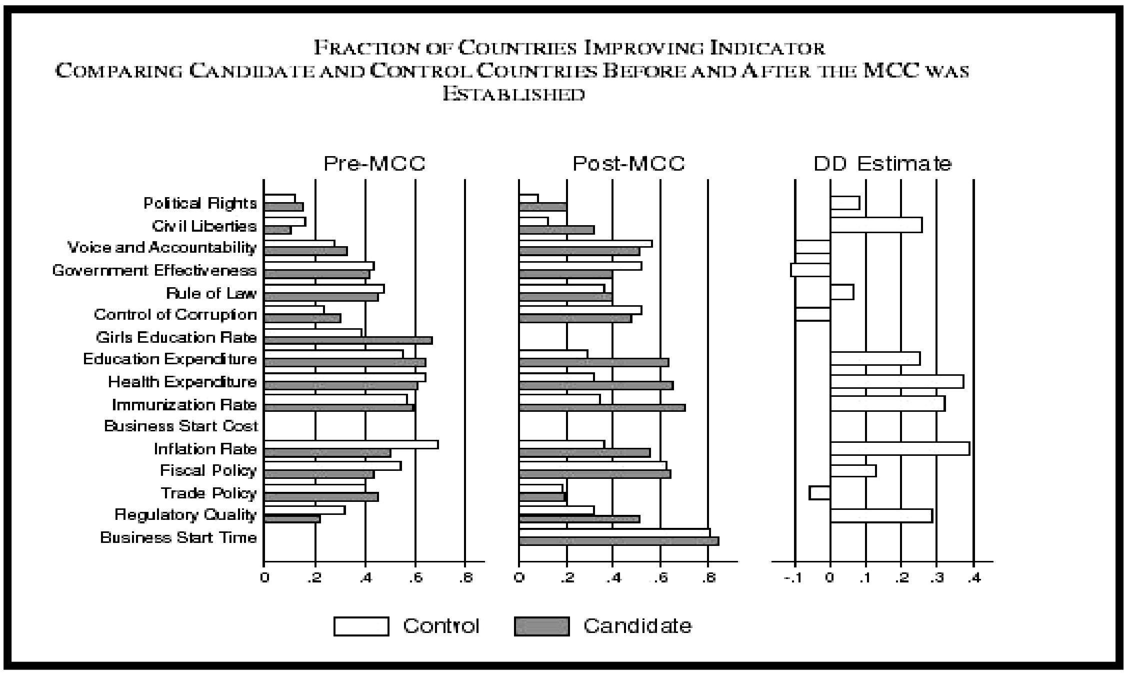
[8] One foundation model is the "Enterprise of the Americas Initiative" and the Tropical Forestry Conservation Act (see a description of these initiatives in Attachment Five). Both these programs establish local foundations to promote conservation and economic development. Funds are provided to the local foundations through debt reduction mechanisms. The initial agreement negotiated between the eligible country and the US defines investment areas, types of activities to be funded, and economic viability of the activities. A senior USG official with veto power over grant awards sits on the local foundation board. Primary role of US is advisory. Ownership is local and there are great examples of civil society strengthening through foundation sponsored programs (Bolivia is an excellent example with the establishment of a "university" for NGOs and private sector entities to learn how to prepare and execute successful development programs).

<u>Attachment One – "MCC Effect" Study</u>

The Millennium Challenge Corporation (MCC), faces increasing political and institutional challenges as it moves from a dynamic but untested concept to potentially one of the best approaches in the history of US foreign assistance. Developing countries are apparently responding to the incentives MCC creates for good governance. There are indications of positive, up front changes by countries in key social and economic policies in order to better compete for Compact funding. This "MCC effect" recently noted by the Corporation's CEO, Ambassador John Danilovich, in remarks to the Society for International Development was the subject of a Harvard study, "Can Foreign Aid Create an Incentive for Good Governance? Evidence from the Millennium Challenge Corporation."[9] The study provides an interesting aspect of country policies and potential impact of incentives for change. The graph below shows the Pre-MCC group which represents candidate and control countries prior to the establishment of MCC when one would not expect many differences between the indicators of the different countries, the Post-MCC group represents the same countries after the MCC was put in place when there could be an incentive effect on candidate but not control countries, the last group subtracts the differences in the second group from the differences in the first to arrive at the difference-in-difference estimate.[10] As indicated in the graph, most of the gains are positive and relatively large.



[9]Johnson, Doug and Zajonc, Tristan, "Can Foreign Aid Create an Incentive for Good Governance? Evidence from the Millennium Challenge Corporation" (April 11, 2006). John F. Kennedy School of Government, Harvard University. Available at SSRN: http://ssrn.com/abstract=896293.

[10] The difference in difference (or "double difference") estimator is defined as the difference in average outcome in the treatment group before and after treatment minus the difference in average outcome in the control group before and after treatment : it is literally a "difference of differences."

Attachment Two– Analysis of Compact Disbursements

Disbursement capacity of the MCC was assessed by determining length of implementation for each Compact (the number months since Entry into Force) and then comparing: (1) actual expenditures against projected expenditures over the 60 month life of the Compact, (2) actual expenditures against projected expenditures during the first 12 months of the Compact's financial plan for Nicaragua, Georgia, Vanuata, Benin and Armenia, and (3) actual expenditures against projected expenditures during the first 24 months of the Compact's financial plan for Madagascar, Cape Verde and Honduras.

Total Funding for Compacts in Force
US$ Millions

	Total Funding	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Madagascar	$ 109.773	$ 26.800	$ 48.300	$ 26.600	$ 8.200	$-0-
Honduras	$ 215.000	$ 27.700	$ 62.200	$ 79.300	$ 42.400	$3.500
Cape Verde	$ 110.078	$ 19.300	$ 23.900	$ 34.700	$ 20.700	$11.600
Nicaragua	$ 175.000	$ 20.400	$ 41.300	$ 52.500	$ 47.500	$13.300
Georgia	$ 295.300	$ 51.700	$ 105.600	$ 67.600	$ 43.400	$27.000
Benin	$ 307.298	$ 32.400	$ 63.100	$ 98.300	$ 90400	$23.100
Vanuata	$ 65.690	$ 11.400	$ 23.500	$ 26.400	$ 2.900	$1.500
Armenia	$ 235.650	$ 12.600	$ 60.600	$ 70.200	$ 53.100	$39.100

Actual Expenditures vs Projected Expenditures
December 31, 2006

	Months In Force	Monthly Disbursements Required by Compact Budget (1st & 2nd Year)	Projected Disbursements Thru Dec. 2006	Actual Disbursements Dec. 2006	Shortfall in Expenditures
Madagascar	17	$3,129,000	$53,193,000	$ 20,184,189	$ 33,008,811
Honduras	15	$3,745,792	$56,186,875	$ 6,666,433	$ 49,520,442
Cape Verde	14	$1,797,895	$25,170,534	$ 10,237,317	$ 14,933,217
Nicaragua	7	$1,700,000	$11,900,000	$ 5,211,096	$ 6,688,904
Georgia	9	$4,308,333	$38,775,000	$ 26,621,210	$ 12,158,790
Benin	2	$2,698,651	$5,397,301	$ 3,452,398	$ 1,944,903
Vanuata	7	$951,667	$6,661,667	$ 1,721,503	$ 4,940,164
Armenia	1	$1,052,500	$1,052,500	$ 3,778,465	$ (2,725,965)
			$198,336,877	$ 77,872,611	$120,464,266

	Actual	Projected	Shortfall	% Shortfall
Madagascar	$ 20.18	$ 53.19	$ 33.01	62.00
Honduras	$ 6.67	$ 56.19	$ 49.52	88.00
Cape Verde	$ 10.24	$ 25.17	$ 14.93	59.00
Nicaragua	$ 5.21	$ 11.90	$ 6.69	56.00
Georgia	$ 26.62	$ 38.78	$ 12.15	31.33
Benin	$ 3.45	$ 5.40	$ 1.94	36.00
Vanuatu	$ 1.72	$ 6.66	$ 4.94	74.00
Armenia	$ 3.78	$ 1.05	$ -	0.00

*Projections are based on first 12 months of financial plan for each Compact.
**Expenditures for Armenia are significantly ahead of schedule.

	No. of Months Under Implementation	Number of Months Remaining	Cumulative Disbursements Dec. 2006	Compact Budget	Balance of Compact Funding
Madagascar	**17**	**31**	**$20,184,189**	**$109,773,000**	**$89,588,811**
Honduras	**15**	**45**	**$6,666,433**	**$215,000,000**	**$208,333,567**
Cape Verde	**14**	**46**	**$10,237,317**	**$110,078,488**	**$99,841,171**
Nicaragua	**7**	**53**	**$5,211,096**	**$175,000,000**	**$169,788,904**
Georgia	**9**	**51**	**$26,600,000**	**$295,300,000**	**$268,700,000**
Benin	**2**	**58**	**$3,452,398**	**$307,298,040**	**$303,845,642**
Vanuatu	**7**	**53**	**$1,721,503**	**$65,690,000**	**$63,968,497**
Armenia	**1**	**59**	**$3,778,465**	**$235,650,000**	**$231,871,535**
			$78,104,131	**$1,513,789,528**	**$1,435,685,397**

	Years of Implementation Required at Current Burn Rate
Madagascar	6.3
Honduras	39.1
Cape Verde	11.4
Nicaragua	19.0
Georgia	7.6
Benin	14.7
Vanuatu	21.7
Armenia	5.1

Projected Disbursements - Analysis of the data as of the end of December 2006 shows a 63% shortfall in expenditures in existing Compacts calculated for the number of months they have been "in force" a per month compared against a projected burn rate (expenditures per month) based on 1st year (Nicaragua, Georgia, Vanuata, Benin and Armenia) and 2nd year (Madagascar, Cape Verde and Honduras) expenditure projections of each Compact.

