Millennium Challenge Corporation Compact Development Guidance

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MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

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OVERVIEW OF THE COMPACT DEVELOPMENT PROCESS

Compact development is vital to MCC's operations as it defines the content of compact investments, establishes relationships with country counterparts and sets the stage for the success or failure of compact implementation. The following guidance, revised as of January 2012, provides MCC staff and their country counterparts with instructions, lessons learned, templates, and other material to assist with the development of a compact agreement.

Countries developing compacts should keep a number of key principles in mind:

- **Poverty Reduction through Economic Growth:** MCC's goal is to assist partner countries to reduce poverty through economic growth. MCC's compact development process is designed to achieve this by focusing on a country's key constraints to economic growth and poverty reduction. MCC believes a country's development is sustainable only if aid is eventually replaced with private sector-driven economic activity that protects environmental capital and advances social equality.

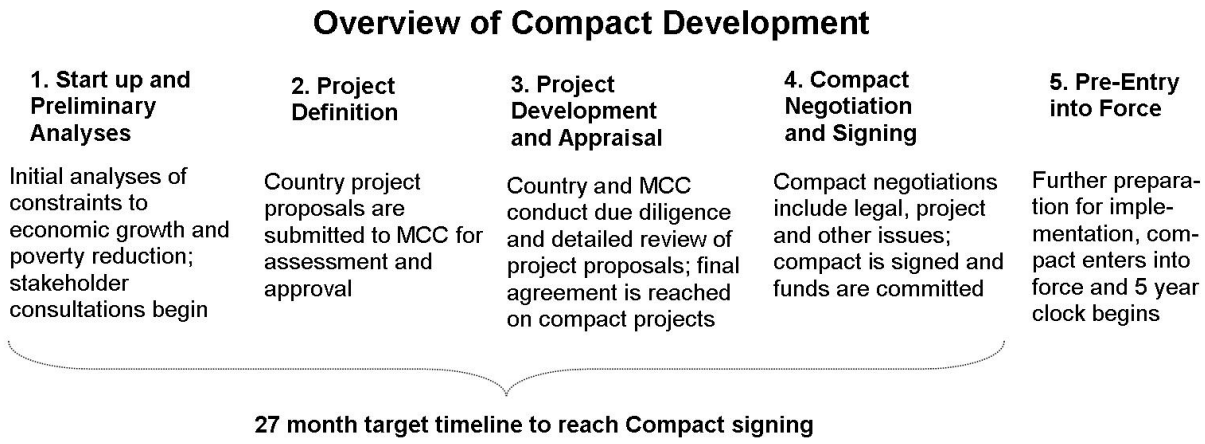
- **Smart Public Policy:** Smart public policies provide the foundation for sustainable economic growth and poverty reduction. MCC focuses on incentivizing smart public policy throughout the compact development process, beginning with country selection, which is focused on democratic developing countries that rule justly, invest in their citizens, and promote economic freedom. Eligible countries must maintain good policy performance on MCC's selection criteria to remain eligible for MCC assistance during compact development. During compact development, MCC assesses the policy and institutional environment for proposed projects and may require or directly support policy reforms in order to ensure compact investments are sustainable.

- **Partnership and Country Ownership:** Eligible countries are asked to demonstrate leadership and a high level of commitment throughout the compact development process. Eligible countries are responsible for identifying the greatest constraints to economic growth, ensuring civil society participation, and investing necessary resources to develop a compact. MCC will act as a partner and advisor throughout the process.

- **Achieving and Sustaining Results:** Compact-eligible countries must have well-designed compacts with clear objectives, benchmarks to measure progress, clear fiduciary oversight over the use of MCC assistance, and a plan for effective monitoring and objective evaluation of compact program results. Compact projects should be designed to be financially and technically sustainable once MCC funding has ended.

- **Focused Compact Investments:** Over time MCC has learned that overly complex, geographically dispersed compact programs create elevated risks and are extremely difficult to manage. Countries are encouraged to be mindful of their own management and oversight capacity when designing compact programs.

Summary of the Compact Development Process
The figure below provides an illustrative summary of the compact development process, along with the 27 month target timeline to reach compact signing.



Phase 1: Start-up and Preliminary Analyses

After selection by MCC's Board, eligible countries are asked to (i) designate a Compact Development Coordinator, (ii) recruit a country core team, (iii) conduct a constraints analysis, and (iv) commence public consultations, as described below:

- **Country Core Team:** Countries should take the necessary steps to recruit and adequately fund an MCA country core team (core team) led by a full-time Compact Development Coordinator to lead the country's compact development process and to manage its day-to-day relationship with MCC. The Coordinator should be empowered to run the compact development process, enjoy a high level of political commitment, and have access to senior officials so that it can quickly make decisions. Countries that have assigned personnel full-time and have dedicated financial and administrative resources have developed their proposals and moved towards a compact faster than those that did not. Core teams will need a variety of expertise over the course of compact development including for economic analysis, monitoring and evaluation, environmental, social and gender analysis, sector specialists, project development and management, financial management, procurement planning and legal counsel. Some core team positions (economists, social scientist with gender expertise) have critical functions very early in the process.

- **Constraints Analysis:** The country should conduct an analysis of the principal constraints to economic growth and poverty reduction, and, if appropriate, more detailed sector analyses. The target timeframe for completion of the constraints analysis is within three months of country selection.

- **Social/Gender Inequality Analysis:** Social inequality, including gender inequality, can limit poverty reduction even in the context of growth. Following the economic

constraints analysis, MCC and the core team, led by their social/gender expert, will analyze how social inequalities expressed in policies, institutions, and other sociocultural contexts can constrain poverty reduction and recommend actions to correct and/or mitigate their impact.

- **Investment Opportunity Analysis:** Following the identification of binding constraints to economic growth, the core team and MCC will conduct an analysis to ensure that opportunities to enhance and leverage the level of private sector activity are explored and given appropriate consideration during compact development. At its core is the aspiration to leverage private sector views, expertise and, in some cases, capital to enhance compact outcomes.

- **Consultative Process:** The country should initiate a timely, participatory, and meaningful consultative process with the country's civil society, non-governmental organizations and private sector, as well as a broad range of government stakeholders, to discuss further key constraints to economic growth and poverty reduction, and to identify priority activities to help address these constraints. Please refer to our summary of the key elements of the consultative process through all phases of compact development.

Phase 2: Project Definition

Project Concept Notes

Shortly after the first draft of the constraints analysis, MCC should provide the country 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) an analysis of the 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, 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 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 project's viability. A more sophisticated model will be developed for those projects 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?

2. 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.

3. Recommendation: Following internal and external peer reviews of MCC's initial concept assessment, the transaction team prepares a concept paper assessment memorandum for approval by MCC senior management. Upon approval of that memorandum, the transaction team will prepare a letter to the government and 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.

Phase 3: Project Development and Appraisal

Project Development: Generally, MCC staff will travel to the country to review the concept paper assessment memorandum with the core team and senior government officials, agree on next steps and additional studies, and conduct field work, consultations and research to resolve outstanding issues identified during the concept assessment.

The project development phase consists of the completion of requisite project preparatory studies including, *inter alia*, feasibility and preliminary design studies, environmental, social and gender assessments, and economic and beneficiary analyses. Whether project development studies are funded by the country or through 609(g)[1] grants, the MCC team and country core team should agree on the objectives, terms of reference and timeline for each major work product. Another crucial aspect of project development is the planning, design and preparation of project implementation structures and arrangements.

In some cases, it will not be possible to complete all planned studies for all projects prior to submission of the overall compact program for MCC Board approval. Nonetheless, every effort should be made to minimize investment risk by attaining as much certainty as possible about the scope, activities, costs, mitigation measures and implementation arrangements prior to commitment of funds, and to minimize the time needed to enter into force.

609(g) Funding: When countries require financial assistance to undertake additional preparatory studies, MCC can provide limited financial support using 609(g) funds. Either MCC will administer these funds on behalf of the recipient country or the recipient country will administer the funds, including by procuring technical expertise using MCC's Program Procurement Guidelines and then managing the contracts. During compact development, MCC expects to provide less 609(g) funding to lower middle income countries and countries pursuing a second compact than to low income countries and countries seeking their first compact.

609(g) funds also may be used to finance the initial setup costs for the MCA accountable entity, including office rental and salaries for key staff, as well as the costs of procurement and fiscal

[1] The term "609(g)" refers to a section of the Millennium Challenge Act of 2003 that authorizes MCC to provide funding to facilitate compact development and implementation.

agents. These and other implementation preparation activities are described in more detail in the 609(g) policy in this guidance.

Appraisal: Based on the draft or final reports of project development studies, the transaction team assesses the viability of the proposed projects, with assistance from an internal peer review panel. At this stage MCC and the core team may need to agree, through technical negotiations, on adjustments in project scope, approach or design, to enhance impact, quality, implementability, and/or reduce costs. These technical negotiations are the heart of the project appraisal process. Where detailed assessments identify fatal flaws that cannot be mitigated through such modifications, MCC may decide to remove the proposed project from further consideration.

Phase 4: Investment Committee, Compact Negotiation and Signing

Once project appraisal is completed, the transaction team prepares an investment memorandum that describes the proposed projects to be funded under the proposed compact. This memorandum is submitted to MCC's Investment Management Committee for approval. If the Investment Management Committee approves the proposed compact projects, the draft compact and other legal documents will be prepared. Before MCC enters into negotiations with a country on the proposed compact program, MCC must inform Congress of its intent to negotiate a compact through a congressional notification. If there is no Congressional objection, MCC and the country may conduct negotiations on the compact and other legal documents. Thereafter, the compact is submitted to the MCC Board for approval and if approved, MCC and the country sign the compact.

Phase 5: Implementation Preparations / Pre-EIF Activities

Implementation preparations must begin well before compact signing. Building the compact implementation framework is a key component of these preparations and includes the formation, staffing and start-up of the MCA accountable entity (including its board of directors and management unit), the engagement of procurement and fiscal agents, establishment of banking arrangements, and the procurement of project managers and certain key contractors. MCC may finance or facilitate implementation training in the following areas:

- Financial management
- Accounting
- Auditing
- Budgeting
- Procurement
- Project management
- Ensuring gender integration
- Managing environmental and social performance
- Monitoring and evaluation, and
- Board governance

The following activities, typically scheduled after compact signing, may in some cases

commence sooner based on progress with compact development as of signing, and in standing up the country's compact management and governance structures.

- Recruitment of second tier and support staff
- Selection of office space and execution of lease agreement
- Procurement of office equipment and vehicles
- Procurement of IT network including IT architecture and equipment
- Establishment of MCA website
- Establishment of Common Payments System
- Development of 5-year procurement plan
- Development of project work plans
- Development of Gender Integration Plans
- Completion of any remaining feasibility studies, commencement of design studies
- Drafting of the monitoring and evaluation plan
- Collection of monitoring and evaluation baseline data
- Establishment of bid challenge system
- Development of Fiscal Accountability Plan and Procurement Operations Manual
- Set-up of integrated financial and procurement management information system
- Joint MCA-MCC implementation workshop
- Board training
- Development of initial tender documents for civil works and other large contracts

Compact Development Timeline

Compact development is not an open-ended process. While MCC is committed to developing quality, high-impact projects through its compact development process, it must also be a responsible steward of U.S. taxpayer funding, including by ensuring the funds are employed in a reasonable amount of time after appropriation by the U.S. Congress. **The compact development process should take 27 months[2] from selection by MCC's Board to compact signing. Any extensions to this timeline must be approved in writing by the Vice President for Compact Operations.** MCC will work closely with partner countries to reach this goal by setting clear milestones in the compact development process. Following the constraints to growth analysis, some compact development processes may move in parallel in order to save time. For example, for countries selected by the Board in December 2011, the compact development timeline would be as follows:

- Phases 1 & 2: Start-up, preliminary analyses and project definition: Five months (December 2011 - May 2012)
  MCC begins initial country analysis prior to Board meeting for countries likely to be selected. MCC schedules initial visit. Partner country appoints key Compact Development Coordinator and staffs core team, including specialists with required expertise in economic and social/gender analysis. Together, MCC and core team conduct analysis of constraints to

[2] The 27 month target is a ceiling, and countries may take less than 27 months to develop a compact.

economic growth, followed by analyses of investment opportunity, social/gender inequalities, and deeper constraints in key sectors if required.

The core team also conducts consultations with relevant government and public stakeholders and determines sectors for potential project concepts. Following these analyses, project design workshops and additional targeted stakeholder consultations, the core team drafts initial project proposals (concept notes) for MCC review. Following MCC's review of the concept notes, the core team conducts results-focused project design workshops or other targeted stakeholder engagement, surveys potential projects, and drafts and submits concept papers to MCC.

- Concept paper assessment: Two months (May 2012 – July 2012)
  MCC transaction team performs a preliminary assessment of concept papers, conducts a peer review, and drafts a concept paper assessment memo with recommendations for MCC senior management.

- Phases 3 & 4: Project development and assessment; compact negotiation and signing: 20 months (July 2012 – April 2014)
  MCC transaction team and core team jointly develop a work plan based on the nature of projects, level of project preparation, and availability of staff and other resources. MCC conducts due diligence and works with countries to carry out feasibility studies, economic rates of return, social and environmental assessment work, and to define the final scope and results of projects. MCC transaction team drafts investment memorandum for approval by MCC's Investment Management Committee. MCC transaction team works with core team to plan implementation structures and timelines. MCC negotiates and finalizes compact with country. Compact is signed.

To incentivize earlier core team staffing, selection of well-prepared projects, and strong performance during the compact development process, MCC senior management may decide to make additional 609(g) funds available. Should countries slip substantially from their agreed timeline, MCC may also revisit decisions about projects it will support or funding it is willing to provide.

Compact Development Budget

Compact transaction teams, led by a led by a Transaction Team Leader, will be required to formulate and submit for approval a compact development budget to the Vice President for Compact Operations. This budget will consist of expected due diligence, 609(g) and administrative (e.g., personnel and travel) costs over the course of compact development, up to a compact's entry into force. The budget shall be submitted within two weeks of selection by the MCC Board, with updates as necessary once projects are identified and due diligence has begun.

Compact Development Best Practices

Over the course of the development of 24 compacts, MCC has learned the following best practices in order to ensure a successful compact:

High-Level Political Commitment
Eligible countries that have demonstrated a high level of political commitment to the core team and compact development process have progressed more rapidly in developing their projects and finalizing compacts. Core teams also benefit from having access to senior government officials who can quickly make decisions.

Dedicated Human and Financial Resources
Eligible countries that have quickly identified a Compact Development Coordinator and have established and adequately financed a core team of dedicated, qualified staff have also moved more quickly. Such a team is necessary to effectively integrate input from a broad range of key stakeholders both within and outside of government and to identify technical resources as necessary. Further, dedicated financial resources have strengthened the quality of project development and design.

Manageable Programs
Compact programs should be within the manageable control of the country. While managerial capacity will vary from country to country, MCC should conduct discussions with other donors about the country's management capacity, performance to date managing public and donor funding in different sectors, and capacity to take on new project management responsibilities.

Think Early About Implementation
Eligible countries will likely be able to move more rapidly through the final stages of project development and compact negotiations if they integrate implementation planning into their thinking earlier on, such as: how the project will be implemented, managed, monitored and evaluated; how funds will be managed; and how goods and services will be procured. Developing documents such as workplans and budgets early in the process will assist in identifying suitable arrangements. MCC recognizes the importance of providing compact eligible countries with clear guidance on the standards on which their projects will be evaluated. MCC has, and will continue to develop, guidance on key issues and make them available to partner countries and the public on the MCC website.