Compact Financial Disbursements -- Disbursements by Sector

Georgia	Regional Infrastructure Rehab	Enterprise Development
Projected Expenditures		
Actual Expenditures	New Financial Data is not	broken down by sector.
Shortfall in Expenditures	$	$
Percent Shortfall	O%	0%

Cape Verde	Infrastructure	Water Shed Mgt & Ag Support	Private Sector Development
Projected Expenditures	$14,687,357	$3,403,731	$1,882,333
Actual Expenditures	$6,255,561	$50,000	
Shortfall in Expenditures	$8,431,796	$3,353,731	$1,882,333
Percent Shortfall	57%	99%	100%

Madagascar	Land Tenure	Finance	Agriculture Business Investment
Projected Expenditures	$18,197,500	$14,919,583	$7,116,083
Actual Expenditures	$5,391,664		-
Shortfall in Expenditures	$12,805,836	$14,919,583	$7,116,083
Percent Shortfall	70%	100.00%	100.00%

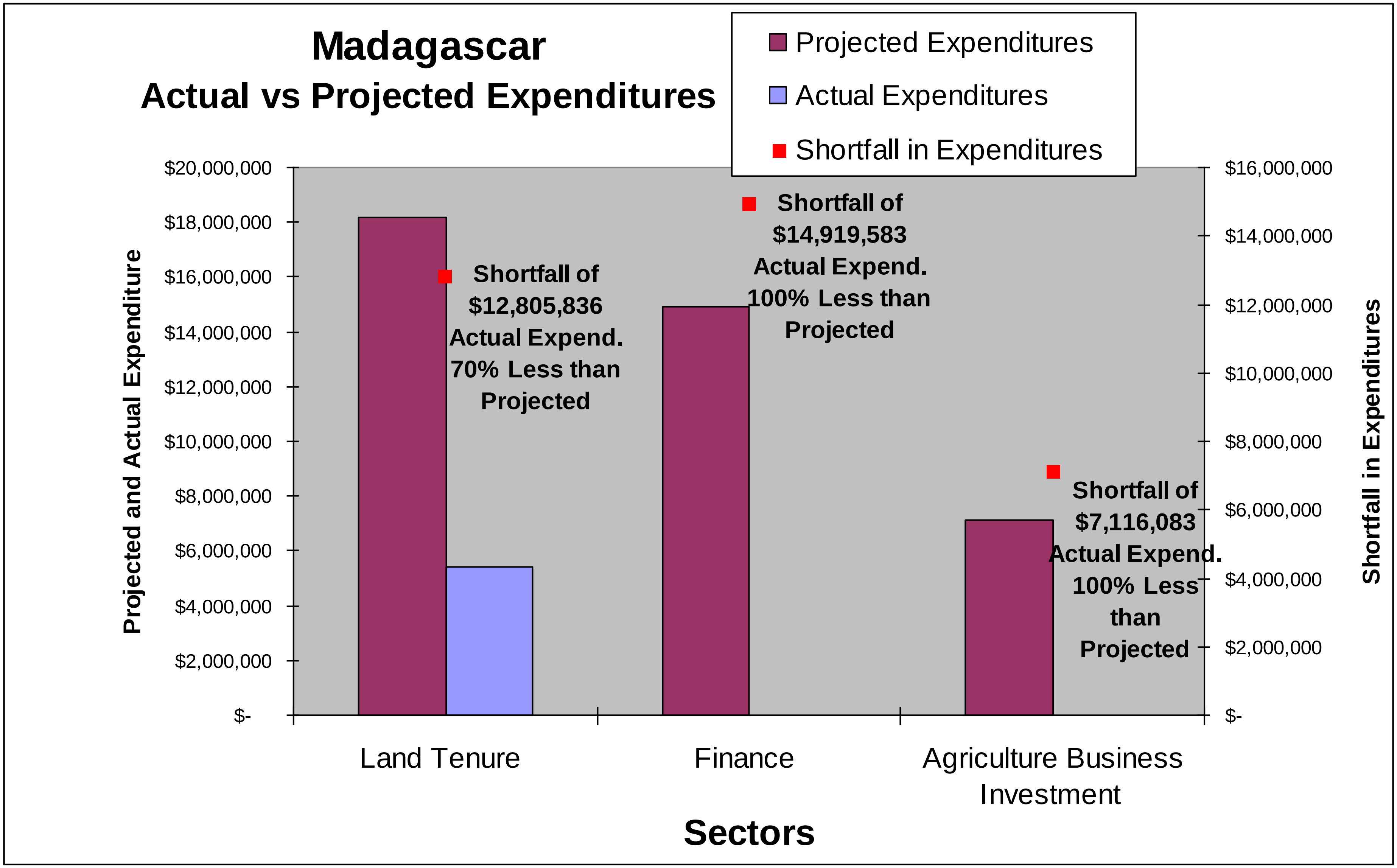
Honduras	Rural Development	Transportation
Projected Expenditures	$10,315,000	$27,728,500
Actual Expenditures	$1,678,708	$440,477
Shortfall in Expenditures	$8,636,292	$27,288,023
Percent Shortfall	84%	98%

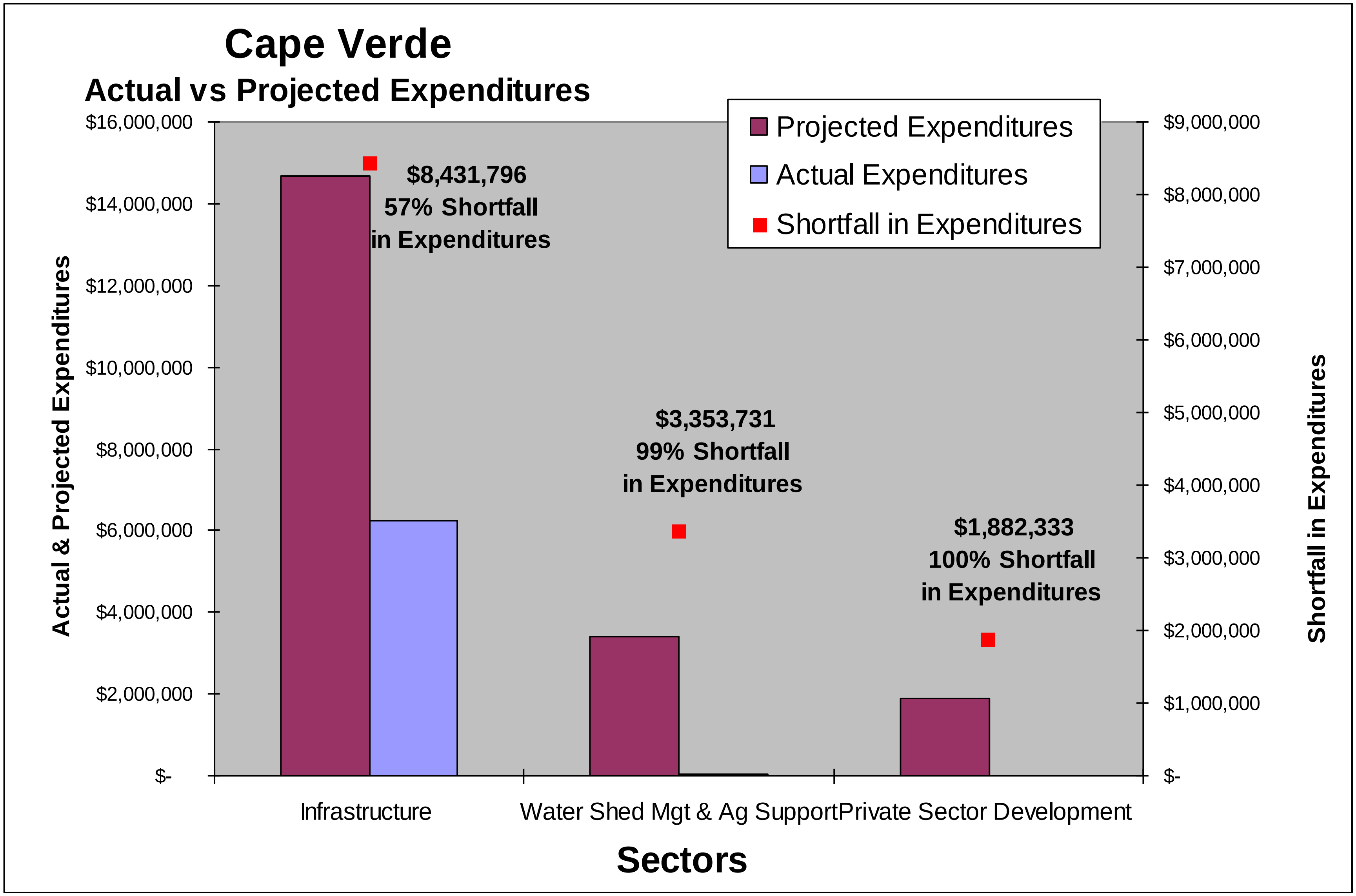
Nicaragua	Property Regularization	Transportation	Rural Business Development
Projected Expenditures	$3,733,333	$2,858,333	$3,033,333
Actual Expenditures	$165,736		$515,005
Shortfall in Expenditures	$3,567,597	$2,858,333	$2,518,328
Percent Shortfall	96%	100%	83%

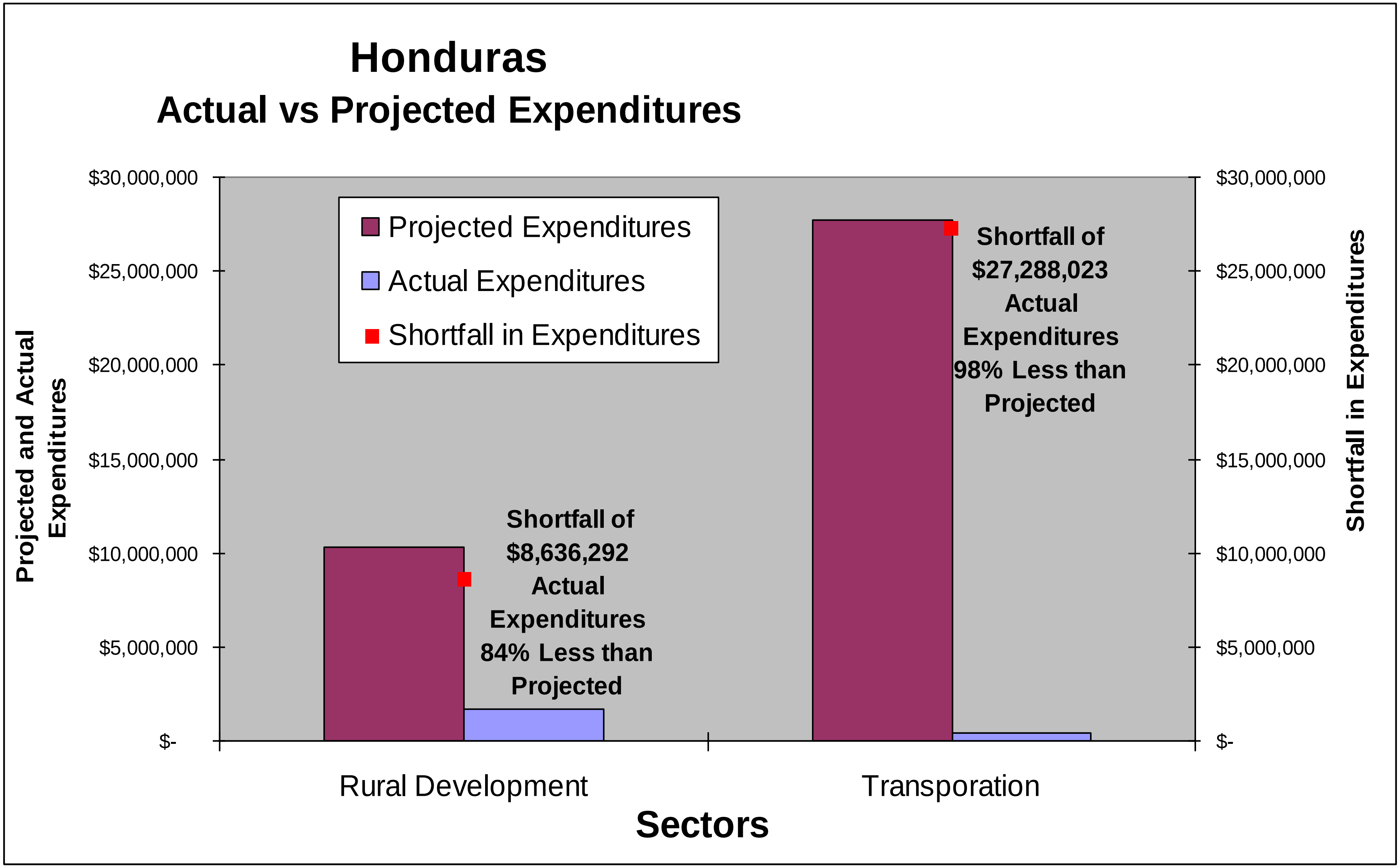
Benin	Access to Land	Access to Financial Services	Access to Justice
Projected Expenditures			
Actual Expenditures	DATA NOT PROVIDED BY SECTOR	DATA NOT PROVIDED BY SECTOR	DATA NOT PROVIDED BY SECTOR
Shortfall in Expenditures			
Percent Shortfall			

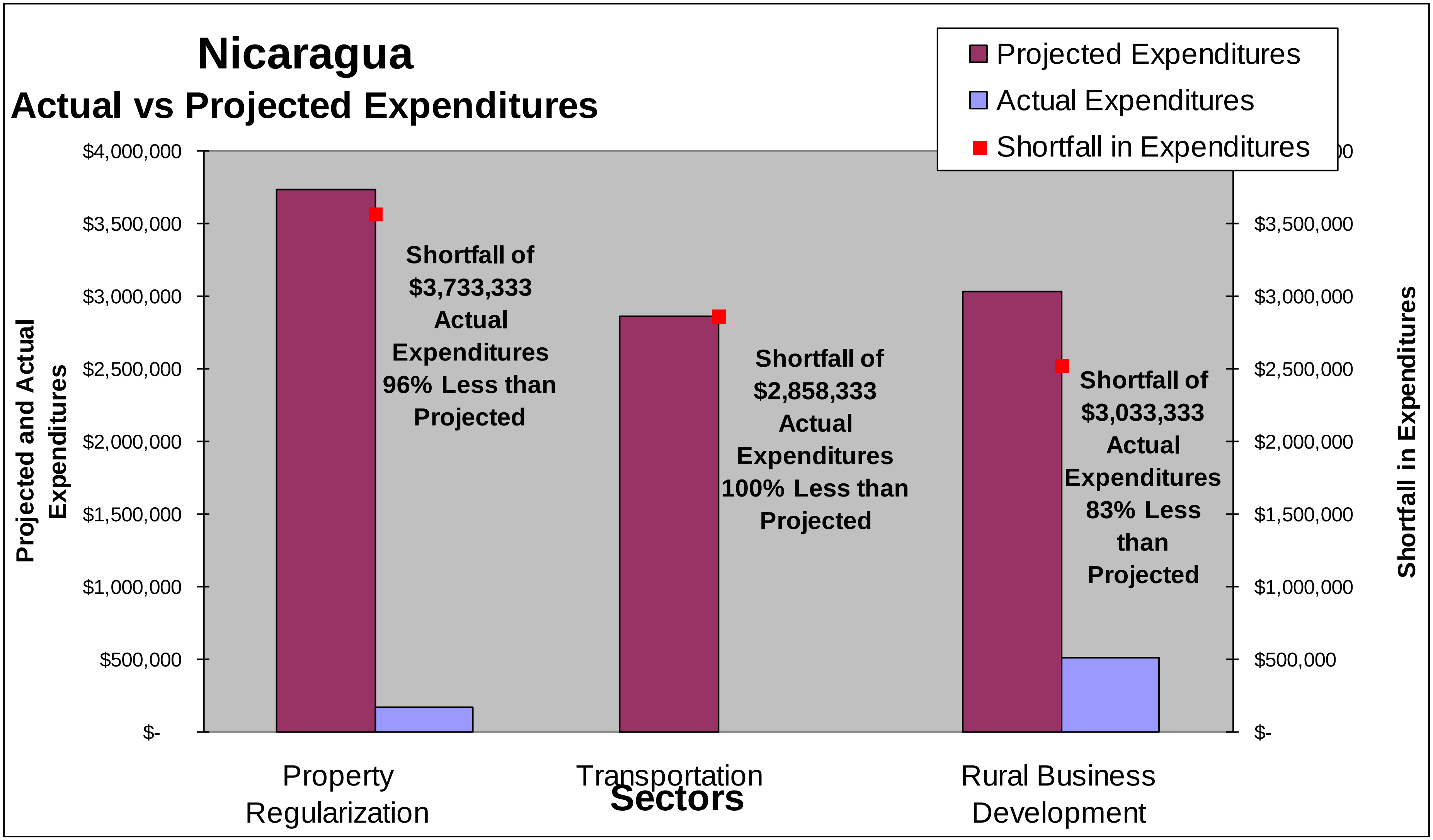
Armenia	Rural Road Rehabilitation	Irrigated Agriculture
Projected Expenditures		
Actual Expenditures	DATA NOT PROVIDED BY SECTOR	DATA NOT PROVIDED BY SECTOR
Shortfall in Expenditures		
Percent Shortfall		

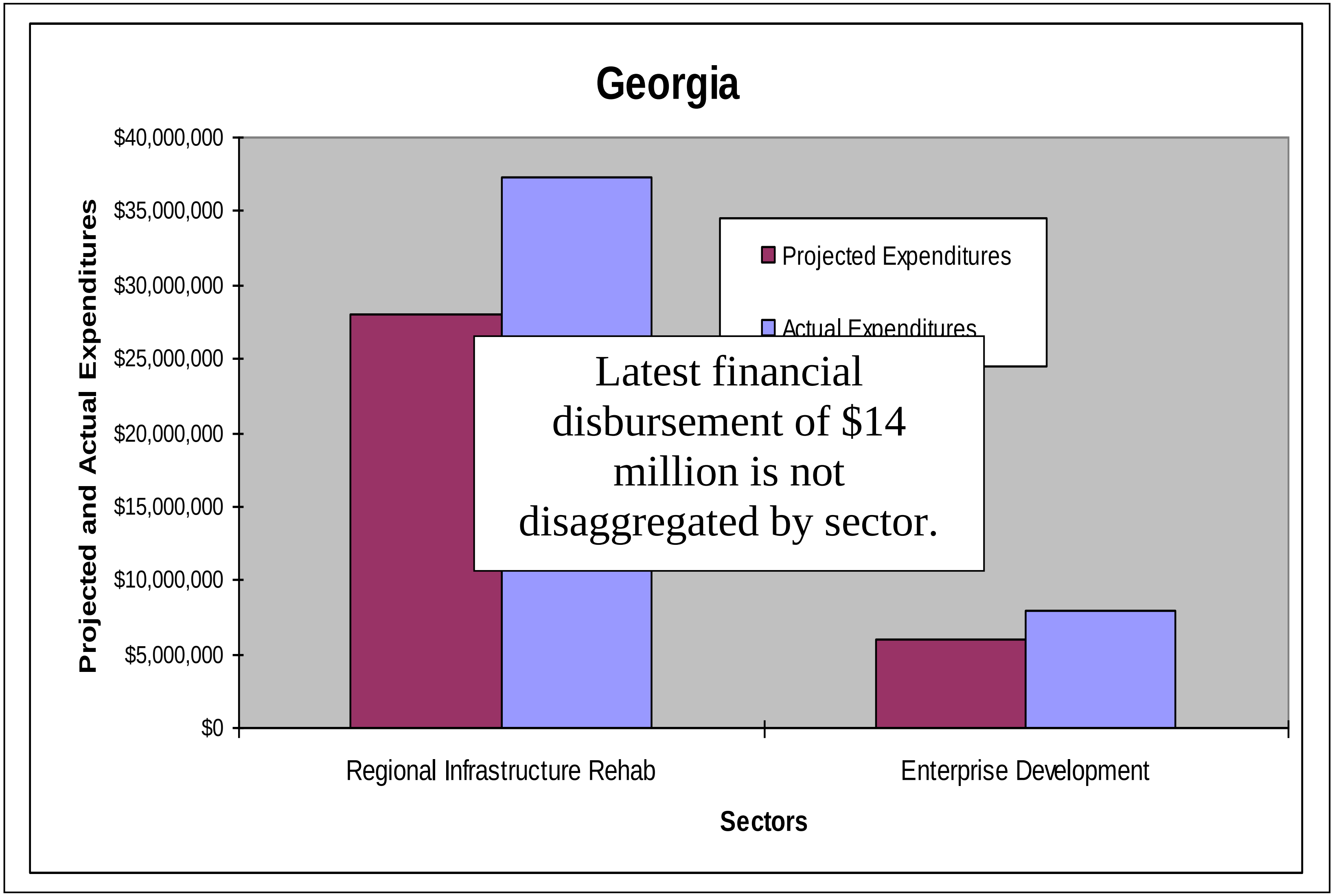
Vanuatu	Transportation Infrastructure
Projected Expenditures	$5,524,167
Actual Expenditures	$1,127,055
Shortfall in Expenditures	$4,397,112
Percent Shortfall	80%