Think Early About Economic Analysis and Measurable Results
Compact-eligible countries will likely be able to move more rapidly through the final stages of project development and compact negotiations if they integrate economic analysis and measuring results into their thinking early on, including: is there a clear economic logic, relating to unlocking an identified constraint to growth, to the proposed project? What is the potential economic rate of return and what drives it? What are the project goals? What are the expected results? How will we know if this has been successful? What data would we use to measure progress and is baseline data available? Have targets for measuring success been defined up front? Who will be responsible for collecting data, monitoring results and evaluating performance?

Think Early About the Impact of Social/Gender Differences and Inequalities and Developing Gender Integration Plans
Eligible countries are encouraged to give early analytical attention to social inequalities, like gender, that can be significant constraints to poverty reduction. Inequalities that do not disappear

with growth can reproduce poverty and inhibit development over time. Countries that ensure sufficient social/gender expertise and analysis are brought to the design process to ensure that they are able to meet the MCC requirement for a Gender Integration Plan early in implementation.

Technical Feasibility

In addition to qualitative aspects of a project design, MCC evaluates a number of technical elements during the appraisal phase of compact development to determine whether it is sound investment: is the project technically viable? Is the design appropriate? Is the policy environment suitable? Is the cost estimate correct? How is the project going to be sustained? What are the potential environmental and social impacts, including resettlement and health and safety? How has analysis of gender differences and inequalities informed project selection and design? These evaluations are a necessary part of an iterative appraisal process and are generally carried out through multiple visits by technical experts. To the extent possible, MCC strives to communicate its requirements in advance so that countries can better prepare for technical visits.

Quality Consultative Process

Eligible countries that have focused on conducting a timely, participatory, and meaningful consultative process -- which provides both women and men with the opportunity to have input into the identification, prioritization and subsequent development and design of projects -- have greater success in project development. Maintaining an ongoing dialogue throughout compact development and implementation allows for more sustainable efforts.

Early and Continuous Dialogue

Eligible countries that have proceeded most quickly through the compact development process engaged with MCC early in the process and have maintained a regular dialogue. Regular communication can come in the form of face-to-face meetings, conference calls and email. An engaged Ambassador to the United States, who is kept informed by both MCC and the eligible country, can be an important contributor to clear and regular communications which may help facilitate the process.

Pre-Compact Assistance

MCC can, where appropriate, provide eligible countries with pre-compact financial assistance (often referred to as “609(g) funding”) to facilitate compact development.

Overview of Compact Development

7 month target timeline

20 month target timeline

1. Start up and Preliminary Analyses

- Country names Compact Development Coordinator and establishes Core Team responsible for developing the compact
- Country conducts analyses of constraints to economic growth, social and gender inequality , and investment opportunity
- Country commences initial public consultations
- MCC assists and provides feedback on preliminary analyses
- MCC provides guidance on results-focused project design principles and tools

2. Project Definition

- Country consults stakeholders on potential projects
- Country develops and provides a Project Concept Note for each potential project
- MCC reviews Concept Notes; a shortlist of projects move on to the development of more detailed Project Concept Papers
- MCC conducts peer review of Project Concept Papers
- MCC provides formal response to Project Concept Papers identifying suitable projects and indicates needed studies
- MCC provides 609(g) funding if needed for project development of approved concepts

3. Project Development and Appraisal

- Country prepares detailed project proposals
- MCC disburses 609(g) funding and assists with needed feasibility studies, environmental impact assessments, resettlement plans, preliminary designs, etc.
- Country consults stakeholders on project design and sustainability
- MCC staff conduct formal appraisal of developed projects and provide recommendation to MCC senior management
- MCC senior management selects projects for approval
- Once projects are agreed upon, MCC notifies Congress of its intent to enter into compact negotiations

4. Compact Negotiation and Signing

- MCC and country conduct negotiations on technical and legal content of compact
- MCC Board approves Compact
- MCC and country sign the Compact; upon signature funds are committed, program objectives are defined and total dollar amount is set

5. Pre-Entry into Force Activities

- Establishment of Millennium Challenge Account Accountable Entity
- Completion of Implementing Entity agreements
- Completion of annual budgets and implementation plans
- Completion of Terms of Reference and work plans for implementation and procurement
- Pre-qualification of consultants and contractors for early procurements

Compact Implementation

- Compact Enters Into Force (EIF) and five year clock starts
- Compact provisions in full force and effect

Country prepares Compact implementation framework, including establishing Accountable Entity, engaging Fiscal and Procurement Agents, and identifying Implementing Entities

PHASE I: PRELIMINARY ANALYSES AND PROJECT DEFINITION

After selection by MCC's Board, eligible countries are asked to (i) designate a Compact Development Coordinator, (ii) recruit a country core team, (iii) conduct a constraints analysis, and (iv) commence public consultations, as described below:

- **Country Core Team:** Countries should take the necessary steps to recruit and adequately fund an MCA country core team (core team) led by a full-time Compact Development Coordinator (CDC) to lead the country's compact development process and to manage its day-to-day relationship with MCC. The Coordinator should be empowered to run the compact development process, enjoy a high level of political commitment, and have access to senior officials so that it can quickly make decisions. Countries that have assigned personnel full-time and have dedicated financial and administrative resources have developed their proposals and moved towards a compact faster than those that did not. Core teams will need a variety of expertise over the course of compact development including for economic analysis, monitoring and evaluation, environmental, social and gender analysis, sector specialists, project development and management, financial management, procurement planning and legal counsel. Some core team positions (economists, social scientist with gender expertise) have critical functions very early in the process.

- **Constraints Analysis:** The country should conduct an analysis of the principal constraints to economic growth and poverty reduction, and, if appropriate, more detailed sector analyses. The target timeframe for completion of the constraints analysis is within three months of country selection.

- **Social/Gender Inequality Analysis:** Social inequality, including gender inequality, can limit poverty reduction even in the context of growth. Following the economic constraints analysis, MCC and the core team, led by their social/gender expert, will analyze how social and gender inequalities expressed in policies, institutions, and other sociocultural contexts can constrain poverty reduction and recommend actions to correct and/or mitigate their impact.

- **Investment Opportunity Analysis:** Following the identification of binding constraints to economic growth, the core team and MCC will conduct an analysis to ensure that opportunities to enhance and leverage the level of private sector activity positively are explored and given appropriate consideration during compact development. At its core is the aspiration to leverage private sector views, expertise and, in some cases, capital to enhance compact outcomes.

- **Consultative Process:** The country should initiate a timely, participatory, and meaningful consultative process with the country's civil society, non-governmental organizations and private sector, as well as a broad range of government stakeholders, to discuss further key constraints to economic growth and poverty reduction, and to identify priority activities to help address these constraints. Please refer to our summary of the key elements of the consultative process through all phases of compact development.

Chapter 1: Establishment of the Country Core Team

Once MCC's Board selects a country as eligible, MCC will send a high-level delegation to discuss the compact development process, timelines, best practices, risks, and resources. Eligible countries must immediately assign staff to work with MCC to begin the compact development process. This staff, called the core team, will be responsible for the management of the compact development process. Establishing the core team is essential to concluding a quality compact quickly. The core team will be MCC's primary partner in developing the compact, and will be primarily responsible for meeting an aggressive 27 month compact development timetable.

Characteristics of a Core Team

A Compact Development Coordinator will lead the core team. The Compact Development Coordinator should be assigned full-time to the compact development process. The Compact Development Coordinator will need dedicated financial and administrative resources to carry out a timely, participatory and meaningful consultative process and to coordinate technical project design. The Coordinator should have a clear mandate to develop the compact, and possess the mandate and ability to make decisions, manage cooperation by relevant ministries, coordinate with donors, and conduct public consultations.

Previously successful eligible countries have allocated budgets of between $500,000 and $3 million for their core teams. Staff composition on the core team will likely change over time as the compact development process progresses and probably will comprise both full-time and part-time staff.

Initial Team Composition

Core teams will initially include at least the following individuals:

<u>Economist</u>
The core team should include one or more economists with development experience to oversee the constraints analyses, conduct economic analysis of project concepts, build the economic logic of the compact, and demonstrate how the program will lead to poverty reduction through economic growth. Such person(s) will ensure that the potential economic rate of return is analyzed coherently and will work closely with the core team M&E specialist to ensure that the economic logic is translated into measurable results.

<u>Monitoring and Evaluation (M&E) Expert</u>
The core team should include one M&E expert who is responsible for ensuring that the economic logic is translated into measurable results, and that project goals and expected results along the entire continuum of results, including how they will be measured, are all set forth clearly. This country core team member will be ultimately responsible for formulating the M&E Plan and for refinement of the compact logic; identification of performance indicators and appropriate baseline data; setting indicator targets and working with the entity responsible for collecting data; and monitoring results and evaluating performance.

Social Inclusion and Gender Integration Expert

MCC requires that the core team include a social scientist (sociologist, anthropologist, or similar background) with gender expertise as soon as possible in compact development. This should be a senior person with the experience and standing to effectively carry out the position's responsibilities during the development of a compact, which include: 1) participating in the initial review of social and gender constraints and opportunities to complement the constraints to growth analysis; 2) contributing to the design of the consultation strategy to ensure it meets MCC requirements as articulated in MCC's Gender Policy; 3) ensuring sufficient social and gender analysis; 4) ensuring constraints to gender equality and poverty reduction are addressed; 5) supporting environmental and social assessment processes and products; 6) working with M&E on initial designs for baseline data collection and performance monitoring plans; and 7) beginning to develop an approach for gender integration in the compact.

Outreach/Participation Coordinator

This person develops and implements a strategy for public consultation on the compact so that there is a timely, participatory, and meaningful consultative process. This person should have experience building participatory processes for development programs and experience working with civil society, the private sector, women, rural and urban poor and other key constituencies. These functions can be outsourced if the specialized skills are available in the market. The core team's Social and Gender Expert will provide support to this position to ensure that consultations meet the requirements in MCC's Gender Policy.

Environment and Social Assessment Expert

It is important from the beginning of the compact development process to consider environmental and social issues and sustainability in addressing the constraints to growth, in public outreach and consultations, and in the consideration of alternative approaches to dealing with economic constraints in the definition and design of investment projects. The core team should include team members who have a broad strategic understanding of environmental and social issues and opportunities (such as involuntary resettlement and health and safety risks); environmental regulations and requirements; who have experience conducting or reviewing environment and social impact assessments; and who can work with the country core team to ensure that environmental and social considerations are factored into the feasibility, design, timing, and cost estimates of compact projects. This person will work closely with the Social and Gender Expert.

Project/Program Manager

This person would oversee the planning and execution of a wide range of activities associated with the development effort. It should be someone with extensive experience in managing large, multi-sectoral programs, with a proven record of team leadership, including strong communication skills and the ability to function at various levels.

Expanding the Team over Time

As compact design progresses, the core team will need to access specialized resources related to the specific compact projects throughout the compact development process. As priorities emerge from the consultative process and projects are designed to stimulate poverty-reducing economic growth, the Compact Development Coordinator will need to identify additional experts to participate as core team members, including:

Technical/Sector Experts

The priorities that emerge from the constraints analysis will determine the type of technical and sector expertise the core team will require. As the compact projects are defined, the Compact Development Coordinator should identify and bring on board the technical experts needed to supplement the core team.

Legal/Financial/Procurement Experts

Legal, financial management, and procurement expertise will be required at various stages of the process to integrate adequate planning for compact negotiation and implementation. Early identification of experts that will remain committed throughout the process, even on a part-time basis, will enable the team to design a compact that can be implemented expeditiously.

Project/Program Scheduler

As compact projects and activities begin to take shape, it will be essential to establish an early capability to set up preliminary work plans to critically assess timing issues, critical paths and evaluate risks and options for program implementation. This should be a person experienced in large project scheduling and project controls utilizing project scheduling software, such as Microsoft Project.

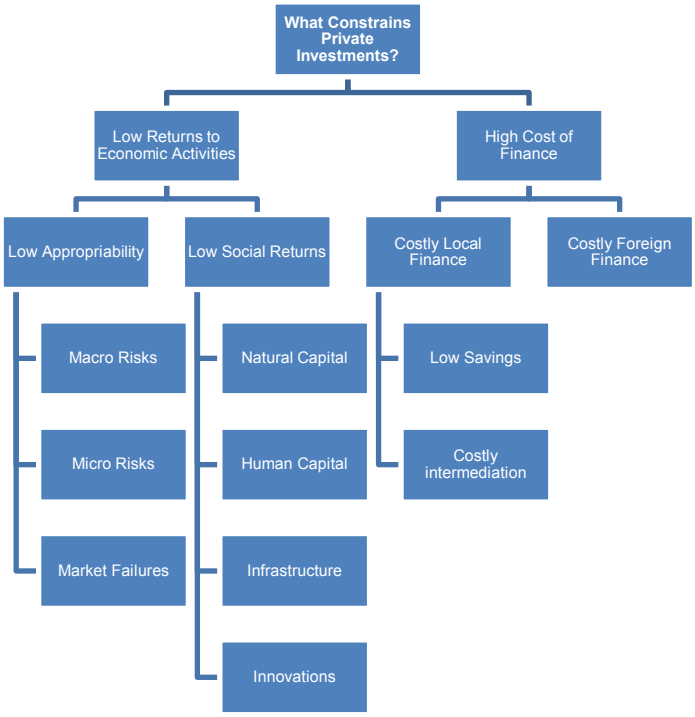
Chapter 2: Guidelines for Conducting a Constraints Analysis

A. Overview

The purpose of the Constraints Analysis (CA) is to identify the binding constraints to economic growth, which are the most severe root causes that deter households and firms from making investments of their financial resources, time, and effort that would significantly increase incomes. The results of the CA are not intended to dictate specific projects to be funded by the MCC, but rather to provide a framework that will help focus the consultative process on appropriate programs that will ease those constraints and stimulate economic growth. A successful CA will constitute a solid foundation for the expeditious development of a compact that addresses country priorities and is consistent with MCC's quality standards.

This document provides methodological guidance on executing a CA. Successfully undertaking a CA involves posing and answering a sequence of diagnostic questions that highlight the "root causes" that constrain investment. Figure 1 below presents a hierarchical framework or "tree" to organize and motivate the questions driving the CA. Answering those questions involves: (1) selecting and formulating the diagnostic questions in a sensible way for the country at hand; (2) researching and marshaling key evidence and data that shed light on the questions; and (3) answering the questions based on the balance of such evidence.

Figure 1: Constraints Analysis diagnostic tree[3]



[3] Adapted from Figure 1 of Hausmann, Rodrik, and Velasco (2005), "Growth Diagnostics."

The CA builds on the premise that private investment, both domestic and foreign, represents the primary engine of economic growth. Countries seeking to accelerate growth, then, are faced with the fundamental question that lies at the center of the CA exercise: "What constrains private investments?" The boxes in the second row of the figure suggest two distinct alternative answers to this question: "Low returns to economic activities" and "High cost of finance." If evidence suggests the latter is true (i.e., the cost of capital is high), the tree presents a series of issues that need to be considered to understand the systemic explanations. This approach helps keep the focus on problem identification and prevents the premature leap to possible solutions (e.g., subsidized credit) that would not address the underlying causes of expensive capital. If evidence shows that the cost of capital is not out of line with international norms, then the CA tree examines whether low returns to economic activities explains the current levels of private investment. In general, using the hierarchy of Figure 1 as a guide, we consider in turn the questions suggested there, working our way down the tree to determine which of the possible explanations are most responsible for low investment and, in turn, low growth rates.