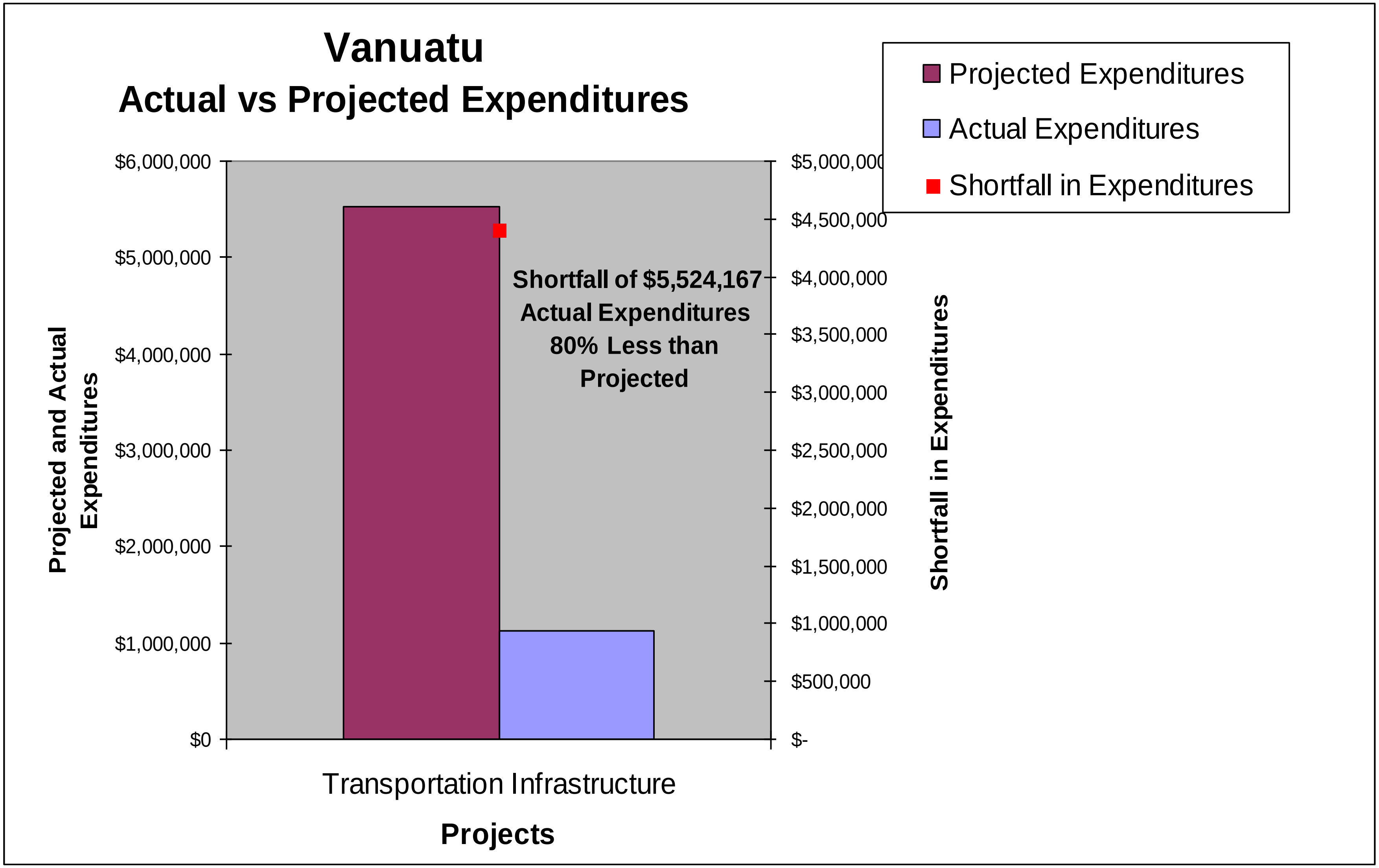

Madagascar
Actual vs Projected Expenditures
Projected Expenditures
Actual Expenditures
Shortfall in Expenditures
Projected and Actual Expenditure
Shortfall in Expenditures
$20,000,000
$18,000,000
$16,000,000
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$-
$16,000,000
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$-
Shortfall of $12,805,836 Actual Expend. 70% Less than Projected
Shortfall of $14,919,583 Actual Expend. 100% Less than Projected
Shortfall of $7,116,083 Actual Expend. 100% Less than Projected
Land Tenure
Finance
Agriculture Business Investment
Sectors

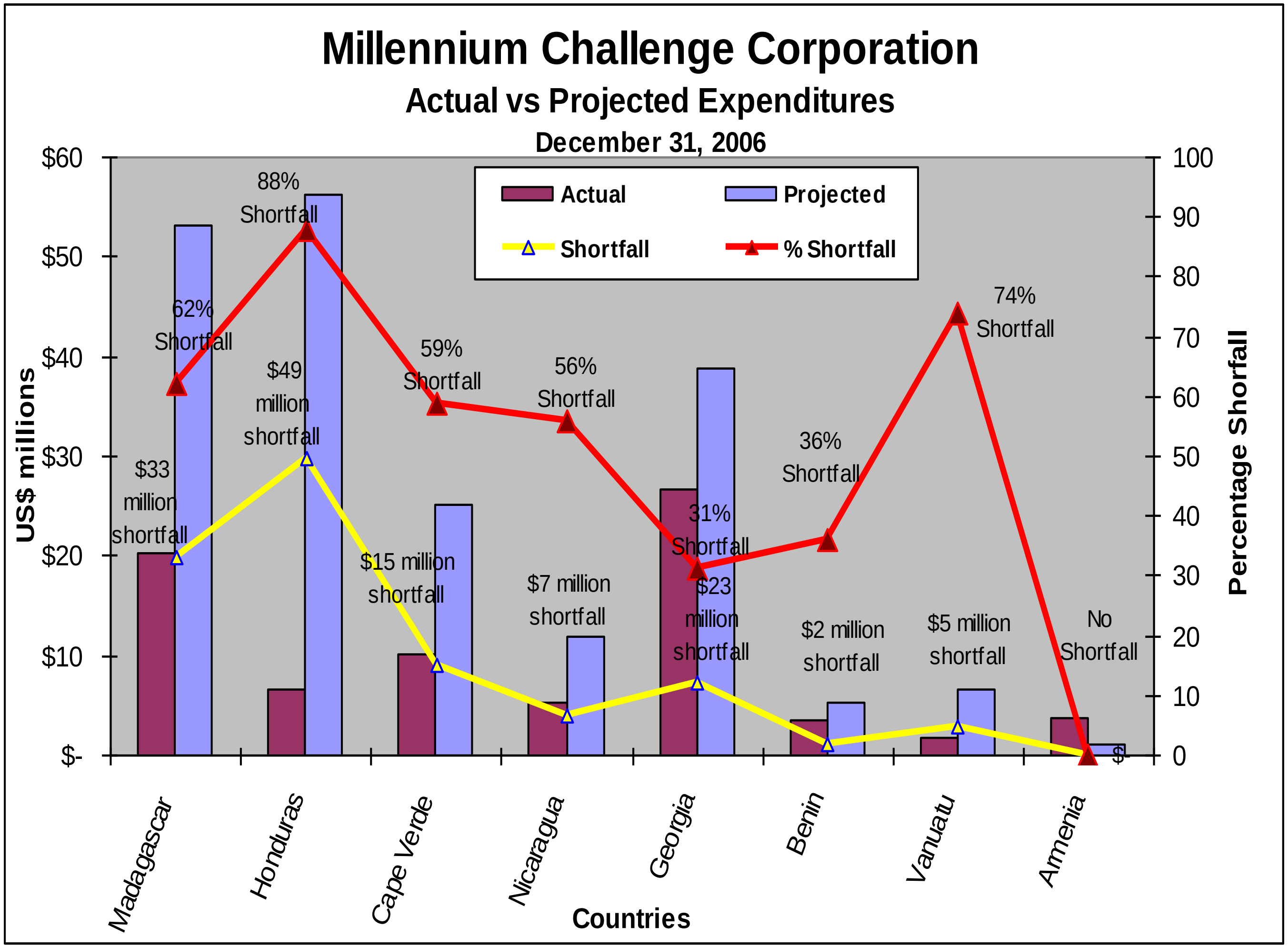

Cape Verde
Actual vs Projected Expenditures
Projected Expenditures
Actual Expenditures
Shortfall in Expenditures
$16,000,000
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$-
Actual & Projected Expenditures
$9,000,000
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
Shortfall in Expenditures
$8,431,796
57% Shortfall
in Expenditures
$3,353,731
99% Shortfall
in Expenditures
$1,882,333
100% Shortfall
in Expenditures
Infrastructure
Water Shed Mgt & Ag Support
Private Sector Development
Sectors


Honduras
Actual vs Projected Expenditures
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$-
Projected and Actual Expenditures
Shortfall in Expenditures
Projected Expenditures
Actual Expenditures
Shortfall in Expenditures
Shortfall of $27,288,023 Actual Expenditures 98% Less than Projected
Shortfall of $8,636,292 Actual Expenditures 84% Less than Projected
Rural Development
Transporation
Sectors


Nicaragua
Actual vs Projected Expenditures
Projected Expenditures
Actual Expenditures
Shortfall in Expenditures
$4,000,000
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$-
Projected and Actual Expenditures
Shortfall in Expenditures
Shortfall of $3,733,333 Actual Expenditures 96% Less than Projected
Shortfall of $2,858,333 Actual Expenditures 100% Less than Projected
Shortfall of $3,033,333 Actual Expenditures 83% Less than Projected
Property Regularization
Transportation
Rural Business Development
Sectors


Georgia
$40,000,000
$35,000,000
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
Projected and Actual Expenditures
Projected Expenditures
Actual Expenditures
Latest financial disbursement of $14 million is not disaggregated by sector.
Regional Infrastructure Rehab
Enterprise Development
Sectors


Vanuatu
Actual vs Projected Expenditures
Projected Expenditures
Actual Expenditures
Shortfall in Expenditures
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
$5,000,000
$4,500,000
$4,000,000
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$-
Projected and Actual Expenditures
Shortfall in Expenditures
Shortfall of $5,524,167
Actual Expenditures
80% Less than
Projected
Transportation Infrastructure
Projects

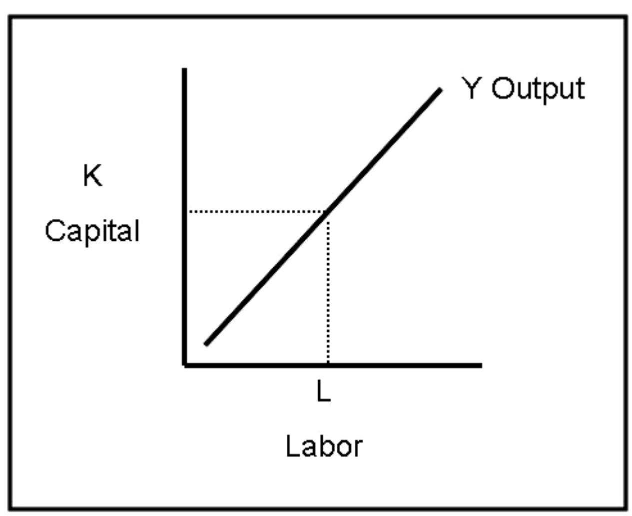


Overall Compact Disbursement

Attachment Three – Summary of Economic Growth Theory

While economists do not agree on exactly how to promote economic development, there is general agreement that development requires economic growth, a real increase in per capita income, and the social and political institutions necessary to support an expansion of the national economy. It also requires citizens who can work effectively in the enterprises. As the production of goods and services rise at a rate higher than increases in population there is economic growth. Economic development, in addition to increased per capita income, also includes fundamental changes in the structure of the economy. These changes are characterized by a growing industrial sector combined with a declining agriculture share of Gross Domestic Product (GDP) as well as significant changes in population growth, rural to urban migration, and employment opportunities. [11]