The constraints identified in the CA should be **fundamental causes** rather than **symptoms**. For example, discussions regarding the lack of dynamism within the domestic private sector may lead to the designation of "*inadequate access to finance*" as the problem, but stop short of identifying the root causes of a financial system unable to deliver private capital efficiently and effectively; possible root causes might include policies that limit or distort competition in the banking sector, weak capacity of banks to readily identify potential creditworthy borrowers, an unusually poor institutional environment for enforcing loan terms (e.g., difficult or costly seizure of collateral, lack of credit reporting) low domestic savings rates, macroeconomic conditions that raise the domestic cost of capital and limit the number of profitable lending opportunities, or other factors.

Alternatively, one may have evidence of *low agricultural productivity*, but this is not a binding constraint itself. The constraint could be, rather, low levels of human capital or knowledge concerning agricultural technologies or practices, poorly-defined property rights suppressing investment in the land, distortionary agricultural or trade policies, lack of transport infrastructure, high levels of soil erosion, among other underlying causes.[4] Sometimes the lack of sufficient water is identified as a constraint to agricultural productivity. This condition, like others in the natural capital area, is difficult to alleviate cost-effectively, since doing so may exacerbate an underlying problem of poor management of forests and watersheds. However, improved water management and more efficient allocation of scarce water resources may allow a country to grow much faster if faced with such binding constraints. Allocating water more efficiently may require irrigation or urban water infrastructure, depending upon the returns to various uses of water.

Gender inequalities may be a further underlying constraint, where women, for example, may perform a high proportion of labor throughout the agricultural value chain, but have systematically lower levels of health, education, and access to inputs, credit, and training, reducing their productivity. At the same time, rather than identify an economic and social *outcome* such as this as a binding constraint to economic growth, the analysis should examine the *underlying reasons* for under-investment in women and the lack of participation by men in the agricultural labor force. If it is due primarily to gender discrimination, economic costs are high, and growth in the economy depends upon labor productivity in

[4] In analyzing the extent to which soil erosion constituted a constraint to increased incomes, for example, one would need to account for externalities with respect to both costs (e.g., increased siltation adversely affecting water quality) and benefits (e.g., the potential for reduced erosion to enhance ecosystem services and thereby increase incomes).

agriculture, this root-cause obstacle may represent a binding constraint to economic growth. As in this example, each such candidate explanation must be tested empirically, weighed against other causes of slow growth, and shown to be among the most binding constraints to economic growth.

The CA should strive to identify, characterize quantitatively, and prioritize these more fundamental constraints. In practice, the CA should identify a fairly small number of core impediments to growth.[5] It is important that this analysis does not simply produce an exhaustive list of all possible economic concerns, but rather identifies those that represent the most binding constraints to growth.

B. Conducting a Constraints Analysis

Unless otherwise approved in writing by MCC's Vice President for Policy and Evaluation, the CA shall be completed within three months of a country's selection as eligible by MCC's Board. Consistent with country leadership and commitment of compact development, eligible countries are responsible for identifying the binding constraints to economic growth. To make this commitment operational, MCC expects that core teams will be staffed with an economist as early as is practical who will serve as CA team leader (see section below on "Identification of the CA Team"). The economist should be able to draw on additional resources for assistance with research and data analysis, and have familiarity with and access to key sources of economic data and statistics within the eligible country. While MCC emphasizes country leadership and hence ownership of the CA process and findings, the analysis can be co-authored by MCC economists or consultants engaged by the country or by MCC.

Naturally, to avoid wasting resources and duplicating effort, MCC urges countries to make full use of existing analyses of growth constraints that are of sufficient quality.[6] MCC economists can provide input and guidance on the adequacy of existing analytical work to fulfill in whole or in part the CA requirement.

To facilitate the timely production of a quality CA, MCC will do the following:

1. *Undertake two quick "stock-taking" exercises* to inform a work plan and level of effort for a CA (including updating/augmenting an existing CA):
    a. The first would assess content and quality of any existing studies on growth constraints with respect to fundamental criteria such as use of evidence, rigor of argumentation, and extent of / basis for prioritization of constraints. MCC wishes to make full use of existing analyses that meet a sufficiently high quality standard with respect to the reliability of findings. Where existing studies are not sufficiently rigorous, complete or focused on MCC's mission of reducing poverty through growth, these may at least constitute points of departure for further analysis that refines and builds upon the existing work. If an

[5] While the number of core impediments to growth will vary by country, the CA exercise described here should be recognized as an effort to heighten the focus on the *most critical* barriers to investment, and economic growth. Recognizing the need for country-specific judgments, the MCC suggests that the CA report focus on the 2–4 most important binding constraints.

[6] Key quality considerations include focus on growth, comprehensiveness in scope, specificity and quality of data and evidence, rigor of methodological approach, and the persuasiveness of the conclusions—in particular, the prioritization/quantification of constraints—based on the analysis.

existing study suffices, MCC and the eligible country could choose to accept and endorse such study as a CA.

b. The second would catalog—and, for the most important sources, conduct quick "reconnaissance" of—existing economic and sector work (ESW) likely to be most useful and influential for conduct of the CA. This could take the form of comparing the questions raised by the CA diagnostic "tree" (see Figure 1 above) with the content of available ESW, and noting any apparent gaps.

2. *Bring to bear MCC's experience with CAs* to engage early on with compact-eligible countries in the analysis. The aim is twofold: (i) to help ensure greater quality and relevance of the final product, as well as (ii) to strengthen the links of the analysis to a deeper, sector-specific examination of causes and issues. This will entail providing methodological and empirical guidance on the CA, drawing from a technical guidance package customized for the compact-eligible country (e.g., with country-specific benchmarking), and made available in conjunction with individualized coaching, particularly on methodological issues. This support would include systematic catalogs of diagnostic questions to consider, sources to consult, and cross-country and national data sets.

1. Methodology

The CA should include a short narrative account of the country's historical economic growth and trends in key indicators of productivity and investment, such as the private investment-to-GDP ratio, featuring both growth episodes and periods of relative stagnation, and a timeline of key economic events plausibly bearing on that history of growth.[7] The aims of this narrative are, (1) based on the historical record to understand and highlight the factors likely to be associated with changes in the country's economic growth rate, and thereby (2) to set the factual stage for the application of Figure 1's diagnostic tree above.

Conducting the analysis for the CA entails moving through the tree in Figure 1 by applying principles of "differential diagnosis" such as those articulated in Ricardo Hausmann's "Mindbook."[8] These principles are based upon the notion that a 'low' amount of a factor in an economy could be due to demand side or supply side constraints, and one is trying to identify those factors for which the supply is severely curtailed relative to demand, and for which the cost to the economy is highest. Ways to test whether a constraint to growth is binding are therefore:

1. The (shadow) price of the constraint should be high

   This principle is easiest to apply when market prices for the constrained resources are readily available. Common examples would include high lending interest rates as an indicator of an

[7] Dani Rodrik's 2003 edited volume, *In Search of Prosperity: Analytic Narratives on Economic Growth* (Princeton University Press), contains a series of such narrative accounts of growth that can serve as useful illustrations, though these essays contain far more extensive and detailed accounts than a CA would require.

[8] Ricardo Hausmann, Bailey Klinger, Rodrigo Wagner (2008) "Doing Growth Diagnostics in Practice: A 'Mindbook'" (Harvard University Center for International Development (CID) Working Paper No. 177), available here.

important constraint on finance, or high market wages indicating scarcity of certain types of workers or skills.

2. Movements in the constraint should produce significant movements in the objective function

   Illustrations of this principle could include investment volumes that track closely remittance inflows, or labor productivity that varies in accordance with key indicators of workers' health outcomes.

3. Agents in the economy should be attempting to overcome or bypass the constraint

   An important example of this principle would be a large informal sector as an indicator of microeconomic obstacles to business activity (e.g., "red tape"). Another, more sector-specific example could be a significant fraction of enterprises purchasing diesel generators in the face of unreliable or expensive grid-based electricity supplies.

4. Agents less intensive in that constraint should be more likely to survive and thrive, and vice versa

   One illustration of this principle would be underdevelopment of labor-intensive sectors compared to capital intensive ones (compared to similarly-situated countries), which may suggest significant labor market frictions. Another example would be to examine the relationship between sectoral performance and level of dependence on external finance to assess whether finance is likely a binding constraint to growth.

Hausmann, Klinger, and Wagner (2008) also contains further discussion and examples applying these principles of differential diagnosis in the context of a CA.

Benchmarking the country in question against similarly-situated comparison countries is part and parcel of applying these methods, as an assessment of whether an indicator is 'high' or 'low' is often needed, and therefore some relevant benchmarks are needed. By assessing the country of interest against plausible comparator countries (e.g., countries having similar levels of income per capita, geographic, historical, or other contextual factors, or countries in the same region), we may identify constraints to growth causing the country to lag behind its potential growth path.

2. Useful Evidence and Data

The principles and techniques above suggest specific tests and diagnostic questions for the various branches of the tree in Figure 1, requiring a range of data and information. The evidence and data brought to bear on these questions should be drawn from diverse sources that may highlight any systemic bottlenecks to investment. Broadly speaking, the CA requires information on levels, trends, and cross-country comparisons with respect to a variety of variables and parameters, on both the micro- and macroeconomic levels, as well as qualitative evidence indicating the presence of constraints. As noted, maximum use should be made of existing relevant analyses of constraints to growth and readily-available data sources to expedite the process. Specific examples of useful data are listed below.

Macroeconomic variables:

- Investment (public and private)
- Factor prices (wage levels, interest rates)
- Savings (domestic and foreign)
- Inflation
- Fiscal balance and public debt
- Export performance and trends
- Current account
- Measures of natural capital, including natural resource stocks

Microeconomic factors:

- Levels of educational attainment, returns to education or skill, employment levels, literacy levels
- Health of the labor force, business costs of illness
- Borrowing and lending flows
- Quality of economic and political governance (especially "cost of doing business")
- Quantity and quality of infrastructure, demand for this infrastructure (e.g., traffic levels on roads)
- Gender inequalities in access to assets (human, physical, natural, and financial capital)

Analysis supporting the CA should consider the reliability of the data and differences in the nature of indicators used in the CA. Metrics of quantity or usage levels, for example, convey less information than do prices: The observation that there are relatively few investment loans in a country, for example, may give the impression that there is a constraint in the capital market, but if interest rates are also observed to be low, then access to capital is much less likely to be a constraint. Similarly some data sources may be inherently biased: analysts should be aware that enterprise survey data represent a selected sample of firms—only those able to survive in the country's economic environment show up in the survey, making identifying binding constraints from respondents problematic. Some surveys may only include formal firms as well. Given further below in this chapter is an extensive list of potential questions that may be useful in guiding the conduct of the CA.

C. Staffing and Conducting the Constraints Analysis

There are several specific stages to the CA process, which is expected to take up to three months:

1. Identification of the CA Team

Countries are responsible for managing the CA, including identifying a CA team leader and a small group of analysts from within and outside the government. The process cannot begin until the country's core team has been convened. MCC strongly advises countries to staff this CA team with individuals who possess strong and relevant technical skills and who command broad domestic credibility. Without prejudicing the ultimate selection, the MCC suggests that appropriate CA team members might include:

- Senior analysts from the Ministry of Finance, Planning and/or Trade or the Central Bank;
- Experienced economists, sociologists, and political scientists from academia, think tanks and government; and

- Leaders from the private sector, possibly including leaders from chambers of commerce and other broad multi-sectoral business membership organizations.

This list of organizations is not intended to be exclusive, and countries are welcome to draw upon experts from other fields as well. But the menu highlights the economics focus of this endeavor; overall, the CA team needs to possess the requisite technical background, knowledge, and economics skills to conduct a rigorous, data-driven analysis.

Although CA teams typically are composed primarily of country nationals, countries are also encouraged to draw upon international resource people (e.g., donor or NGO staff with deep sectoral and country-specific knowledge) during their deliberations. If desired, MCC can assist in suggesting consultants who have undertaken CAs or similar studies in the past to advise on methodological questions and data sources.

2. Planning Discussion between CA Team and MCC

Once the country has identified its CA team, a small MCC delegation will meet with them in-country to discuss the technical details of the CA, including the overall strategy and approach, and provide advice on methodological issues with the help of the technical guidance/data package

- **Consultations on preliminary draft of the CA:** While undertaking the analysis, the CA team is encouraged to discuss early findings with a broader audience, make a preliminary draft of the CA publicly available, and convene public discussions around its findings. MCC will provide technical support and feedback to the CA team, as necessary to assist the CA team to meet MCC's standards of quality for a CA.

- **Production of CA final draft:** Based on the preliminary draft of the CA and feedback from MCC, interested parties and the public, the CA team will agree on a final draft of the CA. This document will form an important substantive basis for ongoing consultations during the project definition phase. MCC strongly encourages that the final draft of the CA be made publicly available, e.g., on the Internet.

Sources of Information and Catalogue of Potential Questions for Constraints Analysis

The results of the CA will need to be driven and carefully supported by data from government and non-government sources. The data should be made publicly available, so that the findings can be easily and transparently explained. Sources of information to be referenced for the CA may include:

- Existing constraints analyses/growth diagnostics, if any;
- Macroeconomic indicators from government agencies and the IMF;
- National and global surveys, including household surveys and studies of the domestic business climate, such as the Doing Business Indicators and the Global Competitiveness Report; and
- Recent Poverty Reduction Strategy Papers, Public Expenditure Reviews, or other donor or national strategic assessments recently undertaken.

The level of effort needed for the CA should be determined in part by the existence and quality of recent

relevant studies. The analyses also should be informed by input from representative stakeholders in sectors where key constraints may be manifest. For example, if agriculture is an important sector for the economy, individuals involved in agricultural transport, finance, processing, and marketing should be consulted regarding evidence on the difficulties they face. Similarly, if financial intermediation appears to be inefficient, the CA process should give representatives of private sector financial institutions the opportunity to provide relevant input.[9] Investigation of constraints on foreign investment should involve consultation with current and potential investors. The CA team, however, will be tasked with analyzing the full information set from all of these sources and ensuring that narrow private interests are not represented as broader public interests within the CA.

The following sets of questions to guide the conduct of the Constraints Analysis are organized according to the potential constraints to growth depicted in **Figure 1**, above. These questions should be freely tailored by the CA team, and taken as indicative of the types of issues useful to consider in the course of the CA, rather than a rigid checklist. Moreover, data availability will vary from country to country, which will help to shape the relative emphasis accorded to various questions.

A. Financial Sector

1. Banking System Indicators

It is important to determine the level of development of the banking system, by comparing the following indicators to those of recent years and to those of countries of similar size and population. A country's central bank website is the best source for data.

- Determine the number of institutions and branches. A continuing upward trend in the number of institutions and branches suggests that the market is not yet saturated, while a leveling-out suggests equilibrium
- Calculate the banking system's total assets, in volume and as a percentage of GDP. A higher percentage indicates that the banking system is trusted and being used for more financial transactions.
- Calculate the volume and percentage of investment that comes from foreign sources. A high percentage indicates a more developed and globally-integrated banking system.
- Research Banking Sector Legislation. See whether laws correspond to regional directives and are well enforced. Determine whether there is a reliable credit-tracking system and a credit history bureau which facilitate bank activities and help to eliminate distortion in the selection process for investment projects.
- Examine non-banking markets. Are insurance, micro-credit and stock markets operating at their potential and does the population have sufficient access to credit, insurance and financial services?

[9] These sectorally-focused discussions can be relatively brief for the purposes of the CA. The key insights obtained therefrom are explored in greater depth and with broader segments of society in the consultative process, and ultimately serve to inform the design and monitoring framework for projects included in the compact.

2. Interest Rates

- Examine the changes in the loan and deposit real interest rates over the past several years. Determine whether these rates are reasonable by comparing them to those of similar countries. High loan interest rates mean a higher cost of finance which leads to long-term inflationary expectations and thus higher consumption in lieu of investment.
- If real lending interest rates are low: look at quantity measures, such as credit to the private sector as a percent of GDP, liquidity as a percent of GDP, and bank reserves. If those measures are high then you can be somewhat confident that finance is not a constraint. If those quantities are low, then determine if this is a demand issue (meaning finance would not be the constraint) or if it is still a supply issue (meaning some agents have been cut out of the market). Look at lending rate dispersion (according to size of the firm or export orientation) and loan disapproval rates to answer this.
- If real lending interest rates are high, then determine what is making them high: Is it that firms need to pay a premium because the country is risky? This would indicate a lack of access to international finance. Is it because intermediation is very inefficient and therefore the spread between deposit and lending rates is too high? This would suggest bad intermediation. Or is it because funds are scarce and therefore deposit rates need to be high to compensate for it? This shows a lack of domestic savings.
- Calculate the Bank Margin (difference between the loan interest rate and deposit interest rate) and compare it to the past several years and to the benchmark countries. A lower bank margin indicates a more competitive banking sector that will attract foreign financial institutions.
- Calculate the share of non-performing loans. This percentage should be low.

3. Lending Dynamics

- Calculate the levels of profit, gains and capitalization in recent years in the banking system. Increases in profits and in the amount of credit indicate strength.
- Determine whether the structure of loans has changed significantly over recent years. An increase in consumer loans indicates growing trust in the banking system and growing institutionalization of informal sectors.
- Examine the trends in remittance flows. Determine whether these remittances contribute to productive activities or to increased import consumption and what effect this has had on the competitiveness of local goods. Determine whether remittance flows have had an appreciative effect on the local currency.
- Determine levels of loans to small businesses as a percentage of total bank credits. Growing levels indicate a broadening of the formal banking sector, while a preference for large enterprise lending may hinder growth by ignoring the potential of the small enterprises.
- Determine the volume of longer term credits (more than two years). Growing shares of longer-term credits indicates healthy levels of liquidity, capitalization and gains.

B. Natural Capital

Studying a country's endowment with natural capital may help to explain parts of its development. Location, size, access to trade routes, land quality, climate, water availability and disease prevalence all play a role in development.

1. Size and Location

- Determine whether the country's location provides easy access to trade routes, especially maritime routes.
- Use Faye et al.'s study[10] to calculate the country's Transportation Costs Index, which estimates the relative ease of transporting goods. A high index score indicates difficulty in accessing trade routes, which may be a hindrance to development. One way to determine transportation costs is to calculate the difference between fob (free on board) and cif (cost, insurance, freight) of trade flows.
- See who the country's major trade partners are and whether trade to these countries is relatively easy or difficult. If a country trades almost entirely with easy-to-access neighbors, the Transportation Costs Index may not be particularly relevant. If a country trades primarily with hard-to-reach or far-away markets there may be opportunity for improvement in cost-effective trade patterns.

2. Terrain Endowment

- Determine the amount of arable land and the anthropogenic (man-made) impact on the country. Countries with low percentages of arable land and/or high anthropogenic impacts may experience problems with population density, pollution, and scarcity of agricultural resources.
- Take into account the geological conditions of the country. Frequent earthquakes, landslides and other natural disasters may hinder development by adding to construction costs and financial uncertainty and discouraging investment. Soil conditions may also affect levels of road infrastructure depreciation, leading to higher maintenance costs.

3. Climate Conditions and Internal Water Resources

- Examine the volume, frequency and volatility of rainfall, including the occurrence of droughts and floods.
- Consider factors such as frosts, pests and diseases that may affect crop productivity, and whether there are tools in place for dealing with these problems.
- Calculate the freshwater capacity per capita and rates of withdrawal to determine whether the water resources are overused and pose a current or future problem for the country.
- Calculate the use of water per agricultural worker to the agricultural productivity per worker and compare these figures with those of similar countries to determine whether scarcity of water resources might be a factor in lower agricultural productivity.

4. Climate-Associated Diseases

- Determine whether the country's climate puts it at risk for diseases such as malaria, tuberculosis and yellow fever. Compare the incidence of climate-related diseases to surrounding countries.
- Explore the methods used to combat these diseases to see where progress could be made.

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[10] Michael Faye, John MacArthur, Jeffrey Sachs and Thomas Snow, "The Challenges Facing Landlocked Development Countries", *Journal of Human Development* Vol. 5, no. 1, March 2004, pp. 31-68.

C. Assessing the Human Capital Endowment

To determine whether scarcity of human capital is a constraint to growth, we look for telling distortions in returns to education, unemployment rates and business training.

1. Returns to Education

- Calculate Returns to Schooling by running a Mincer regression with the data from household surveys. The basic equation is: ln (hourly wage) = b0 + r S(completed years of schooling) + b1E (potential labor market experience = age – S – 6) + b2E^2 + e. (The squared experience term accounts for lifecycle earnings – there is always first an increase, then a flattening.)
- If r is positive then earnings increase with education. Since the function is in logs on the LHS, and in levels on the RHS, r should be interpreted as the percentage change in earnings for an additional year of schooling
- If you find high returns to education, then analyze educational attainment. For this analysis, you can use either Barro-Lee data[11] or the Household survey. If you find high educational attainment, human capital is not a major binding constraint for the country (although it may become so in the future). Since there are high returns to education, there is demand for highly educated workers, so you might want to think about investment in tertiary education or access and quality improvements in the post-primary formal and non-formal education system.
- If you find low educational attainment, human capital might be a binding constraint, with the attainment indicator suggesting which educational level presents a problem.
- Look to see what surveys or studies have been conducted by the country's government or independent organizations regarding gender inequalities in school enrollment or attendance, from primary to tertiary levels.

2. Distribution of unemployment

- Analyze the unemployment rate versus the level of education in the country. If the unemployment rate among highly educated and skilled workers is low, then these critical skills and knowledge are scarce. Especially look at the 15-34 year age group, as this group should in theory have more relevant education and be more mobile and flexible, so any distortions should be more apparent in this age category.
- If there is a higher unemployment rate among younger, more recently educated holders of higher degrees, this suggests not a scarcity of human capital but rather a lack of quality or relevance of advanced education in relation to the market economy needs.
- Examine gender gaps in unemployment, in relation to gender gaps in education. This provides information as to whether the problem lies in access to education, or other factors that discriminate against women in the labor force. Look to see what surveys or studies exist that analyze these gender gaps and their underlying causes.

[11] http://www.economics.harvard.edu/faculty/barro/data.html

3. Enterprises Perception

- Calculate the labor force participation rate and compare it to similar countries. Abnormally low participation rates may indicate that the market needs more highly skilled workers. Examine gender differences in labor market participation. Compare also the needs in additional labor by businesses and businesses' perception of labor force quality to the perceived needs in the benchmark countries. Relatively high needs and/or low perceived labor force quality suggest a scarcity of human capital.
- Determine the percentage of companies that offer formal training to their employees. A high percentage indicates a need for more highly skilled workers and thus a scarcity of human capital.

D. Infrastructure

1. General Overview

- Compare the quality of the country's infrastructure to that of similar countries by using benchmarking studies of indicators measuring assess to electric power, railways, telecommunications and water supply and sewage services. The EBRD Transition Report[12] is one useful source of country comparisons. The World Bank also periodically undertakes regional studies that are relevant to a partner country[13].
- Run a regression with cross-country data to see if the country's infrastructure general quality versus its per capita GDP, PPP lies above or below the regression line. If the country falls above the line, infrastructure is probably adequate to the GDP.
- Compare the quality of these infrastructure components to that of several years ago to see whether there is general improvement or reduction in quality.
- Check the results of the World Bank survey on constraints to enterprise development to see whether companies complain about safe electric power, water supply services, obtaining connection to the electric power grid or telecommunications network, or any other infrastructure-related issues.

2. Telecommunications Infrastructure

- Determine whether the telecommunications infrastructure is adequately developed, by calculating the number of telephone stations per 1000 inhabitants, the percent of families with a computer, the percent of the population with access to the internet and the penetration of mobile phone usage. Compare these figures to those of similar countries.
- Explore the legislation in place regarding telecommunications requirements, including operator's activity, technical conditions, and licensing. See whether there is a Ministry of Information Technology Development or similar regulatory agencies and whether they have a viable development strategy.

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[12] http://www.ebrd.com/pubs/econo/series/tr.htm

[13] See, for example, http://www-wds.worldbank.org/servlet/WDSContentServer/IW3P/IB/2006/08/03/000016406_20060803153210/Rendered/PDF/wps3987.pdf

- Determine the total volume of sector revenues as a percentage of GDP and the breakdown of those profits among fixed-line telephone, mobile telephone, internet services, cable and air TV companies. See whether these markets have been privatized and whether the largest companies hold a monopoly of the market share.
- Compare the country's telecommunications infrastructure versus per capita GDP to the regression line for similar countries. If it falls above the line, this indicates that telecommunications are adequate to the level of development.

3. Water Supply and Sanitation Infrastructure

- Calculate the percent of the population that is connected to water and sewage services in both rural and urban areas. Plot these figures versus per capita GDP to determine whether the country falls above or below the regression line for the benchmark countries.
- Look to see if any surveys or studies have been conducted by the country's government or independent organizations regarding the quality of the water and of the water services, health impacts attributed to poor water and sanitation, and distortions in time allocation associated with poor access to water and sanitation.
- Explore the governmental agencies responsible for the development of the water supply and sewage services to see what their development strategies are and how the water supply networks operate. See whether the institutions in charge have the capacity to collect sufficient fees to cover operational and maintenance costs and any other issues related to taxes, investments and regulation.

4. Ground Transport Infrastructure

- Use the World Economic Forum ratings to compare the country's ground transport infrastructure quality to similar countries and run a regression of quality versus per capita GDP to see where the country falls in relation to the regression average line. You can disaggregate roads from railways to see whether the country fares significantly differently in these two areas.
- Calculate the density of roads (km of roads per 100 sq. km) and the population per 1 km of road. Compare these to similar countries.
- See whether any studies have been conducted by the World Bank or others regarding the quality of roads and road maintenance. If you find that over time the percentage of roads classified as in a "Poor or Extremely Poor" state has been increasing, road negligence may be a major problem. Estimate the current asset value of the road network and compare it to the estimated value were the network in proper condition.
- Consider the vehicle operating costs associated with roads in poor condition and the cumulative losses by all users of roads in the past several years. Also consider the number of deaths caused by road accidents per 100,000 people and compare this number to other benchmark countries.
- Explore policy papers that discuss options for financing the expansion of the road network or maintenance of existing roads. If applicable, compare the price of gasoline and diesel fuel in the country to the prices in other benchmark countries to see whether a tax on gasoline might provide enough needed funds.

5. Energy Infrastructure

- Use cross-country data to construct a regression line of the quality of the electric power supply infrastructure versus per capita GDP and see where the country falls relative to the line. This will indicate whether in general the energy infrastructure is adequate.
- To determine whether the energy source for the country is stable, find the major sources of energy. Track the change in prices for these energy inputs to determine whether energy prices are likely to rise, fall or remain constant in coming years.
- Using the World Bank Enterprise Survey data, compare the lost value due to deficiencies in electric power supply as a percent of sales to the benchmark countries. If it is significantly higher than in other countries, this is an area that may require attention.
- Calculate the volume of GDP per one unit of energy used and the energy consumption as a percent of sales and compare it to similar countries to determine whether the country uses energy efficiently. The more inefficient a country is in energy use, meaning a low level of GDP per unit of energy and a high level of consumption as a percent of sales, the more an increase in energy prices will hurt the country by making the country's enterprises less competitive.
- If the majority of the country's energy comes from a particular country, carry out the same analysis of that country's energy use efficiency to determine how changes in energy prices may indirectly influence your country via the effects on the energy exporting country.
- Compare the losses of electric power in the course of its transportation and distribution as a percent of obtained energy for all of the benchmark countries to determine if energy losses during transportation are a major cause of energy use inefficiency. Track these losses over the past several years to see whether progress has been made in reducing these losses.
- Explore whether the energy sector equipment is well-maintained and updated, which can prevent the depreciation that causes losses during transportation and distribution. See whether the government is currently doing anything to encourage more efficiency
- Another way to try to determine the demand for energy infrastructure is to look at use of imperfect substitutes (electricity generators), as this might indicate that infrastructure is a constraint on businesses.

E. Innovations

1. The Export Basket Size and Composition

- Calculate the growth in the number of exported goods over recent years, for 4- and 6-digit products (according to the UN's ComTrade database's Harmonized System), for all goods and for those valued at over USD 50,000.
- Compare the top ten 4-digit product exports last year to those of several years ago to see if there has been much change. If new products have risen to the top of the export list, this suggests that the country is able to innovate.
- Compare the percent change in the number of exported goods to the benchmark countries. If the country shows a relatively large percent change, this suggests the ability to adapt and innovate better and faster than similar countries.

2. Exports Sophistication Level

- Use the EXPY index to determine the level of export sophistication of the country. The EXPY is a measure of the productivity of a country's exports[14]. Plot it in a regression with other countries to see where the country falls.
- If there is one dominant export that might be skewing the overall EXPY, remove this export and do the analysis again to see how the EXPY changes.

3. Patents

- Find data on the number of patents filed in the country from the national patent office. Plot the number of applications received and the number of patents issued for the past several years, separating the resident applicants from the non-resident applicants. See how the number of patents issued compares to similar countries by running a regression. If the country falls above the line, innovation ability is unlikely to be a major constraint.

4. Innovations at the Enterprise Level

- Using the World Bank's Doing Business Guide, compare the percent of firms in the country that adopted new production technology and the percent that launched new products to the benchmark countries. Compare the past year with a point several years ago to see if there is much improvement.
- Compare the percent of sales spent on Research and Development to the benchmark countries. Also compare the country to others in terms of the percent of firms who have access to foreign technology, through either new joint ventures or new license agreements with foreign partners. If these numbers are relatively low, innovation may be a binding constraint.

F. Macroeconomic Risks

1. Economic Growth

- Track the growth rate and the inflation rates over the past ten years. Compare the average growth rate with that of the benchmark countries. Try to explain changes in the growth rate as part of the country's historical context and see if you can see any correlation between the inflation rate and the growth rate.

2. Inflation

- Explore any governmental statements or policies regarding inflation or national attempts to control it. Try to explain variation in the interest rate in terms of the financial and political situation of the country and external influences.

[14] An explanation and use of the index may be found in http://ksghome.harvard.edu/~drodrik/Chinaexports.pdf and in http://www.un.org/esa/sustdev/publications/industrial_development/1_1.pdf

- Determine whether there is any correlation between monthly and quarterly evolutions of monetary aggregates and inflation rates. A strong correlation indicates that inflation has a monetary feature, whereas a lack of correlation indicates that inflation is generated by non-monetary factors or is "imported."
- Determine whether inflation might be influenced by energy or other large imports, as the reliance on these imports puts the country at the will of the exporting country's financial situation.
- Compare the inflation rates of the past few years to those of the benchmark countries. If the rate is higher than the other countries', inflation may be a binding constraint.