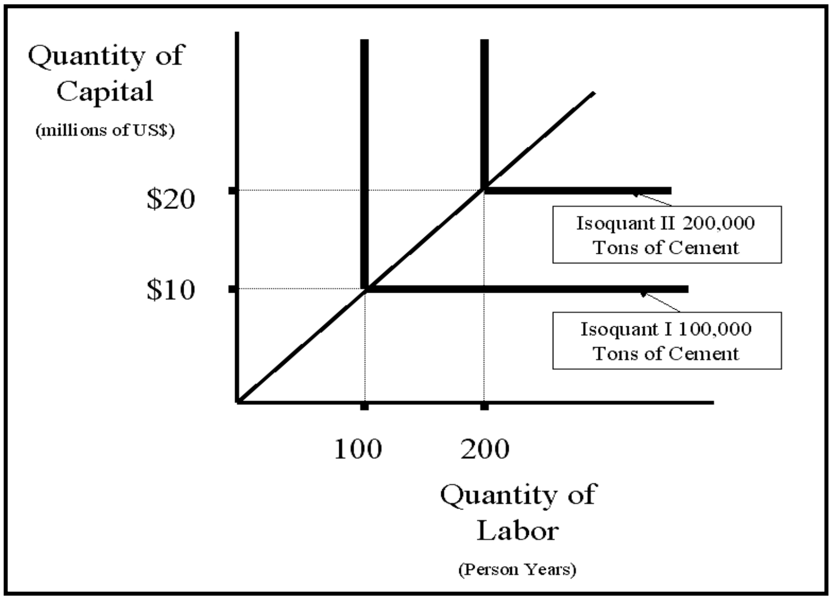
Basic Economic Growth Model – Primary factors of production under a basic model are capital stock (roads, bridges, factories, land, etc.) and labor (economically active population). Output is a function of capital and labor. At a national level, an aggregate production function can be represented by the formula Y = F (K, L) where Y is output, K is capital and L is labor. Increased output (Y) depends on increases in the capital stock (K) through investment and depreciation, and increases in labor supply (L) through population growth. The amount of investment in capital stock depends on savings and is calculated by multiplying the average savings rate in a country by national output. Labor supply is based on demographics. As capital and labor increase, economic output grows. The aggregate production function represented in the graph below is basic to economic growth models.



Basic Economic Growth Model

[11] Dwight Perkins, et al., Economics of Development 5th edition (W. W. Norton & Company. New York, N.Y. 2001) 9 -15.

Harrod-Domar Growth Model – During the 1940s economists Roy Harrod and Evsey Domar independently developed an economic growth model based on a fixed-coefficient, constant returns to scale function (this function assumes that capital and labor are used in a constant ratio to each other to determine total output – see graph). Outputs in this graph are isoquants (combinations of labor and capital that produce output). The model assumes that labor and capital are always used in a fixed proportion to produce out equal amounts of output. The model's equation is Y = K/v where v is a constant found by dividing capital (K) by investment (Y) – v is the capital-output ratio. This ratio is primarily a measure of the productivity of capital or investment.

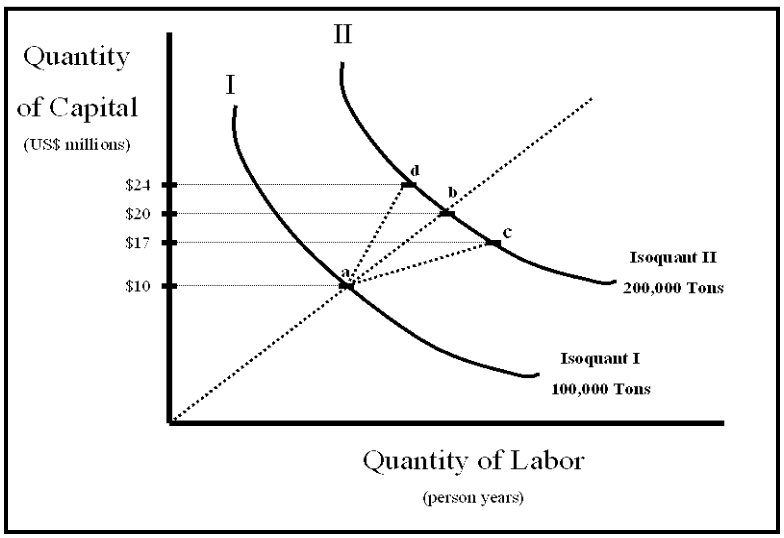


Harrod-Domar Growth Model

The Harrod-Domar model focuses on two critical aspects of the growth process: saving and the efficiency with which capital is used in investment. This model can provide accurate short term predictions of growth and has been used extensively in developing countries to determine the "required" investment rate or "financing gap" to be covered in order to achieve a target growth rate. At MCC, the "financing gap" approach was inferred in the first slide, second bullet of Franck Wiebe's "Growth Diagnostics" presentation in terms of the need for MCC to provide foreign assistance which will in turn promote "… private capital investment, both foreign and domestic, eventually displacing aid."[12] The Harrod-Domar model is simple with relatively small data requirements and the equation is easy to use. However, the model only remains in equilibrium with full employment of both labor force and capital stock causing inaccurate longer term economic predictions[13] and fails to account for technological change and productivity gains considered essential for long-term growth and development.

[12] Franck Wiebe "Constraints Analysis" Presentation at MCC.
[13] This is known as the "knife edge" problem where as soon as either capital or labor grow faster there is increasing unemployment of either labor or capital.

<u>Solow (Neoclassical) Growth Model</u> – In the 1950s, MIT economist Robert Solow presented a new model of economic growth that addressed limitations in the Harrod-Domar model. He replaced the fixed-coefficients production function with a *neoclassical production function.* This model allowed for substitution between the factors of production so that the relative endowments of capital and labor could be reflected (rather than the fixed ratios required by the Harrod-Domar model). The neoclassical production function has curved, rather than L shaped, isoquants allowing flexibility in using different combinations of capital and labor. Output can be expanded in one of three ways: (1) increases through fixed and equal portions of labor and capital, (2) increases in capital, or (3) increases in labor. The Solow Growth Model assumes a production function with the property of diminishing returns where each additional increment in capital per worker results in less output.[14] However, technological change is seen as increasing productivity. The neoclassical production function showed increasing technology or knowledge as labor augmenting and increasing output. Solow assumes technology increases independent (exogenous) of the model in two forms: mechanical (improved machinery, computers, etc.) and human capital (improved education, health, worker skills, etc.). Key determinants of growth are population growth and technical change and over time poor and rich countries incomes should converge.[15]



<u>Solow (Neoclassical) Growth Model</u>

[14] For example as each additional machine is added, there is a decrease in the overall increase in worker productivity. William Easterly's comparison in "The Elusive Quest for Growth" of India and US capital versus productivity (each US worker had an incomes of 15 times that of an India worker) showed that the difference in productivity between the US and India would require each US worker to have more than 900 machines. Capital can not account for the difference in productivity. Technological change was key.

[15] David Warsh, <u>Knowledge and the Wealth of Nations</u> (New York: W. W. Norton, 2006) 143 – 149. – "The surprising implication of the Solow model was that the savings rate didn't really matter for the growth rate. The Harrod-Domar model suggested that all poor countries had to do was to double savings to increase growth but the Solow model suggested that the effect of such capital deepening would be transitory as sooner or later the nation ran into diminishing returns. Only population growth and technological change could promote long term economic growth."

Sources of Growth Analysis – Robert Solow also developed a procedure, "growth accounting" or "sources of growth analysis", to focus directly on the contribution of each term in the production function. The objective was to determine what proportions of recorded economic growth could be attributed to growth in capital stock, growth in the labor force, and changes in overall efficiency.

Using the formula Y=F(K, L, A) where Y is output, K is capital, L is labor, and A is a parameter meet to capture the effects of things other than capital stock and labor supply which might influence growth (increasing technology, worker skill levels, education, health, institutions, etc.). "A" is generally referred to total factor productivity (TFP). Since A captures not only efficiency gains but also the net effect of errors and omissions from economic data, the residual A is sometimes referred to as a measure of our ignorance about the growth process.

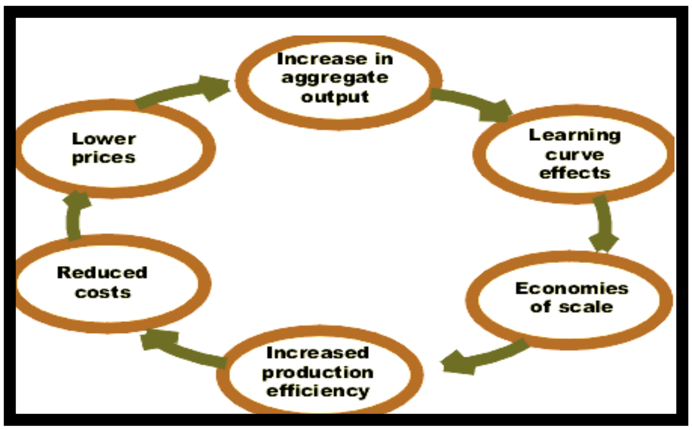
When Solow modeled data for US GNP from 1909 to 1949 of increased output less than one half of the gain could be explained by increased inputs in labor and capital. With more than fifty percent of growth attributable to the residual, logic would dictate that there must be a significant gain in productivity coming from one or more efficiency enhancing factor(s) (technical change, increased knowledge, innovation, entrepenuership, etc.) but the problem lies in actually identifying the factors affecting increased productivity.

Endogenous or New Growth Theory – In an effort to more precisely define the attributes of economic growth, a new theory was developed in the 1980s. Paul Romer's 1990 paper, "Endogenous Technological Change", was a seminal contribution to the New Growth Theory. In his paper, Romer stated that technological change was (1) is an economic good and is the driving force of economic growth, (2) arises due to people responding to market incentives, and (3) is inherently different than other economic goods. Romer stated that technology was a good that was neither a conventional nor a public good but instead is a non-rival good, partially excludable good. This was an important distinction in that private goods are seen as provided by markets and public goods either occur naturally or are provided by governments to compensate for some type of market failure.