3. Budget Deficit

- Track the budget deficit over the past ten years. Compare these trends with those of the other benchmark countries. Even if the country shows a low budget deficit or even a budget surplus, there may still be cause for future concern. Explore the country's relationship with the IMF and other lending institutions to try to predict whether the budget deficit is likely in increase in coming years.
- Consider the government's plans for social development and tax policy to see whether there is cause for concern regarding future deficits.

4. External Position

- Determine the current trade deficit and track the evolution of this trade deficit over the past several years. Calculate the trade deficit as a percent of GDP and compare this to the benchmark countries. If the country has a relatively high trade deficit as a percent of GDP, this indicates that the economy is consumption-oriented and that the productive sector is unable to meet the domestic demand.
- See to what extent the trade and current account deficits are covered by remittances. If remittances cover most of this entire deficit, it is not a cause for concern.
- Chart the evolution of the terms of trade for each of the benchmark countries over the past ten years to see how the country compares. If the terms of trade have become progressively worse over the years, we can conclude that the external competitiveness of the country's goods is low.
- Graph the Fiscal Balance, the Public Debt, the Trade balance and the Current Account all as a percent of GDP over the past ten to fifteen years to get a feel for the general trends.
- Compare the trends in the country's Public External Debt over the past several years with those of benchmark countries. Also follow the trends in the years to reach Effective Financial Maturity and the Effective Interest Rate over the past ten to fifteen years.
- Try to predict how the Current Account Deficit will evolve over the coming years, considering levels of remittances and the rate of borrowing in the private sector. Determine whether the Current Account Deficit will reach levels high enough to worry investors in terms of the risks involved in investing in the country.
- Compare the country to the benchmark countries in terms of Long-term Risk Premium Rating (Moody's Investors Services and Fitch IBCA), Adjusted Basic Margin, Risk Premium total percent, and Risk premium percentage for the country.

G. Investment and Business Climate

1. Foreign Direct Investments

- Track the amount of FDI over the past several years and compare it to benchmark country aggregates.
- Explore the regulations in place surrounding entrepreneurial activity. See whether regulatory-type constraints are mentioned by companies as an impediment to their development. Make note of the specific regulations that companies mention, as these will be issues that need to be addressed.
- Calculate the current and previous year's FDI as a percent of GDP and compare this to the benchmark countries. Track this percent over time, compared to aggregates of the benchmark countries. Determine whether this relative percentage is explained more by the GDP level or by the amount of FDI. To do this, calculate the amount of FDI per capita in each of the benchmark countries and the cumulative per capita FDI over the past fifteen years.
- Try to come up with reasons why FDI might be low, including geographic, social, policy, cultural, educational and economic factors.

2. Conditions for Doing Business

- Use the World Bank's Enterprise Survey Index and Doing Business Survey for this section of the analysis.
- List the Major Mentioned Constraints, as a percent of companies that complained about each of the listed constraints. Compare these percentages to the aggregate for the benchmark countries to see where the country differs most from the others.
- Compare the country's ranking of doing business to the benchmark countries, using the past two years of the doing business survey to see whether the ranking has significantly changed. Chart the change in the rankings among all of the benchmark countries.
- Graph the changes in each of several sectors, each ranked at a scale of 1 (no obstacle) to 4 (major obstacle), and using 2002 as a benchmark year. Sectors that surpass the benchmark line indicate deterioration in the business environment, while those that are below the line indicate improvement.
- Compare the country's ranking in each of the conditions for doing business to see which parts of the business environment need the most attention and improvement. Chart the change in each of these components over the past year to determine where progress is being made or lost.
- Compare the cost in time and money as a percent of per capita income of licensing to the benchmark countries. Compare across these countries as well the cost and time needed to start a business. See whether there is one particular area that is relatively higher than in other countries.
- Compare the taxation policies of the country with those of the benchmark countries, charting both the total tax payable as a percent of gross profit and the number of payments. Compare as well the Share of Central Government Revenues derived from taxes as a share of GDP, and the time in hours required for preparation, documentation and payment of taxes. As long as the country falls somewhere in the middle on all of these comparisons, the tax system should not be a major binding constraint.

- Determine the marginal tax rate for the high income bracket and the levels of corporate tax compared to the income tax to see whether these are abnormally high. Also look at consequence outcomes such as informality and evidence of tax evasion.
- Explore the process involved in tax payment, including the records that companies are required to submit, the various steps involved, and the amount of time and resources dedicated to these procedures to determine whether the tax payment system could be simplified.
- Look at the Import/Export regulations in terms of the number of documents and time required for both export and import, comparing the country to the benchmark countries and the world to determine whether the Export/Import regime is overregulated. Even if a country ranks near the middle of this indicator, its particular characteristics such as lack of access to markets may be an important impediment to trade and economic development.
- Compare the Labor Force Recruitment and Discharging indicators to those of the benchmark countries to determine which aspects of the labor market might be overregulated.
- Compare the level of corruption in the country to others, using the amount of unofficial payments paid for a typical company to get things done, as a percent of sales.
- Compare the level of confidence in the judicial system across the benchmark countries. If this level is low, the country's entrepreneurs may not trust the judicial system to protect their investments, making investors unwilling to take risks required for starting a business.

Chapter 3: Social and Gender Assessment

Introduction

Because gender inequality can be a significant constraint to economic growth and poverty reduction, MCC requires that gender is considered in the selection of eligible countries and integrated into the development and design of compact programs, the assessment and implementation of projects , the monitoring of program results, and the evaluation of program impacts.

In order to ensure that gender is effectively integrated throughout the development and implementation of compacts, MCC has developed a Gender Policy, released in 2006, and, more recently, gender integration milestones and operational procedures.

The purpose of this document is to provide operational guidance to MCC's country partners on their role integrating gender in all stages of compact development and implementation in accordance with MCC's Gender Policy. This reflects MCC's commitment to gender equality as a development objective supporting poverty reduction. Below, we address not only country responsibilities but also how the core team will work together and with the MCC transaction team to ensure effective and timely gender integration.

Roles and Responsibilities of the Social & Gender Assessment (SGA) Staff

The MCC Social and Gender Assessment (SGA) staff is part of the Technical Services Division within the Department of Compact Operations. The SGA staff work with their country counterparts to proactively identify the social and gender context and the constraints and opportunities these present to poverty reduction. They are responsible for ensuring that gender integration is accomplished throughout compact development and implementation phases and that gender milestones are met.

The SGA staff work in close collaboration with MCC's Environment and Social Assessment (ESA) staff and they are connected as a 'practice group' through work processes and other mechanisms. SGA also works with other members of MCC's transaction team to provide leadership and management of the social and gender assessment and oversight processes as described in MCC's Gender Policy and this document.

MCC requires that our partner countries have on their core team, as well as in the accountable entity after a compact is signed, a person with similar social and gender analytical and project design skills and experience as MCC SGA staff. We have learned that ensuring that social and gender technical expertise is available from the earliest stages of compact development is a key to successful gender integration and compact outcomes.

Gender Integration Milestones and Operational Procedures

What follows is a narrative description of operational procedures and milestones for gender integration that support MCC's Gender Policy. Gender integration is the incorporation of social and gender analyses throughout development processes and institutions in order to have more sustainable and equitable outcomes. The practical reasons are efficiency and effectiveness: better design leads to lower costs, greater acceptability, smoother implementation, and better results.

Start Up and Preliminary Analyses (Phase 1)
MCC's Social and Gender Assessment staff provides guidance to the partner country prior to the design of the country's consultative process. The guidance will include (but is not limited to): integrating gender analysis in the design and implementation of consultations; designing the desk review of social and gender constraints and opportunities to poverty reduction; and ensuring that the partner country commits to the position of senior social scientist with gender expertise on the core team.

One of the first tasks of the core team is to develop the plan for consultations. A senior social scientist with gender expertise will be hired before the plan is developed in order to provide technical input to ensure that critical social and gender considerations are included in the plan and that relevant information from the consultations is documented. Once the core team finalizes the plan for consultations, MCC's SGA staff will review the plan to ensure that it incorporates gender considerations and policy requirements.

The SGA staff of MCC and the core team will then conduct a desk review and targeted external and in-country consultations to identify social/gender inequalities that are constraints to economic growth and poverty reduction. The SGA staff will also be responsible for ensuring that the findings from the desk review are considered by the core team before the concept papers are submitted to MCC. The objective is to identify legal, policy, institutional and socio-cultural constraints to gender equality, a critical dimension linked to economic growth and poverty reduction.

Project Definition (Phase 2)
When the core team submits the concept papers to MCC for review and preliminary selection of projects, MCC's SGA staff will participate in the review of the concept papers in order to ensure that the necessary gender considerations (based on the consultations and desk review) were taken into account during the development of the concept papers. Additionally, MCC and core team SGA staff will contribute to the project definition process based on MCC's Gender Policy and other requirements and relevant social and gender findings.

Project Development and Appraisal (Phase 3)
Once specific sector(s) or project(s) from the concept papers are selected by MCC, the MCC and core team SGA staff will identify the specific gender issues, opportunities and constraints relevant to the specific sector and context, including the socio-cultural context. These preliminary assessments will inform the design phase.

Phase 1

1. Initial Guidance from MCC SGA (prior to consultation design).
2. Core Team of partner country has social scientist with gender expertise on staff (prior to consultations).
3. MCC assigns SGA staff to country team (prior to consultation design).
4. MCC SGA staff reviews how consultative process incorporates gender considerations and policy requirements.
5. MCC SGA and core team SGA staff conduct a desk review and targeted external and in-country consultations to identify social/gender inequalities that are constraints to growth and poverty reduction and ensure that findings are considered by the core team before concept papers are submitted to MCC.

Phase 2

6. MCC SGA staff participate in the review of the concept papers. MCC communicates any further action required of the core team and ensures action is taken
7. Gender assessment conducted of relevant sectors and project areas.
8. Gender assessment integrated into relevant ToRs and deliverables for feasibility, ESIA, due diligence contracts.
9. Social and gender assessment integrated in the Investment Memorandum.

Gender assessment will be conducted independently and/or integrated into relevant terms of reference (ToRs) and deliverables for feasibility, ESIA, and due diligence contracts. MCC's SGA staff will ensure that findings from the gender assessments are included in the Investment Memorandum.

Gender will also be integrated into beneficiary analysis and monitoring and evaluation (M&E) work prior to compact signing, including the design of baseline surveys; Annex III of the compact document; and impact evaluation concept development. Sex-disaggregated data and gender indicators will be included, where appropriate.

Compact Negotiations and Compact Signing (Phase 4)
MCC's transaction team and the core team will ensure that the compact language addresses gender considerations identified in compact development and that relevant gender-related conditions are incorporated. The compact budget will include resources to address gender integration, where appropriate.

Pre-Entry into Force Activities (Phase 5)
After the compact is signed, the partner country will hire staff for the MCA accountable entity. With MCC's no objection, the partner country will hire a Senior Social/Gender Specialist as key personnel of the MCA (this is to ensure that this position is part of the MCA early on).

Prior to entry-into-force, MCA's Senior Social/Gender Specialist will develop the Gender Integration Plan and present it to MCC for approval. The Gender Integration Plan will include relevant findings from compact development, it will be updated as implementation proceeds, and it will be incorporated into the program and project workplans.

Gender assessments will also be conducted for relevant Scopes of Work (SOWs) and deliverables for feasibility, design, Environmental and Social Impact Assessment (ESIA), and sector contracts. Additionally, the SGA and M&E staff will work jointly to integrate gender into the M&E plans.

Both MCC and MCA are responsible for ensuring that there will be sufficient budget in implementation agreements and/or Environmental and Social Management Plans (or other relevant budgets) to incorporate gender integration activities.

Phase 3

10. Gender integrated into Beneficiary analysis and all M&E work including design of baseline surveys conducted prior to signing; gender integrated into Annex III of the compact, performance monitoring plans, and any impact evaluation concept development prior to compact signing (including review for sex-disaggregated data and gender indicators where appropriate).

Phase 4

11. CTL ensures that compact Language addresses gender considerations identified in compact development and that relevant gender-related conditions are incorporated.
12. Where appropriate, compact Budget includes resources to address gender integration.

Phase 5

13. MCC and MCA ensure sufficient budget in implementation agreements and/or ESMPs and other budgets to incorporate gender.
14. With MCC's no objection, MCA hires senior social scientist with gender competency as key personnel.
15. Gender Integration Plan (GIP) developed by MCA and approved by MCC prior to EIF.
16. GIP incorporated into program and project workplans.
17. Gender integrated into relevant SOWs and deliverables for feasibility, design, ESIA, and construction contracts.
18. SGA and M&E staff ensures gender is integrated into monitoring and evaluation plans.

Compact Implementation (Phase 6)

Once the compact enters into force, MCC and MCA generally hold an Implementation Workshop. Gender integration will be a topic in the Implementation Workshop. In addition, MCA SGA staff and leadership will ensure that gender training is provided early on for all MCA staff, implementing partners, and any other relevant stakeholders.

The MCA Senior Social/Gender Specialist will provide technical input on gender integration to other MCA staff, particularly other Environment and Social Assessment staff (such as resettlement) and sector specialists in the MCA, including Monitoring and Evaluation.

Along with MCC, the MCA's Senior Social/Gender Specialist will review each project for gender integration performance quarterly. The MCA Senior Social/Gender Specialist will also ensure that the Gender Integration Plan is reviewed annually and that problems are addressed to ensure successful gender integration.

MCC's SGA staff will provide continuous support and oversight to the MCA team. The SGA staff will collaborate with other ESA and M&E colleagues in all necessary tasks.

Once the compact implementation phase comes to an end, both MCC and MCA's social and gender staff will integrate gender into all relevant compact closure activities.

Phase 6

19. Gender integration is a topic in Implementation Workshop.
20. Gender training conducted for all MCA staff and implementing partners.
21. MCA Senior Social/Gender specialist provides input on gender integration to other ESA (such as resettlement) and sectoral specialists in the MCA.
22. MCA Senior Social/ Gender specialist and MCC review each project for gender integration performance quarterly.
23. MCC SGA staff provides support and oversight to MCA. In most cases, this will be through the social assessment function of the MCC ESA Director on the transaction team.
24. MCC SGA and ESA staff report on gender integration in each quarterly performance review.
25. MCC SGA staff review performance monitoring data with M&E colleagues.
26. Gender is integrated appropriately into baseline surveys, impact evaluations and other evaluations.
27. Gender is integrated into relevant activities of the Compact Closure Guidance.

Chapter 4: Investment Opportunity Analysis

To increase the impact and sustainability of compact investments, each core team shall conduct a systematic and comprehensive analysis, called an Investment Opportunity Assessment. The objective of the Investment Opportunity Assessment is to ensure that opportunities to impact the level of private sector activity positively are explored and given appropriate consideration during the compact development process. The Investment Opportunity Assessment will follow the Constraints to Growth Analysis to explore more deeply the potential to enhance leverage private sector activities to unlock identified constraints to growth and sustain development investments. Investment Opportunity Assessments will focus on market segments that are seen to be the key drivers of growth within each country. At its core is the aspiration to leverage private sector views, expertise and, in some cases, capital to enhance compact outcomes.

Investment Opportunity Assessment Overview

The Investment Opportunity Assessment is a process that delivers upon MCC's commitment to placing a high priority on private sector engagement throughout compact development and implementation. The Investment Opportunity Assessment should be viewed as a set of principles to direct the core team and MCC rather than a set of precise instructions to be followed. While the methodology will vary based on country context as well as specific constraints and opportunities for growth, the following diagram shows a process through which the Investment Opportunity Assessment can be conducted. This template provides a guide to the core team and MCC to develop a country-specific Investment Opportunity Assessment. By following a general phased process, the Investment Opportunity Assessment identifies when, where and how the core team and MCC can engage the private sector around potential compact projects. While the analysis may or may not result in a specific private sector development project, it will ensure that the businesses views of needs and opportunities are inputs into programs and projects.

1. **Identify Key Growth Industries in the Host Country** based on factors such as an industry's growth rate, its share of GDP & exports and the amount of people it employs.

   This initial high level analysis can draw from in-country and international data sources that track the performance and competitiveness of the economy by sector. The types of data that will be useful include, but are not limed to: country exports, GDP segmentation, and contribution to employment. Several years of data should be gathered to evaluate historical trends. More detailed information that provides context for sector performance should also be examined. In exports, for instance, it is important to research trade statistics by sector such as volumes and prices received by exporters in the country and those received by others in world markets.

2. **Identify Key Obstacles to Private Investment in These Growth Industries** such as poor infrastructure, a weak enabling environment, value chain inefficiencies, or lack of access to credit, skilled labor, and health, among others.

   Throughout this step, the team will identify specific problems that are hindering private sector investment and activity within these key growth industries. It is expected that these will be guided the macroeconomic issues highlighted by the constraints analysis, however there may be important additional issues that need to be addressed. The data driven overview of the economy gathered in Step 1 will be supplemented with qualitative data from private sector participants. Input from well informed sources will give the core team and MCC a context through which to make conclusions from the data. The table below indicates how some of the information could be structured.

Sector	Industry	Infrastructure			Policy / Enabling Environ.	Land Rights	Inputs / Supply Chain	Access to Finance	Labor Capacity	Worker Health	Environ/ Social Risks
		Energy	Water	Transport							

Legend	Constraint **Mildly** Affects Sector/Industry	Constraint **Moderately** Affects Sector/Industry	Constraint **Strongly** Affects Sector/Industry

3. **Identify Specific Opportunities** where private and public interests in overcoming a particular obstacle to economic development overlap and offer an opportunity for collaboration.

   During this step the core team and MCC can analyze the data gathered from the research, initial dialogue with the private sector and the constraints analysis to determine key issues and if there are clear areas around which partnerships with private sector actors can be built. When selecting potential collaborative projects, the core team will need to clearly identify the overlap of development and private sector interest. Even at this early stage, motivations and benefits for both sides should be explored to ensure that as ideas are developed, there will be mutually reinforcing interests. As noted earlier, two key drivers are sustainability of compact investments and increasing impact. Importantly, limitations should also be recognized in this initial period of engagement. The core team should take care to ensure that contact with private sector entities is open and transparent without giving undue preference to any business that might seek collaborative or procurement opportunities within the compact. MCC can assist the core team in navigating these issues and the processes identified in the following step are specifically designed to allow for collaboration without preference.

4. **Identify Specific Partners & Modalities for Developing These Opportunities**, such as by soliciting partnership proposals from private partners.

   Having engaged potential private sector partners and developed collaborative opportunities, the core team and MCC should continue to engage these organizations around these issues. These private sector collaborations can occur in many forms. Deepening formal engagement with the private sector may develop critical long-term inputs to policy reform, increasing the likelihood that expected increased business activity does occur. Opportunities to develop new markets may also be identified for which activities that could be undertaken during compact development or supported by compact projects.

   If specific partnership opportunities have been identified, the core team and MCC can solicit partnership proposals through MCC's Invitation to Innovate process. The benefit of engaging potential partners through the Invitation to Innovate process is that by using a transparent non-preferential process the team can engage directly with potential partners without waiting for a procurement process during compact implementation. Proposals can be received, reviewed and acted upon during compact development, embedding partnerships in the compact.

5. **Outline and Develop the Specific Project Activity** that MCC will support and how to implement it.

   As issues have been uncovered, researched and articulated in the previous steps, this final compact development step is crafting the detailed response to solve those problems or take advantage of opportunities. As noted above the nature of the response will vary upon the issue. Institutional or regulatory reform programs may be structured to incorporate private sector views and feedback throughout implementation. Projects designed to capitalize on new market opportunities could be structured with clearly defined public and private sector roles.

   Referencing the Invitation to Innovate process, as in any proposed compact activity, partnerships projects will take time and effort to construct. While engaging a partner is expected to increase impact and sustainability, an additional party beyond the public sector creates a layer of complexity not found in other compact activities. At this point it may be necessary to engage specialized resources depending on the proposed collaboration.

Communicating with the Private Sector

Engagement with the private sector and other entities is well articulated in "Guidance for Private and Non-Governmental Sector Engagement". There are some additional topics that are worth highlighting within the Investment Opportunity Assessment framework. The first is identifying companies that should be contacted. While leading companies are typically easily identifiable, smaller or ancillary firms can be found by contacting industry associations and line ministries within the country. Foreign companies can be found via chambers of commerce or embassies. If an infrastructure sector is the target of the research, then usage as reported by utility can be helpful.

After the companies have been identified, the team should clearly articulate internally the information needed and structure questions that target these needs, while leaving room for additional insights that businesses can provide.

Example questions to pose for a dialogue focused on energy:

- What are the qualitative and quantitative impacts of an outage?
- What is the financial impact?
- What is the impact on jobs?
- What types of companies are most affected?
- What remedial steps are they taking to deal with the problem?
- Is there a geographic concentration of impacts?
- Which productivity measures are affected?
- How much additional revenue potential is there with more reliable electricity?
- How do you mitigate the risk of outages?
- How does pricing affect your margins?

When engaging the private sector, the core team should use the appropriate forum based on the type of information sought. Conferences, roundtables, interviews and surveys have their strengths and weaknesses. This is especially the case when determining most appropriate method for gathering sensitive information regarding government policy and institutional concerns. Roundtable discussions with government representatives present may inhibit participants whereas one-on-one interviews may be a more effective option.

Linkages to the Constraints Analysis

The Investment Opportunity Assessment builds upon information and decisions made during the constraints analysis. The direction set by the constraints analysis which is used at very initial stages should be used by the core team as it conducts the Investment Opportunity Assessment throughout compact development. The constraints analysis depends upon macro-economic data and information to determine high level constraints the growth, while the Investment Opportunity Assessment engages private sector entities in key industries to gather specific supporting information as well as identify opportunities for collaboration.

Resources

Conducting the Investment Opportunity Assessment process will require a commitment of human resources from the core team similar to the commitment made for the development of constraints analysis, although it will continue throughout compact development like other cross cutting processes such as gender and environment assessments. Specialized resources may be required to articulate or develop collaborations. Engaging with the private, sector will also require modest financial resources to cover items such as core team travel or hosting meetings. Within MCC the Private Sector Development group will support the core team during the process and remain a member of the MCC transaction team during compact development. Depending on the nature of the constraints being explored, inputs may be required from sector experts from the core team, MCC and specialized consultants in the areas of infrastructure, agriculture, land, education and/or health.

Chapter 5: Guidelines for Economic and Beneficiary Analysis

Background

The Millennium Challenge Corporation (MCC) was established in January 2004 to promote sustainable growth and poverty reduction. Indeed, the legislation that created the new American foreign assistance agency states that the MCC is to "*(1) ... provide United States assistance for global development … and (2) to provide such assistance in a manner that promotes economic growth and the elimination of extreme poverty and strengthens good governance, economic freedom and investments in people.*"[15]

MCC's overriding objectives of promoting economic growth and reducing poverty in our partner countries are closely connected. Evidence shows that the countries that achieved significant poverty reduction in recent decades also achieved significant economic growth. This strong relationship exists because economic growth is about income generation and, especially in poorer countries, the lack of income generation is one major reason behind chronic poverty.[16]

MCC does not simply assume that programs that stimulate growth will invariably reduce poverty, but instead looks at the likely distributive effects of proposals and, where possible, identifies the likely beneficiaries and the program's impact on poverty. Ultimately, MCC seeks to fund activities that will generate significant and measurable increases in incomes of large numbers of people in our partner countries, including significant gains for the poor.

MCC analyzes the likely impact on economic growth of its programs by analyzing whether the proposed programs are consistent with international evidence on drivers of economic growth and by use of Economic Rate of Return Analysis (ERR).[17] The essence of such an analysis is a straightforward comparison of costs and benefits, where the costs are the MCC-funded grants and the benefits are increases in incomes in recipient countries. Thus, MCC analyzes proposals as investments, with payoffs going to households and firms in partner countries.
The ERR analysis provides an estimate of the total increase in incomes attributable to a proposed MCC-funded activity relative to the total costs. Evidence from past work by MCC and others demonstrates a strong correlation between the amount of total benefits generated by an investment and the total amount of benefits gained by low-income households. The estimated increase in total incomes generated as part of the ERR analysis, however, does not distinguish among different types of beneficiaries and so cannot describe with precision the impact of a proposed project on the poor or any other specific population group. Beneficiary Analysis is an extension of ERR Analysis that seeks to *disaggregate* the total increase in income to determine

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[15] Millennium Challenge Act of 2003, Section 602.
[16] Many studies have investigated the relationship between economic growth and poverty, and while MCC does not favor any particular one, readers interested in evidence from the 1990s may consider "Pro-poor Growth in the 1990s: Lessons and Insights from 14 countries," available online at http://siteresources.worldbank.org/INTPGI/Resources/342674-1119450037681/Pro-poor_growth_in_the_1990s.pdf.
[17] Readers may be familiar with benefit-cost analysis, and ERR estimates represent a summary statistic that reflects the economic merits of a proposed investment. A project is considered a sensible economic investment when the estimated ERR is higher than the local discount rate for capital. In most developing countries, one would expect that discount rate to be near or above 10%.

specifically *which segments of* society will benefit from the proposed activities. Beneficiary Analysis can shed light on the merits of proposed investments in terms of promoting significant reductions in poverty. In selecting among several potential investment options, Beneficiary Analysis may provide important information to help identify preferred alternatives.
As a general objective, MCC policy is to seek proposals with high economic rates of returns and broad impact; in many cases, investments with high returns may also *reduce* inequality, enhancing the impact on poverty.[18] We seek programs with both high poverty reduction impact and high economic returns at the same time, rather than one or the other, and this approach excludes projects that promise high returns but do not benefit the poor. Country partners are expected to identify crucial constraints to growth and consider possible investments to ease those barriers to growth. MCC requires that countries analyze the economic impact of several options and select those proposals and project designs that have the highest impact on economic growth and poverty reduction for submission to MCC. The analysis of options and selection from these options should be part of the consultative process.

MCC's policy implies no preference over sectors and the use of economic rate of return analysis does not necessarily favor any particular sector, such as infrastructure, agriculture or health. Many of the projects proposed to MCC have been in agriculture and infrastructure, leading some to conclude incorrectly that MCC favors projects in these areas. In fact, MCC has no preference for sector or region, and a premature focus on one part of the country or economy may lead country partners to miss the potential investments that promise the highest return in growth and poverty. MCC's ERR analysis considers income gains over a relatively long term, typically 20 years, and so can capture the returns to investments in health and education that may accrue over a relatively extended period. To underline this point, Annex 1 describes three examples of health and education projects with high economic returns. In every case, however, the economic rationale needs to be assessed with a comparison of the cost of a proposed activity and the projected impact on local incomes.

MCC's policy of country ownership means that, through a consultative process, countries have the lead in proposing how funds should be used. MCC respects the ability of the country to analyze its own impediments to growth, and expects that governments will analyze options jointly with a wide array of stakeholders. MCC views its relationship with the countries as a partnership dedicated to the shared goal of determining where MCC funds can have the highest impact in raising incomes and fighting poverty. MCC reserves the right, however, to withhold approval for a proposal or parts of a proposal based on, among other factors, evidence of technical infeasibility, low economic returns (i.e., low *net* returns), weak supporting assumptions, low poverty reduction impact, or the lack of clear measurable benchmarks.

A number of studies have confirmed the tendency of analysis to be overly optimistic about project benefits before a project begins; for this reason, MCC prefers that evidence about a project's impact be drawn from evaluations of similar completed projects in the compact country

[18] Although MCC's primary objective is reducing poverty through growth, the impact on equity is a related and important consideration. It is possible that a high-return project could increase inequality but still deliver large amounts of income to the poor; it is also possible that a project targeted to the poor could reduce inequality but, because of low returns, deliver few benefits to the poor. The Beneficiary Analysis should help program planners avoid both of these outcomes, recognizing that poverty impact is driven by the total *amount* delivered to the poor.

or, if this is not available, results from another country with similar economic characteristics and conditions may be applicable. In keeping with our focus on results, MCC will not approve proposals or parts of proposals without good supporting evidence that the proposal will have a significant impact on economic growth and poverty reduction. Such evidence should be available when a country's proposal is presented to MCC.

In addition, MCC will come to agreement with the country on targets and a monitoring plan for each activity before the program commences. The M&E framework is directly linked to the economic analysis since variables from the benefit stream of the ERR analysis are included as key performance indicators and targets in the Monitoring and Evaluation Plan (M&E Plan). The purpose of this approach is to ensure that monitoring focuses on what is essential to producing a high economic impact. Since disbursements of MCC assistance will be conditioned on achieving benchmarks linked to the economic analysis, overly-optimistic economic projections are not recommended. The monitoring plan may also specify mid-stream changes in activities if the benchmarks are not being met. (See Guidelines for Monitoring & Evaluation Plans for more detailed information.)

Guidance on calculating Economic Rates of Return (ERRs)

The economic justification for any proposed investment is assessed by comparing the likely benefits of that investment to total costs required to successfully implement the activity. This approach is similar to that taken by private sector firms when they decide whether to invest funds in a new for-profit venture, except public sector assessments consider the impact on a broader set of individuals (e.g., the country's entire population). As a public agency considering the likely benefits for its partner countries, MCC focuses on *micro-economic growth analysis* that estimates the expected increase in either incomes of people or value-added[19] by individual firms in the country.[20] This increase in incomes or value-added reflects the improvement in standards of living in partner countries that is MCC's primary goal; the distributional impact of these investments is formally considered in the Beneficiary Analysis (described below). The analysis of costs includes the MCC investment and any costs borne by local individuals or organizations. A cash-flow analysis captures the value of the benefits relative to the value of these costs, but these net flows need to be discounted over time to reflect the opportunity cost of capital and the normal time-preference that people have for benefits sooner rather than later. The ERR, which is used as a summary statistic to describe the economic justification for the proposed investment, can be understood as the discount rate at which benefits exactly equal the costs of the proposed project.[21] The higher the value of the benefits relative to the costs, the higher the ERR. Similarly,

[19] Value-added is defined as total revenues minus the cost of intermediate inputs. It is the measure of the economic output of an enterprise that is used in national income accounting. The value-added of each firm flows back into the hands of the firm's individual owners and employees in the form of profits and wages.

[20] When proposals are not amenable to micro-economic growth analysis (as might be the case, for example, in policy reforms that are national in scope), MCC seeks to measure the impact by regression evidence from other countries or cross-country regression analysis or by use of simulations based on realistic assumptions.

[21] In such an analysis, an ERR of 0% does not describe a project whose costs and benefits are equal, but rather a project whose costs and benefits are equal only if capital has no opportunity or time cost. In traditional benefit-cost analysis, the net present value of an investment is positive if the ERR is higher than the discount rate. For public sector investments, identifying the correct discount rate is often problematic. In the field of international

benefits that accrue sooner relative to the time when costs are incurred will also generate higher ERRs than projects with the same amount of benefits that accrue further in the future. In this sense, the ERR is a robust measure of a project's impact on the material standards of living in the partner country that takes into account the absolute amounts of costs and benefits and the pattern of both over time.