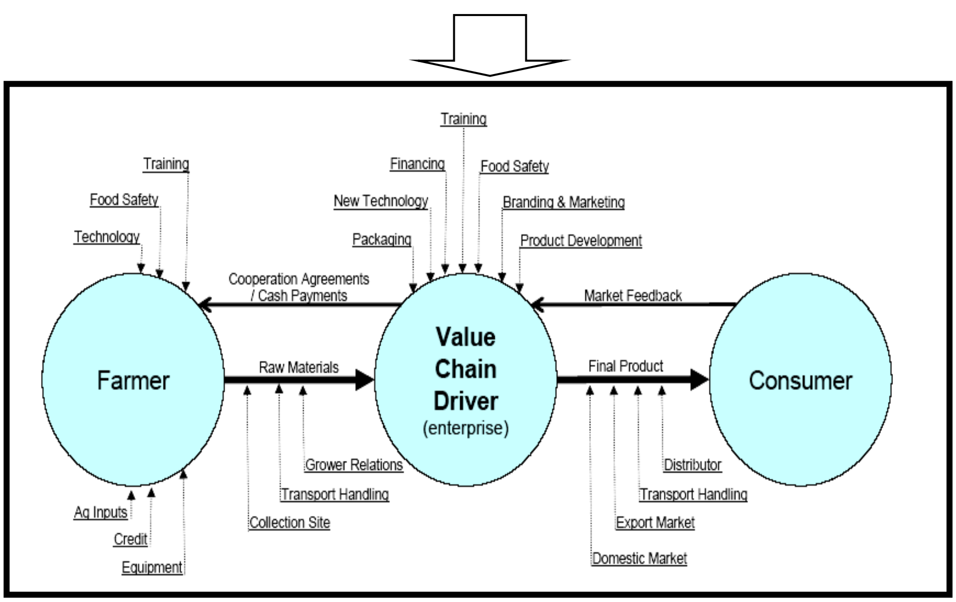
The distinction between rival and non-rival goods and the degree to which their use can be excluded from others is the key premise of Romer's model. A rival good is one that can be possessed by only one person at a time (writing with a pencil, eating an apple, etc.) whereas a non-rival good can be used unlimitedly by more than one person or firm (software program, business process, etc.). The access that more than one person or firm has to a rival or non-rival product is termed, excludability. Technology is considered a non-rival input that is at least partially excludable (otherwise there would not be an economic incentive to develop it if there was not some way to at least partially limit free access). Human capital, on the other hand, is a rival good that is excludable – mathematical equations can be a non-rival, free good but having a person with the skill to do the mathematical calculations is limited and considered rivalrous since the person who possesses this ability can not be in more than one place at the same time.

Support to generate new technology is seen as a non-rival, partially excludable good which is a requirement for production. Imperfect markets require government support of innovation and technology. The Neoclassical Growth Model, on the other hand, assumes perfect competition and argues that the market makes the best allocation of resources including investments in technology (actually technology is exogenous, not accounted for within the neoclassical model). The debate between public and private goods is important. Depending upon the theoretical approach, public support for innovation and improved business processes, activities at the heart of a "value chain" approach, can be justified.

The value chain approach is an important development strategy for the Agriculture and Rural Development Team. The value chain focus on "virtuous cycles" grounded primarily in the Endogenous Growth Model highlights the need for investment where technology, innovation, improved productivity and business processes and the subsequent increasing returns are key to promoting economic growth.



Virtuous Cycles – Endogenous Growth Model



Value Chain Approach

Attachment Four – Randomized Controlled Trials

> A growing body of carefully gathered microevidence can help with many of these decisions. Policy is increasingly becoming more a matter of science than an act of faith.
>
> **Abhijit Vinayak Banerjee**

No one disagrees with the fact that randomized controlled trials offer a unique opportunity to test the effectiveness of foreign assistance interventions. One of the leading proponents of this approach is Abhijit Vinayak Banerjee, Director of the Jameel Poverty Action Laboratory (J-PAL) at MIT. J-PAL is working with development organizations to find ways to assess their interventions for effectiveness using an approach that is able to conclusively indicate causal relationships between development activities and social and economic improvements. The problem comes in trying to apply this evaluation method to large complex development programs.

> A number of the larger foundations, including the Bill and Melinda Gates Foundation and the William and Flora Hewlett Foundation, have shown a strong commitment to using evidence to inform their decisions. Even more remarkably, the U.S. government's latest aid effort, the Millennium Challenge Corporation, has expressed a strong commitment to randomized evaluations of the programs it supports.
>
> Abhijit Vinayak Banerjee
> Director, Jameel Poverty Action Lab, MIT

Howard White, a senior evaluation officer of the Independent Evaluation Group at the World Bank of the World Bank offered these comments on the use of randomized controlled trials: *"I agree that aid agencies should do more randomized impact evaluations. In fact, they should be implemented whenever possible. But this statement needs to be put into perspective, as the portion of development aid that can be subject to randomized impact evaluation is severely limited. Testing must not be promoted exclusively and at the expense of other valuable approaches. And while randomized impact evaluations can yield useful information, the search for technical rigor must not take precedence over practical lesson-learning. Randomized approaches can be used to evaluate discrete, homogenous interventions, much like a pill in a drug trial. But most of the projects of large official agencies—which constitute the bulk of aid—do not resemble the conditions of medical testing.*

Attachment Five – Enterprise of the Americas Initiative (EAI) & Tropical Forest Conservation Act (TFCA)

The Tropical Forest Conservation Act (TFCA) was enacted in 1998 to offer eligible developing countries options to relieve certain official debt owed the U.S. Government while at the same time generating funds in local currency to support tropical forest conservation activities. In addition to forest conservation and debt relief, TFCA is intended to strengthen civil society by creating local foundations to support grants to NGOs and local communities. The program also offers a unique opportunity for public-private partnerships and the majority of TFCA agreements to date have included funds raised by U.S.-based NGOs. TFCA is implemented through bilateral agreements with eligible countries. As of October 2006, 12 TFCA agreements have been signed, which will generate more than $135 million over the life of the agreements, plus additional investment funding and potential counterpart funding, for tropical forest conservation in 11 countries over the next 10 to 25 years: Bangladesh, Belize, Botswana, Colombia, El Salvador, Guatemala, Jamaica, Panama (two agreements), Paraguay, Peru, and the Philippines. The three most recent agreements — with Botswana, Guatemala and Paraguay — were signed in 2006.

U.S. government expenditures, totaling nearly $83 million thus far, have leveraged millions from private donors. The US expects to conclude additional TFCA agreements in the future as this successful program continues. TFCA is scheduled to be reauthorized for another three years during the 2008 legislative session. For more information, go to: www.treas.gov/offices/international-affairs/index.html. TFCA is modeled after the successful Enterprise for the Americas Initiative (EAI) established by former President Bush in 1991 to enable Latin American and Caribbean countries that moved to open investment regimes to redirect a portion of their debt payments from the U.S. Government into a local fund to support environmental and child survival programs. The EAI program is inactive in terms of negotiation of new agreements. The last such EAI agreement was signed with the government of Peru in 1997.

Because the TFCA is based upon the EAI, the laws creating them read very much alike. Both laws are intended to provide opportunities for eligible countries to reduce a portion of their concessional debt owed the United States while generating funds for social or environmental programs. In fact, the TFCA requires countries to meet the same political and economic eligibility criteria as the EAI and expands the Enterprise for the Americas Board established under the EAI to include agencies and private members with tropical forest expertise. Because of the similarities in their overall objectives, the benefits of the two programs are similar in terms of cash flow relief, financial leverage, debt reduction, strengthening civil society and the creation of grant making foundations. The programs differ in geographic focus and scope. The TFCA is open to eligible countries around the world but is programmatically narrower than the EAI in that it focuses on tropical forest conservation.

Argentina - The EAI in Argentina was created by a bilateral debt reduction agreement with the United States in January 1993. This agreement reduced approximately $4 million of debt owed by Argentina to USAID. The interest on the remaining $34 million was projected to provide $3.1 million to the EAI over a 14-year period. Fund operations of the EAI began in September 1995. Mission Statement of EAI/Argentina: To promote activities designed to preserve, protect, or manage the natural and biological resources of Argentina in an environmentally sound and sustainable manner, while encouraging the improvement of child survival and development in Argentina.
Website: www.medioambiente.gov.ar/fam/default.htm

Bolivia - The EAI in Bolivia was created through a bilateral debt reduction agreement with the United States in August 1991. This agreement reduced approximately $31 million of P.L. 480 debt. Interest on the remaining $7 million debt, together with a voluntary $20 million bond issued by the Government of Bolivia as part of a separate deal that discharged $341 million of USAID loan debt, is projected to provide the EAI Fund with $21.8 million over a 15-year period. Operations of the Fund began in September 1992. The Fundación para la Protección y Uso Sostenible del Medio Ambiente (PUMA Foundation) is the current fund administrator. Mission Statement of the PUMA Foundation: We exist to change the relationship between human beings and nature, in order to sustain both for mutual benefit. Website: www.fundacionpuma.org

Chile - A highly successful Americas Fund for Chile existed from 1993 to 2003. In late 2003, the Fund was privatized and changed its name to the Citizens Foundation of the Americas. It now administers the nearly $13.5 million United Nations Global Fund on HIV/AIDS, Malaria and Tuberculosis for Chile.

Colombia - The EAI in Colombia was created through a bilateral debt reduction agreement with the United States, signed in December 1992, which reduced Colombia's debt obligations to the United States by approximately $31 million. The interest on the remaining $279 million USAID debt obligation is projected to provide the Fund with $41.6 million over a ten-year period. The final payment was made to the Fund by the Government of Colombia on October 4, 2002. Fund operations began in April 1995. In 2000, Fund management was removed from the Colombian umbrella environmental non-governmental organization (NGO), Ecofondo, and a new fund was established, the Fund for Environmental Action (Fondo para la Acción Ambiental – FPAA). Mission Statement of the Fondo Para la Acción Ambiental (FPAA): FPAA's mission is to support initiatives of community-based organizations and other non-governmental non-profit organizations in environmental and child survival and development work in accordance the U.S.-Colombia bilateral agreement. Grants should contribute to the sustainable development of the country at the local, regional and national levels. FPPA Website: www.accionambiental.org

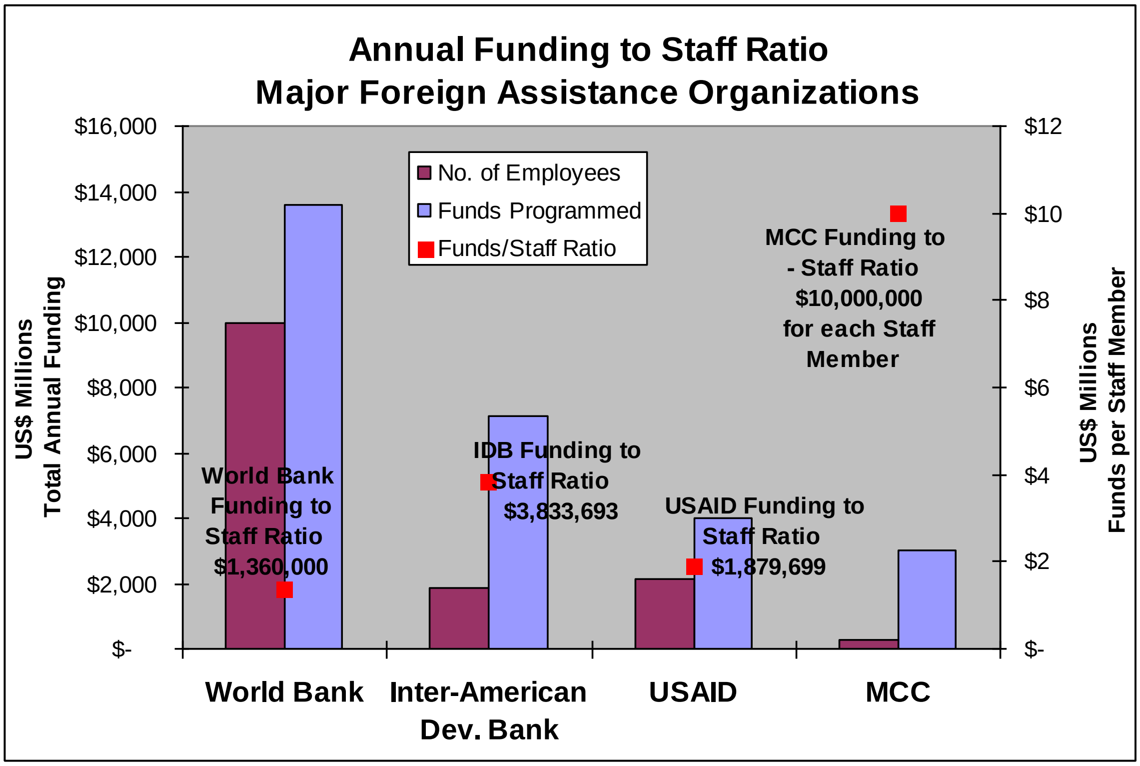
El Salvador - The EAI in El Salvador (FIAES) was one of the first debt for nature funds to be established when the EIA framework agreement was signed in June 1993. Now 10 years later, FIAES is well established as one of the major programs in El Salvador that support local NGOs and Community Development Organizations dedicated to promoting child survival and environmental conservation activities. The agreement reduced approximately $464 million of USAID and P.L. 480 debt, leaving about $150 million to be repaid. Interest on the remaining debt, to be used for environmental conservation and child survival projects, was projected to be about $41.2 million over a 20-year period. Mission Statement of FIAES: To negotiate and manage financial resources in order to support projects that can contribute to the protection and recovery of natural resources and the environment, through the participation of civil society, in order to improve the well being of the present and future generations of El Salvador. Website: www.fiaes.com.sv

Jamaica - The Environmental Foundation of Jamaica (EFJ) was created through bilateral debt reduction agreements with the United States signed in August 1991 and January 1993. These agreements reduced USAID and P.L. 480 debt by about $311 million. The interest on the remaining $95 million is projected to provide the Fund with a total of $21.5 million over a 19-year period. Operations of the EFJ began in May 1993. Mission Statement of the Environmental Foundation of Jamaica (EFJ): The Foundation promotes, supports, and implements activities designed to conserve the natural resources and the environment of Jamaica and to foster the well-being of our children. To this end, the Foundation will give the highest priority to those activities from which benefits are sustainable and/or replicable. EFJ Website: www.efj.org.jm

Peru - The Americas Fund of Peru (AFP) was founded through a debt buyback agreement with the United States signed in June 1997. The Framework Agreement was subsequently signed in December 1997. Through this agreement, Peru bought back $177 million of its USAID and P.L. 480 debt at a cost of $57 million. As part of the transaction, Peru also agreed to endow a Fund with $22.8 million in local currency. Operations of the AFP began in March 1999. Mission Statement of the Americas Fund of Peru (AFP): The AFP promotes activities designed to preserve, protect, or manage the natural and biological resources of Peru in an environmentally sustainable manner, while encouraging the improvement of child survival and development in Peru. AFP Website: www.fondoamericas.org.pe

Uruguay - The Fund of the Americas-Uruguay (FAU) was founded through a bilateral debt reduction agreement with the United States signed in June 1993. This agreement reduced USAID and P.L. 480 debt by approximately $4 million. The interest on the remaining $31 million is projected to provide the Fund with a total of $6.2 million over a 12-year period. Operations of the FAU began in October 1994. Unless additional funding is identified, deposits into the FAU are scheduled to terminate in 2005. Mission Statement of the Fund of the Americas-Uruguay (FAU): The objectives of Fondo de las Américas - Uruguay (FAU) are to promote activities geared to conservation, protection, or administration of natural and biological resources, and to enhance the development of children and young people in Uruguay. FAU Website: www.famericas.org.uy

<u>Attachment Six – Funding to Staff Ratio for Major Foreign Assistance Organizations</u>



World Bank source for employment and lending is based on WB Annual Report 2005.

USAID source for employment and program funding is based on 2007 Budget Submission to US Congress.

Inter-American Development Bank source for employment and lending is based on IDB Annual Report 2005.

MCC staff level is assumed to be 300 (currently staffing level according to MCC Intranet information) is 270. Total annual program funding estimate is $3 billion.

Attachment Seven – MCC Compact Activities

<table>
<tr><th>Georgia</th><th>Productive Component</th><th>Financial Plan</th><th>Indicators</th></tr>
<tr><td colspan="2">The $48 million Enterprise Development Project is designed to provide access to capital on viable terms, support policy reforms to improve the business environment, and improve business and technical skills. The Enterprise Development Project consists of two activities:

<u>Investment Fund Activity</u> – To provide capital to micro and small/medium enterprises (MSMEs), technical assistance for portfolio companies, and idenitfy legal & policy reforms to encourage further investment in MSMEs. Geographic limit on investments. Limit on maximum investment size. Development and Financial potential criteria required that increases development impact and financial rate of return. Prohibition on certain types of investment (including environmentally sensitive investments) TBD. <u>Investment Fund Governing Board</u> established independent of MCA Georgia. <u>Investment Manager</u> competitively selected to manage Investment Fund. <u>Investment Committee</u> established to approve investments and conduct M&E of investments.

<u>Agribusiness Development Activity (ADA)</u> – To improve economic performance of agribusinesses through technical assistance, targeted grants and market information that support development of value chains supply agricultural products. Consists of three sub-activities: (1) <u>Access to Technology</u> (dairy infrastructure, ag supply centers, livestock sector, genetic material); (2) <u>Grants to Rural Enterprises</u> – competitive grants program for primary production, service providers and/or value adding enterprises with selection based on business plan and matching co-investment in land, facilities, labor or additaional equipment. Grants range from $5,000 to $50,000. ADA manager selected by competitive process will manage call for applications and establishment of independent grant award committee to review and award grants.</td>
<td><u>Five Year Financial Plan</u>
$ 295 million

<u>Reg. Infrastructure Rehab - $212</u>
Road - $102,
Reg. Infrastructure - $60
Energy Rehab. - $50

<u>Enterprise Development - $48</u>
Reg. Dev. Fund - $33
Agribusiness Development - $15

<u>Monitoring & Eval - $8</u>

<u>Program Admin & Control - $28</u>
Administration - $13
Audit - $3
Fiscal & Procurement - $12</td>
<td>Goal Level

(1) Reduction in poverty gap,

(2) Reduction in poverty incidence, &

(3) Incremental increase in household incomes.

Productive Activity

(1) Aggregate jobs created by program interventions; and

(2) Aggregate incremental household incomes & business revenues.</td></tr>
</table>

<table>
<tr><th>Nicaragua</th><th>Productive Component</th><th>Financial Plan</th><th>Indicators</th></tr>
<tr><td colspan="2">The Rural Business Development Services program will increase profits and wages in farms and non-farm businesses in Leon-Chinandega.

Specifically the program will: (1) collect and disseminate market demand information as well identify farms and businesses that could produce this products; (2) develop business plans for farmers and other businesses to meet market demand; (3) develop policy recommendations to promote high profit enterprise development; (4) promote investment in the Leon-Chinandega area by stimulating interest in the region’s resources through a public relations campaign, providing investor services, and coordinating with other donor programs; (5) improve productivity through research and development projects outsourced to local and international universities and research institutions; and (6) manage Technical and Financial Assistance and Water Supply Grants.

Technical & Financial Assistance Activity – Assist selected farmers and businesses to obtain technical assistance and funding required to successfully execute business plans developed under the Rural Business Development Services program. The program will either directly finance or assist selected farms and businesses obtaining financing.

Water Supply Grants – Improve water supply for irrigation and promote sustainable land use in upper watershed of Leon – Chinandega by preparing a watershed mgt plan that identifies critical water deficiency issues and establishing a competitive process for proposals to implement (1) site specific small scale irrigation, soil conservation, reforestation activities, and/or (2) investments in higher value farming and/or forestry in this region. Activities must fit under the watershed plan, have community support, have a oversight structure that ensures maintenance, and be economically viable (ERR 10% or higher, Financial Rate of Return 8% or higher).</td>
<td>Five Year Financial Plan
$175 million
Property Regularization - $26.5 million
Capacity Building - $5.1
Cadastral Mapping - $3.3
Land Tenure - $9.8
Database Installation - $0.3
Protected Area Demarcation - $1.1
Analysis & Communication - $4.4
Contingency - $2.4

Transportation Project - $92.8 million
Pacific Corridor Road - $32
Secondary Roads - $60
TA to FOMAV - $0.3
TA to MTI - $0.5
Rural Business Dev.- $33.7 million
Business Services
Tech & Financial Assistance
Grants for Water & Forestry
Contingency

Program Admin./M&E – $10.6 million
Establish MCA – Nicaragua - $4
M&E - $3.3
Financial Audits - $2.5
Contingency - $1
Procurement Agent - $11.5 million</td>
<td>Goal Level
Increased Economic Growth & Reduced Poverty - Income Gains attributed to each component of the overall Compact.
Productive Component – ↑ value added of farms and enterprises in the region.

Objective Level –
(1) # of businesses in higher profit enterprise, (2) # of manzanas in high value production, (3) annual % increase in value added of participants, (4) # of jobs created, & (5) # of manzanas with higher value crops or reforesting from improved water supply.