The with-project scenario is compared to a scenario in which the investment is not made, known as the *counterfactual*. This baseline for comparison should be as realistic as possible, capturing what is most likely to happen in the absence of the new investment. In this scenario, the funds used for the investment are devoted to other undertakings, thus generating some return. In the MCC context, the average rate of return that these funds are likely to earn is the average return on such funds in the partner country as a whole, captured by "hurdle rates" that reflect the most recent growth rates in the country. Investments in activities that promise lower returns can be seen not just as a sub-optimal choice, but rather as an inefficient allocation of capital for the economy that may lead to distortions that will slow rather than accelerate growth.

Estimating the costs of a proposed project is relatively straightforward, as these primarily depend on the project's design. Estimating project benefits is somewhat more complex, since a counterfactual scenario must be estimated to understand the project's impact. Outlined below are the four key steps used to estimate the ERR based on MCC's micro-economic growth focus. Briefly, these steps entail defining who the project will affect, what these individuals or firms' current income is and how it is likely to change in the absence of the project, estimating how their income is likely to change *with* the project, and finally comparing the two flows of income by calculating the ERR.

The following provides further details on each of these four steps:

I. Define the intended beneficiaries and the set of actions that are necessary and sufficient to achieve the projected increase in incomes.

A. One should begin by specifying the expected scope of the project's benefits, determining who is likely to benefit from the project. MCC considers beneficiaries of projects to be *those people who experience better standards of living as a result of the project through higher real incomes.* These beneficiaries include owners and employees of firms whose value-added is expected to increase due to the project.

B. MCC has found it useful to classify projects according to their scope to help predict the number and type of beneficiaries for different projects. MCC uses the following categories:

– *National or Regional Investments* are large-scale infrastructure projects that are expected to affect broad geographical areas of an economy, making *all* citizens in these areas beneficiaries.

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development, discount rates of 10-12% are commonly used; MCC's country-specific hurdle rates, falling between 10-15%, are consistent with this industry standard.

- *Broad-Based Investments* are other large-scale investments whose beneficiaries are typically counted as users of the new or improved public systems or those who will benefit from the use by others.

- *Targeted Projects* include all other activities that benefit specific individuals and households, such as projects that focus on agricultural development, school construction or other educational development efforts.

C. MCC policy is to obtain household survey data for assistance in quantifying the impact on beneficiaries as soon as possible. Such information is essential to understand who is likely to benefit from the activity and what the magnitude of the benefit is likely to be for these individuals.

D. The impact on incomes of each intervention should be considered separately. Only when there is solid evidence of strong complementarities among the returns to these activities can multiple activities be combined into one model. For example, agriculture projects often are composed of a number of separate activities (e.g., technical assistance to farmers, rural roads, cold storage). Each activity should be considered separately to determine whether the specific activity generates sufficient impact to justify its costs. Although program designers sometimes suggest that a set of activities are jointly necessary to boost exports and incomes of households, this assertion that each and every component is truly necessary needs to be critically assessed.

E. Projects must have a strong rationale for public sector involvement, such as the provision of public or quasi-public goods or services or the presence of important market failures (e.g., demonstrable information asymmetries or coordination problems, supported by evidence).[22] When the gains from a project are large and concentrated among relatively few actors, the analysis should examine why such actors cannot undertake the investment without MCC funds. The ERR model for the proposed project must either explicitly incorporate an analysis of the incentives of these individual actors or be accompanied by an explanation of the rationale for public sector involvement that includes documented evidence.

II. Gather data on *current* incomes or total value-added of the intended beneficiaries and estimate how these are likely to change *without* the project over time.

A. The assessment of what will happen *without* the program should estimate what will *most likely* occur, not what is desired or what will occur under the best circumstances. When estimating what will happen in the absence of the program, the standard

[22] **Public goods** are goods or services that can be consumed by several individuals simultaneously without diminishing the value of consumption to any one of the individuals. This key characteristic of public goods, that multiple individuals can consume the same good without diminishing its value, is termed **non-rivalry**. Nonrivalry is what most strongly distinguishes public goods from private goods. A pure public good also has the characteristic of **non-excludability**, that is, an individual cannot be prevented from consuming the good whether or not the individual pays for it. For example, fresh air, a public park, a beautiful view, national defense.

assumption should be that recent past practices will prevail. If production trends have been trending upwards, the without-program scenario should reflect this rising baseline rather than a no-growth assumption.

B. MCC's standard practice is to study projects over a 20-year time horizon. When there is strong evidence that the useful life of the MCC investment is shorter or longer than 20 years, such adjustments to the time horizon should be made, but noted explicitly and explained in the accompanying text. In all cases, analysts need to study the sustainability of investments over such time periods, including the probability that necessary maintenance will be completed. The analysis may vary the time period over which the ERR is calculated to determine the sensitivity of the estimated returns to the time horizon. When the magnitude of the economic returns is sensitive to the time horizon, this should be noted explicitly, as well.

C. The analysis may estimate benefits as value-added or incomes. GDP can be measured in several ways: by summing value-added over all enterprises in the economy, or by summing incomes over all legal entities (e.g., wages or labor income of households, profits). Both methods are equally valid. For agriculture projects, country and MCC analysts may find it convenient to work with household incomes as the unit of analysis; for other projects, value-added of groups of enterprises or of a region of the country may be more convenient.

III. Estimate how incomes or total value-added of firms will increase *with* the project over the same time horizon.

A. The primary goal of this step is to identify the economic logic through which the project activities lead to higher incomes or value-added and estimating the magnitude of this effect using reasonable estimates from country-specific data or other experiences in other relevant, comparable contexts.

B. In keeping with the focus on economic growth, and in recognition that data are often scarce in MCC countries, economic analysis should focus on forecasting increases in incomes or value-added from projects and exclude consumer surpluses or other economic rents.[23]

C. When the project relies on individuals or firms making decisions, such as investing, changing economic behavior, or participating in a publicly funded program, a financial analysis should be performed from the perspective of these actors to confirm that they have a financial incentive to perform those actions, with proper accounting of their opportunity costs. For example, when a project upgrading an irrigation system relies on farmers cooperatively maintaining newly purchased equipment, the analysis should explicitly consider what an individual farmer's income is likely to be if he or she invests in maintenance and what will happen to the project if those investments do not take place.

[23] Important rent transfers should be noted elsewhere in the analysis when seen to be significant.

D. Projects should not be undertaken if the positive economic benefit hinges on the presence of a tax or subsidy. Therefore, economic analysis should use shadow prices whenever possible. Shadow prices are the market prices that would prevail in the absence of taxes, subsidies or administrative restrictions on market activity.

E. Demand multipliers generally should not be used in ERR analysis, unless: (a) the region of the project has significant excess capacity; and (b) there is prior empirical evidence that these effects are significant. MCC will seek to gather its own evidence on the magnitude of demand multipliers for use in future estimates of the economic returns. MCC is aware that most guidelines on cost-benefit analysis recommend approaching claims of large multipliers critically, and is wary of projects whose economic rationale relies on the assumption of large unidentifiable benefits.

IV. Construct a cash-flow analysis and estimate the ERR

A. A cash-flow analysis should be compiled in a spreadsheet, in which the project costs over time are negative entries and the net incomes or value-added (i.e., the difference between II and III, above) represent the projected benefits. These should be laid out on a year-by-year basis for the project's time horizon, normally 20 years (as detailed above).

B. When calculating the costs of using productive resources, such as labor, land and capital, such resources should be expected to be used in their best alternative activity. In other words, the concept of opportunity costs should be used in evaluating the costs of using resources.[24] For example, when analyzing a project that creates new jobs in the economy, it is usually incorrect to assume that the individuals who will be employed in these jobs would otherwise have been earning no income. Instead, the opportunity cost of labor should be estimated, usually as a weighted average of the wage rates in the formal and informal sectors, adjusted by the overall unemployment rate. The wage benefit from the new jobs can be estimated as the difference between the wages paid and the opportunity cost of labor.

C. Important environmental and social benefits, costs, and risks of projects should be listed and quantified where possible.

D. The analysis should look at growth in *real* incomes adjusted for expected inflation. Both costs and benefits should be expressed in terms of either local currency or U.S. dollars in the same base year (e.g., "2009 dollars").

E. Once all of the year-by-year costs and benefits have been incorporated, the ERR can be calculated as a single summary statistic over the project's time horizon. Again, the ERR is the discount rate at which the discounted benefits equal the discounted costs.

F. Sensitivity analysis should also be conducted, using variance decomposition or other tools to identify the key parameters driving the returns. The analysis should also focus

[24] The opportunity cost is the highest valued alternative foregone in the pursuit of an activity.

on those parameters or assumptions for which the evidence is weakest and those which have the largest impact on ERR point estimates.

G. The spreadsheet should be accompanied by a text document that explains the underlying economic rationale for the project, addresses each of the key points mentioned above, and provides any supporting evidence, such as citations of studies in which the key parameters used in the ERR calculation had been estimated.

Minimum Standards for ERRs

MCC recognizes that the assumptions involved in any ERR analysis introduce a considerable degree of uncertainty and, as noted above, that *ex ante* expectations may not be matched by *ex post* observations. MCC is aware that other donors have hurdle rates for many of their projects, and has reviewed the reported experience of others, as well as the *ex ante* expectations for the programs and projects it has financed to date. MCC has an active interest in both attracting private sector investment and coordinating with other donors, and seeks to avoid "crowding out" other sources of funding.

Against this background, the minimum acceptable ERR for both programs and individual components of MCC compacts will be the greater of: (a) two times the average real growth rate of GDP for the country for the most recent three years for which data is available; or (b) two times the average real growth rate of GDP for all of the MCC eligible countries for each country for the most recent three years for which data is available.[25] The minimum acceptable ERR shall not be greater than 15 percent. This minimum acceptable ERR is not subject to adjustment for other factors in or effects of the components or programs, and should be viewed as a true minimum. MCC should seek to fund the projects and activities with the highest rates of return achievable from those arising from the priorities identified in the country's consultation process.

In rare instances, MCC reserves the discretion to proceed with projects that fall below the minimum acceptable ERR. Thorough justification would be required, based on the unique circumstances of any such proposed case for the application of this discretion, but it is expected that country partners share the understanding that MCC funds are to be viewed as investments of public funds that must earn a minimum return for the country's citizens.

Guidance on Conducting Beneficiary Analysis (BA)

In proposing projects for MCC funding, partner countries should develop a Beneficiary Analysis (BA) that describes the expected project impact on the poor and other important demographic groups. The BA should answer three basic inter-related questions:

Beneficiaries: How many people are expected to benefit from increased household incomes as a result of the project, and what proportion of them is poor?

[25] The hurdle rates will be set once a year, in November after country selection, using the data available in the September edition of the IMF's World Economic Outlook Database for the three previous years.

The Magnitude of Benefits: How much, on average, will each individual beneficiary gain from the project?

Cost Effectiveness: For each dollar of MCC funds invested, how much will be gained by the poor?

This BA should reflect the outcome of an iterative project design process that incorporates considerations of impact and distribution. Ultimately, both the total amount of benefits (reflected in the ERR) and the distribution of those benefits (reflected in the BA) are crucial elements of MCC's economic analysis. A Beneficiary Analysis example is shown in Table 4, Annex 2.

Terminology

Classifying beneficiaries as poor or non-poor requires first defining beneficiaries and poverty. As stated earlier, *MCC considers beneficiaries of projects to be those people who experience better standards of living as a result of the project through higher real incomes.* These beneficiaries include owners and employees of firms whose value-added is expected to increase due to the project. Some projects may affect large numbers of people, but only a portion of these individuals will realize higher incomes or lower expenditures. For example, a training program may have many participants, but only some of these will adopt new practices and experience higher incomes. The BA should focus on beneficiaries who realize income gains or expenditure savings, but can also include a separate discussion and tabulation of other individuals who realize only non-monetary benefits.

Consistent with standard poverty measurement practices, MCC considers the household the most practical unit of measurement, which reflects the underlying assumption that when one household member earns additional income, all household members benefit. As such, *MCC defines and counts as beneficiaries all members of households that have at least one individual who realizes income gains*.[26]

In defining poverty, MCC generally uses the following poverty lines to classify beneficiaries:

Poverty Category	Per capita daily consumption (PPP adjusted)[27]
"Extremely Poor"	< $1.25
"Poor"[28]	< $2.00
"Near Poor"	$2.00 – $4.00
"Not Poor"	> $4.00

[26] This analytical approach assumes that higher household income leads to higher consumption levels for all household members, but does not assume that all household members benefit equally. This assumption is consistent with evidence that the welfare of household members of all types improve as household income rises.

[27] Best practice suggests using household consumption data to classify poverty ratings. In some cases where accurate consumption data may be difficult to obtain, income measures may be useful substitutes with appropriate adjustments. Purchasing power parity (PPP) adjustments are made in terms of 2005 international dollars, consistent with the World Bank's most recent estimates of poverty lines in developing countries.

[28] The "poor" category of beneficiaries includes the "extremely poor," as there is little practical use for statistics referring to those consuming *between* $1.25 and $2 per day. As a result, however, the entire population is included in the three groups: poor, near poor, and not poor.

Most countries can be expected to have official poverty lines that differ from these international lines. The BA may consider the distributional implications using national lines, but such calculations should be used in addition to (not instead of) the income categories described above.

Counting Beneficiaries

As detailed on page 46, MCC has found it useful to classify projects according to their scope to help predict the number and type of beneficiaries for different projects. MCC uses the following categories:

- *National or Regional Investments* are large-scale infrastructure projects that are expected to affect broad geographical areas of an economy, making *all* citizens in these areas beneficiaries.

- *Broad-Based Investments* are other large-scale investments whose beneficiaries are typically counted as users of the new or improved public systems or those who will benefit from the use by others.

- *Targeted Projects* include all other activities that benefit specific individuals and households, such as projects that focus on agricultural development, school construction or other educational development efforts. For such projects, MCC counts as beneficiaries all members of those households that experience higher incomes.

For many projects, the project development process will produce information on the population of likely beneficiaries, including administrative data from existing public or private systems, such as school enrollments, agricultural extension records, and water authority customer accounts. Together with the designed capacity of a project, such data may suggest the number of individuals who are expected to "receive treatment" through the program.

In some cases, the project design and budget will not limit participation to a fixed number of individuals, nor will administrative or other data provide an adequate estimate of the actual number of individuals expected to receive treatment from a project (e.g., road projects). Upgrading a section of highway does not in itself limit the number of vehicles travelling on the road. Vehicle counts combined with the HDM-IV model may allow a reasonably accurate estimate of the number of vehicles expected to travel on the improved road. However, road projects are expected to benefit a wider set of individuals beyond those travelling on the roads themselves; as such, all households living within a certain distance of the improved roads are likely to benefit. Where available, a recent census or other survey dataset may therefore be useful in estimating the number of individuals who will benefit from a project.
Estimating the Incidence of Benefits for National/Regional and Broad-Based Investments
After estimating the total number of beneficiaries, the BA should assess the share of beneficiaries by income category. The best approach is to use survey results to determine current participation in similar activities or the likelihood that particular individuals might benefit from

broad-based initiatives.[29] The Preliminary BA need not involve first-hand analysis of these data, but should be based on reports and existing evidence derived from them. When these are not available, other sources may be used to estimate the participation of the poor in the project. The benefits that each individual is expected to receive from the project should be driven in part by the ERR model, which calculates the total benefits accruing to all segments of society. MCC expects that most national or regional investments, such as primary roads, may have significant but diffuse effects on household incomes throughout the relevant geographic area (these investments are either national or regional in scope). Because such investments do not generally alter the "rules of the game" that drive distributional outcomes, the BA should presume that additional income generated by these investments will be distributed consistent with the existing pattern of household incomes within the relevant geographic boundaries of beneficiaries.[30] For MCC investments in public services, such as water and sanitation infrastructure, the analysis might begin with data reflecting the composition of existing users of this infrastructure. These numbers might then be adjusted to reflect any information that would suggest that the poor are more or less likely to use newly built, expanded or upgraded infrastructure.