Outcome Level - # of business plans & US$ of new investment in Leon & Chinandega

Activity Level – Value of TA delivered, Watershed Mgt Plan, Funds Disbursed.</td></tr>
</table>

Honduras	**Productive Component**	**Financial Plan**	**Indicators**
Rural Development Project will increased productivity and improve the competitiveness of owners, operators and employees of small and medium sized farms supported under the program by supporting (1) Farmer Training and Development, (2) Farmer Access to Credit, (3) Farm to Market Roads, and (4) Agricultural Public Goods Grant Facility. Farmer Training & Development – Fund training by one or more service providers with proven experience in providing market-oriented technical assistance in agronomy and business skills for small to medium scale farmers. This activity will identify market demand and farmers willing to produce for specific markets, develop business plans, help farmers obtain credit, provide agronomic and business assistance, ensure environmentally sound production, and certify that no crops supported by the program will displace US crops. Farmer Access to Credit – Activities include: (1) Technical assistance to help financial institutions analyze risk; (2) $6 million credit program for farmer credit (pay back required prior to completion of Compact with reflows going to support public goods, farmer training and non-profit support); (3) Expansion of national property registration system and interconnecting it with land title registry and commercial registry; and (4) Technical assistance to develop collateral based credit products to improve access to credit. Farm to Market Roads – Fund 1,500 kms of rural roads in 2 phases (1) pilot project using 30% of funding, and (2) rest of funding for MCA Honduras selected road system. Selection of roads for improvement will be based on potential economic impact, will conform to environmental and resettlement guidelines, and have a municipal maintenance plan and cost share commitment. Agricultural Public Goods Grant Facility – Finance activities to support market-based commercial agriculture (particularly horticulture) comprised of "public goods" (genetic material) and "quasi-public goods" (collective infrastructure such irrigation, power supply, cold storage and packing facilities, disease control). Limit of $1 million per grant. Competitive process with selection criteria to be determined. Total of $9 million in grants. Grant Committee established to administer the Facility.		**Five Year Financial Plan US$215 million** **Rural Dev. Component - $72.2** Farmer Training - $27.4 Access to Credit - $13.7 Farm to Mkt Roads - $21.5 Ag. Grant Facility - $8 Rural Dev. Project Mgt. - $1.5 Transportation Component - $125.7 Highway CA-5 - $96.4 Secondary Roads - $21.3 Weight Control System - $4.7 Transport Mgr. - $3.3 **M&E - $4.9** Program Administration - $12.1	Goal Level Increased Economic Growth & Reduced Poverty – Increase in income of beneficiaries measured under each component. Productive Component – ↑ value added of farms and enterprises in the region. Objective Level - (1) # of farmers harvesting high value production, and (2) # of hectares harvesting higher value crops. Outcome Level - # of business plans, Value of loans to Program farmers, % of MCA loan portfolio at risk, # of liens registered. Activity Level – Hours of TA delivered, Funds Lent by MCA Honduras to financial instituations, Hours of TA to financial institutions, lien Registry Equipment Installed.

Madagascar	Productive Component	Financial Plan	Indicators
Agricultural Business Investment Project will assist farmers in transitioning to a market agriculture by establishing a national capacity to (1) provide information regarding agribusiness, technology, finance and management, (2) improve the quality of credit demand, (3) increase the number of profitable agribusiness market opportunities. The project will finance 4 activities: (1) Agribusiness Centers – Establish 5 agribusiness support centers in geographic zones to identify markets, develop business plans, and work with farmers and enterprises to promote new business opportunities. (2) National Coordination Center – Support National Center to promote coordination between Ministry of Agriculture and 5 agribusiness centers. Activities include (a) identifying geographic zone, (b) develop SOWs and budget for 5 agribusiness centers, and (c) provide technical assistance and support for national agricultural master plan. (3) Identify Investment Opportunities – In five agribusiness zones conduct market research and mkt information dissemination. (4) Build Management Capacity – Conduct training and outreach activities in the five agribusiness zones and establish demonstration centers to illustrate to rural producers benefits of sustainable production and processing practices, including environmental stewardship factors.		**Five Year Financial Plan US$109.8 million** Land Tenure - $37.8 Land Policy Framework - $1 Land Administration - $19.8 Decentralization - $7.7 Land Regularization - $7.9 Information Services - $1.3 Finance - $35.9 Legal & Reg. Reform - $1 Debt Mgt - $1 Strengthen Natl Bank - $1.9 Agri-business Credit - $8.4 Interbank System - $21 Improve Credit Skills - $2.5 Ag. Business Investment - $17.7 Ag. Centers (5) - $11.3 Coord. Center - $0.1 Identify Investments - $6.1 Build Mgt. Capacity - $0.2 M&E - $3.4 Program Administration - $15 Administration - $7.2 Fiscal, procurement, audit - $7.8	**Goal Level** – Reduce poverty **Productive Activity** – (1) 5 zones identified and cost effective investment strategies developed; (2) 1 agribusiness investment strategy developed for each zone; (3) value of change in marketing and production techniques exceeds costs.

<table>
<tr><th>Benin</th><th>Productive Component</th><th>Financial Plan</th><th>Indicators</th></tr>
<tr><td colspan="2">The Financial Services Project will improve the ability of micro and small- and medium-scale enterprises (MSMEs) to access financial services that will improve the sustainability of their businesses.

Two project activities will be financed: (1) <u>Financial Institution and Borrower Capacity Building Activity</u> – Improve the capacity of financial institutions to expand existing or establish services to new MSMEs; and (2) <u>Financial Enabling Environment Activity</u> – Identify and support legal and policy changes that are needed to facilitate the expansion of financial sector.

<u>Financial Institution and Borrower Capacity Building Activity</u> - This activity involves 2 sub-activities:

(1) <u>Demand and Feasibility Assessments</u> (4 studies specified – (a) demand study for services to MSMEs, (b) economic feasibility and cost assessment, (c) demand study for business development services, and (d) follow-up studies;

(2) <u>Financial Innovation and Expansion Challenge Facility</u> – MCC funding will support a demand-driven and competitive mechanism that will co-fund with participants technical assistance and capacity building for both financial institutions and MSMEs. This program will require potential beneficiaries to compete for support based on transparent criteria and contribute a significant portion of the project costs. MCC funding shall finance up to 66% of the cost of selected projects with the share funded by MCC Funding decreasing over time (this is a cap, and in some cases the program criteria may set a lower percentage of support by MCC Funding). Operating costs shall not be eligible for support and the remainder of a project's cost must be provided by private enterprises (which may include NGOs). Specific guidance on establishing the Challenge Facility and on development of selection criteria (10 criteria are mentioned and include – market demand, impact, effectiveness, implementation capacity, demonstration effect, commitment, sustainability, timing, limitations on use of funding. Three components (1) Innovation – financial institutions, (2) Institutional Strengthening – microfinance institutions, and (3) MSME Business Development – improve credit worthiness of MSMEs.</td><td>Five Year Financial Plan
US$307 million

<u>Access to Land - $36</u>

<u>Policy - $1.3</u>
Registration - $23.2

<u>Services & Info – $10.5</u>
IEC Activity - $0.5
Strategy - $0.6

<u>Access to Fin. Services - $19.7</u>
Capacity Building - $13.1
Financial Enabling - $6.6

<u>Access to Justice - $34.3</u>
Arbitration Center - $0.9
Business Registration - $1.8
Courts Activity - $32

<u>Access to Markets - $169.5</u>
Studies - $8.1
Port Institutional - $11.3
Port/Landside - $73.9
Waterside – $76.2

<u>M&E – $8.8</u>
<u>Program Administration - $39.1</u>
Administration - $15.1
Fiscal & Procurement - $16.9
Audits - $7.1</td><td>Goal Level –
Reduce poverty through economic growth – increase household income, increase value added of SMEs and increase value added of port users.

Access to Finances Activity
(1) Value of new financial services offered by financial institutions.
(2) Average portfolio at risk is less than 30 days of participating MFIs.
(3) Operational self sufficiency of participating MFIs.
(4) Number of MFIs supervised by the Micro-finance Cellule.
(5) Number of new bank credits guaranteed with land titles.</td></tr>
</table>

<table>
<tr><th>Armenia</th><th>Productive Component</th><th>Financial Plan</th><th>Indicators</th></tr>
<tr><td colspan="2">MCC funding to support expanded and improved irrigation infrastructure by:

Infrastructure Activity
(1) Rehabilitating up to 21 irrigation schemes that includes conversion of 15 schemes from pump to gravity systems, construction or rehabilitation of 7 reservoirs, rehabilitate 200 km of main canals, renovate 68 pumping stations, rehabilitate tertiary canals utilizing 15 percent beneficiary co-investment.

(2) Rehabilitating additional tertiary canal systems in up to 9 water districts,

(3) Renovating drainage system serving the Ararat Valley production systems, including renovating open and closed drains, tube wells and artesian wells within 3 sub-regions.

Water-to-Market Activity
(1) Strengthen irrigation system entities – support reforms, build capacity and support establishment of professional irrigation association.

Improving farmer profitability – provide access to technology and training in on-farm water mgt and higher value ag production, provide training to farmers and MSMEs on post-harvest processing and marketing investments, and build capacity within credit organizations to improve access to credit.</td><td>Five Year Financial Plan
US$236 million

Rural Road Rehab. - $67.1

Irrigated Agriculture – $145.7

M&E - $5.1

Program Admin. – $17.8</td><td>Goal Level –
Reduced rural poverty.

Increased economic performance of the agricultural sector.

Productive Activity –

Increased agricultural productivity – Increase in area covered by high value added (HVA) crops.

Improved quality of irrigation – Share of respondents satisfied with irrigation services.</td></tr>
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<table>
<tr><th>Cape Verde</th><th>Productive Component</th><th>Financial Plan</th><th>Indicators</th></tr>
<tr><td colspan="2">Water Management and Soil Conservation – Development of water management infrastructure to slow run-off, capture water in reservoirs, and re-charge aquifers. Technical assistance to provide community based water management plans. Construction of physical infrastructure (reservoirs, terraces, dikes, contour walls, check dams, vegetative barriers and other structures).

Agribusiness Development Services – Establishment of demonstration farms, extension training centers and technical assistance targeted to farmers, small agribusinesses and local municipalities and support of processing and marketing efforts, including addressing the impact of pests, the need for phyto-sanitary regulations, inspection and certification center and an applied research center. Technical assistance and training in irrigation, water management, fruit development, rural engineering, etc. Establishment of research center and distribution of seedlings and saplings of new and improved varieties of fruits and vegetables. Construction of packing sheds in each of the watershed areas. Establishment of inspection center. Technical assistance for sustainability plans of all of the above.

Access to Credit – Provision of credit for drip irrigation, working capital and agribusiness investments and technical assistance to increase the capacity of financial institutions in the provision of financial services. Loans for 60% of equipment and the cost of ag. inputs. Loans to grant mechanism.</td><td>Five Year Financial Plan US$110.1 million

Watershed Mgt. & Ag - $10.9

Infrastructure - $78.8

Private Sector Dev. - $7.2

M&E - $4.9

Program Admin. - $8.4</td><td>Goal Level –

Productivity –
• Horticulture (tons per hectare);
• Value-added for farms and agribusiness – dollars);
• Volume of goods shipped between Praia and other islands (tons);
• Mobility Ratio – trips per month;
• Savings in transport costs;
• Value-added in priority sectors;
• Investment.</td></tr>
</table>

Vanuatu	**Productive Component**	**Financial Plan**	**Indicators**
No productive component – only infrastructure – improved infrastructure will increase tourism sector and result in increased incomes.		**Five Year Financial Plan US$65.7 million** Transport Infrastructure - $60.7 Program Mgt. - $1.6 M&E – $1.4 Fiscal & Procurement Agent - $1.7 Audit - $0.3	**Goal Level** – Increased economic growth and poverty reduction. **Outcome Level –** (1) Number of hotel rooms constructed. (2) Number of tourists per annum. Number of Hotel & Bungalow Bed-nights.