Estimating the Incidence of Benefits for Targeted Projects

For targeted projects, the existing participation of the poor in similar activities can often be used to predict the likely profile of participants in MCC programs. Consider the example of a Vocational Education project that will improve the quality of education at technical schools located in the major cities and will offer new scholarships for low-income students. The composition of existing graduates of vocational education in the country's urban areas might be used to describe the expected profile of new students, with an adjustment for the number of additional poor students that will participate as a result of scholarships.

The share of benefits accruing to the poor can vary based on both the participation rates of the poor and the magnitude of the benefits relative to one's initial poverty level. For example, a vocational education program may yield a 10 percent gain in annual income for graduates of the program; even if poorer students are expected to realize higher than average gains in percentage terms, they might still experience smaller absolute gains. The incremental changes in income for beneficiaries at different levels need to be realistic and consistent with results produced by similar activities in other contexts.

Disaggregation by Important Demographic Categories

The BA is designed to focus largely on a proposed project's impact on the poor, consistent with MCC's stated mission to reduce poverty through economic growth. Although national and broad-based investments are not expected to substantially alter the distribution of income both across and within households, targeted program interventions are more likely to differ

[29] Such data are generally available from existing sources, such as reports based on national household income and expenditure surveys, agricultural or enterprise surveys, Demographic and Health Surveys (DHS), or World Bank-supported Living Standards Measurement Surveys (LSMS).
[30] If the population living under $2 per day accounts for 25% of national consumption expenditures, that same population could be expected to gain 25% of the benefits of a distribution-neutral investment.

significantly in the distribution of benefits across other important demographic categories. Gender is discussed as a special case, followed by a more general consideration.

Disaggregation by Gender

MCC's Gender Policy requires that gender considerations are integrated into the development and design of programs, the assessment and implementation of projects, the monitoring of program results, and the evaluation of program impacts. The BA should include an explicit discussion of the extent to which gender differences are expected to arise in the likely distribution of benefits from each project. Such analyses, however, often require intra-household consumption data that are not available and are difficult and expensive to acquire. Given finite resources and practical realities, this guidance seeks to establish a framework for identifying the highest priorities for gender-disaggregated beneficiary analyses.

Gender-disaggregated beneficiary analysis should follow these guidelines:

- Consider the expected pattern of program participation or use of improved services by sex. When programs appear to exclude women in participation or use, concerns are merited, and some formal consideration of the possible intra-household dynamics is warranted.

- Investigate whether intra-household dynamics are likely to result in adverse impacts of a project on women, children, or disadvantaged groups.

Where this analysis or other evidence collected during due diligence raises serious concerns regarding an activity's adverse impact on the welfare of either men or women, these should be addressed as a normal part of MCC's pre-investment assessment and would be resolved through modifications of the program design. For targeted projects, analysis should always consider possible gender differences in the use of services affected by the project, and compare participation or use among men and women relative to their proportion in the relevant population. Not all projects need to have equal participation by men and women (indeed, some project designs offer compelling reasons for exclusively targeting one sex, such as health programs directed at pregnant or lactating women), but every project must include an explicit consideration of participation and the incidence of benefits by sex.

Disaggregation by Other Characteristics

Projects may also vary in their effects across other demographic and geographic groupings, such as education level, ethnicity, household size and type (e.g., single-female head, elderly head, two-parent head), and region (rural or urban). The BA should identify where such differences are expected to arise and whether their magnitudes are expected to be significant. In particular, when project effects vary widely across such groups, the analysis should note these differences, explain their sources, and note any project design elements that have been included to address these differences.

Partner Country Responsibility
The MCA-eligible country has the primary responsibility for quantifying the economic rates of return, conducting a beneficiary analysis, and incorporating expected incremental changes in beneficiary incomes as targets within an M&E plan. Net improvements in income levels and participation and benefit incidence by poverty category should be estimated based on the anticipated outputs and outcomes of individual program projects. Participation rates tabulated by gender and other important characteristics should also be estimated.

MCC Responsibility

Following the submission of the country concept papers, MCC will review these estimates of economic rates of return and beneficiary analysis. In the course of this process, the MCC will work with partner countries to help identify and assess possible alternatives to proposed projects, including modifications or complements that would enhance the program's impacts on growth and poverty reduction. MCC may also refine ERRs based on new evidence, including that generated by relevant MCC experience elsewhere, and may supplement the BA using further analysis of the survey datasets highlighted by the partner country.

ANNEX 1

This section provides examples of economic rate of return analyses for health and education projects, showing how the cash-flow analysis could be organized for such programs.[31]

The first example is an education program in Mexico that offered cash assistance to poor families in exchange for higher school attendance.[32] Payments were offered to families that kept their children in schools. These payments depended on the age and gender of the child, with higher payments for high school children and higher payments for girls. A study of this program, described in Morley and Coady (2003, p. 72), estimated that the program spent about 8,200 pesos per child to increase annual income by approximately 1000 pesos. Since the working life of a child is longer than the period over which payments are given, this program could be justified economically.

To see this, we have summarized the economic case for this program in a cash flow analysis in Table 1. As can be seen in the "cost per child" row of the table, the program would spend 787 pesos per child when children were 9 years old, 898 the next year and further amounts in subsequent years. The net cash transfer to the family in the first two years would be 669 pesos and 763 pesos (after deducting 15 percent for administrative costs). These administrative costs can vary substantially, so specific attention should be paid to their accurate estimation.[33] Drawing on rigorous evaluations of the impact of this program on educational attainment, studies have shown that this amount of spending is sufficient to raise the education attainment by two-thirds of a year by the time the child enters the labor force. Drawing further on studies on the returns to education in Mexico, Morley and Coady (2003) estimate that this will raise earnings by approximately 1,000 pesos per year over the working lifetime. In Table 1, we have shown the additional income of the child during the first three years of working life, corresponding to ages 16-18. The rest of the table, covering the rest of the working life, is not shown to save space.

The benefits of this program include the 1,000 pesos per year in additional incomes plus the net cash transfers to the families. The costs are of course the annual costs of the program. Table 1 shows that such a program would have an economic rate of return of 20 percent over ten years and 33 percent over 20 years. While each of the specific numbers in this table could be refined, the table establishes the basic point that this kind of education program can achieve positive economic returns. Again, this table is only illustrative. Similar CCT programs could yield unacceptably low ERRs if their administrative costs are substantially higher or if their effectiveness at improving enrollments rates is lower, and these variables are highly context specific. Moreover, an increasing number of studies devoted to CCTs suggest that impacts on

[31] The presentation of these examples does not suggest necessarily that MCC approves of these projects. Some of the numbers used are estimates for purposes of illustration. Some numbers are deliberate simplifications of a more complex reality.

[32] The program is named Progresa and has been extensively studied and documented. For an account that summarizes a lot of the results and research, see Morley, Samuel and David Coady, "From Social Assistance to Social Development: Targeted Education Subsidies in Developing Countries. Center for Global Development, Washington DC, September 2003.

[33] For example, Caldes and Maluccio (2005) estimate that the annual administration costs of previous conditional cash transfer programs have been as high as 60% of the transfer amounts.

longer-term educational outcomes, such as performance on educational tests, may be more moderate than those on enrollments.[34]

The second example is a health program to address iron deficiency. Recent studies have shown evidence that Iron Deficient Anemia (IDA) is associated with greater susceptibility to disease, and contributes to reduced aerobic capacity and endurance.[35] Health programs in China and Vietnam added iron supplements to sauces that are common in the diet. Further studies suggest that economic output and incomes can be raised significantly by supplementing diets in this way.

To provide an example of how to calculate the ERR for such programs, we rely on a recent rigorous study that suggested that incomes could be raised by an average of $40 per person per year by providing supplements that cost an average of $6 per person. Only a fraction of the people in any community is iron deficient, but because it is expensive to identify them and because it is hard to change the behavior of only selected populations furthermore, the most cost-effective strategy is often to treat the entire community.

To show a concrete example, consider Table 2, and imagine that there are 20,000 persons in a community and that 30 percent of them are iron-deficient. For these people, income will be raised by $40 with the dietary supplement program, but the health of the other 70 percent will be unaffected. Assume further that it will take seven years for the full productivity and health impact of the program to take effect. The cost of the program would be $120,000 per year for seven years (treating all 20,000 at $6 per person). As for the benefits (in the form of a rise in incomes), by year 7, 30 percent of the 20,000 will obtain an additional $40 in income for a total benefit of $240,000. For the early years before year 7, it is assumed that 1/7 of these benefits will be realized in the first year, 2/7 in the second year and so forth. It is assumed that iron supplements must be provided every year.

Table 2 shows that net benefits for this program turn positive as early as year 4, and have an ERR of 34 percent over 10 years. The ERR over 20 years is 40 percent. These returns are sensitive to the fraction of the population that is iron deficient. If this fraction were 40 percent rather than 30 percent, the ERR would rise to 59 and 62 percent.

The third example is from a combined health and education project that offered de-worming drug treatment to children in Kenya.[36] Rigorous evaluations indicated that this program increased school attendance by approximately 0.15 years for every year a child was treated. Further research by Knight and Sabot (1990) suggests that an additional year of schooling generates a rate of return of approximately 7 percent in terms of individual wages in future years.

The best way to calculate the economic returns of such a program would be to collect information on earnings of adults in the area under consideration. Short of this, however, we can

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[34] For a detailed survey of CCT studies, see Fiszbein, Ariel et al, "Conditional Cash Transfers," World Bank Policy Research Report, 2009.

[35] See Thomas, Duncan, "Health, Nutrition, and Economic Prosperity: A Microeconomic Perspective", Commission on Macroeconomics and Health Working Paper No. WGI: 7 May 2001.

[36] Kremer, Michael and Edward Miguel, "Worms: Education and Health Externalities in Kenya" Poverty Action Lab Working Paper No. 6, September 2001.

still show some approximate figures. GDP per worker in Kenya is $570. If 60 percent of this is wages and rural wages are 80 percent of the national average, an estimate of the rural adult wage would be $273.6.

The de-worming treatment costs 49 cents per child per year. In Table 3, we have shown an example where such treatment is offered to a child every year in school between age 7 and 14. Using the 0.15 figure above, these eight years of treatment would mean that the child would gain the equivalent of slightly more than a year of education by age 14 when he or she enters the labor market (0.15 times eight years of treatment equals 1.2 years of education). Using the estimated seven percent figure for the returns to education, this would translate into an additional $22.33 in earnings by the time the child becomes a fully productive working adult (assumed here to happen by age 20). Before age 20 we have assumed that the child would earn only part of this premium.

Altogether this program would have an economic rate of return of 46 percent. This high return is driven by the fact that at 49 cents per child, the cost of the program is low relative to the additional earnings that a child could earn from additional school attendance. Of course, all of these estimates could be investigated further and refined. To achieve such a low cost per child, the program may have to be administered on a large scale. But with a large increase in the supply of educated children, the return to education might well be lower than estimated here.

These examples are given, not to recommend specific programs, but rather to illustrate how ERR calculations could be done for health and education programs and to establish that the ERR framework is not biased against social investments like health and education projects.

Table 1: Conditional Cash Transfer for Education Program

Year	1	2	3	4	5	6	7	8	…	20
Age of Child	9	10	11	12	13	14	15	16	…	28
Cost per Child	-787	-898	-1,154	-947	-1,380	-1,446	-1,563			
Administrative costs per Child	118	135	173	142	207	217	234			
Cash Transfer to Child's Family	669	763	981	805	1,173	1,229	1,329			
Additional Earnings from Increased Education								1,000	…	1,000
Benefits	669	763	981	805	1,173	1,229	1,329	1000	…	1,000
Costs	-787	-898	-1154	-947	-1,380	-1,446	-1,563	0	…	0
Net Cash Flow	-118	-135	-173	-142	-207	-217	-234	1,000	…	1,000
Economic Rate of Return (10 years)	20%									
Economic Rate of Return (20 years)	33%									

Table 2 Iron Deficiency Program

Population	20,000									
Cost per person of Iron Supplements	$6									
Percent of the population deficient	30%									
Increase in income from reduction in iron deficiency	$40									
Years to reach maximum	7									
Year	1	2	3	4	5	6	7	8	9	10
Cost	$120,000	$120,000	$120,000	$120,000	$120,000	$120,000	$120,000			
Increase in incomes	$34,286	$68,571	$102,857	$137,143	$171,429	$205,714	$240,000	$240,000	$240,000	$240,000
Net Cash flow	-$85,714	-$51,429	-$17,143	$17,143	$51,429	$85,714	$120,000	$240,000	$240,000	$240,000
ERR (10 years)	34%									
ERR (20 years)	40%									

Table 3 De-worming Program

Output per worker (in USD)	$570.00												
Share of Output per Worker Attributable to Wages	0.6												
Rural Wage discount (compared to average wage)	0.8												
Increase in years of schooling for each year of de-worming	0.15												
Estimated Rate of Return to Each Year of Education	0.07												
Annual cost of de-worming per child	$0.49												
Year		1	2	3	4	5	6	7	8	9	10	11	…20
Age		7	8	9	10	11	12	13	14	15	16	17	…
Age-wage Profile (in percent of adult wage)										0.5	0.6	0.7	…1
School Year		1	2	3	4	5	6	7	8				1
Work Year										1	2	3	…26
Estimated adult wage in rural area	$273.60					Wages without Program				$136.80	$164.16	$191.52	…$246.24
Estimated additional earnings due to additional years of education	$22.33					Wages with Program				$139.99	$170.54	$201.09	…$262.19
													$273.60
Net cash flow		-$0.49	-$0.49	-$0.49	-$0.49	-$0.49	-$0.49	-$0.49	-$0.49	$3.19	$6.38	$9.57	…$22.33
ERR (20 years)	46%												

ANNEX 2, TABLE 4: Preliminary Beneficiary Analysis example

Hypothetical Farmer Training Program

This hypothetical farmer training program involves an investment of $20 million focused on raising profits per hectare among trained farmers by 10%. Ten thousand farmers are expected to enroll in the training program; 80% of these trainees are expected to eventually adopt the improved farming practices. Each of the farmers adopting the improved practices is likely to gain $2,851 over the ensuing 20 years. The gains will be shared by the other members in the households of these farmers, providing an average of $570 to these 40,000 beneficiaries.

Fifty percent of the farmers in the program are considered "poor" (of which one fifth are "extremely poor"), while 25% are "near-poor" and 25% are "not poor." Farmers apply the practices in which they are trained across their plots. Because poor farmers typically have smaller farms, they are likely to realize fewer benefits from the training. Such a program may still yield sufficient average benefits across the array of trainees to justify its cost; nonetheless, poor farmers will only realize $0.16 of benefits for every dollar invested in the program.

Program Details	
Total Cost	$20 mil.
Number of farmers trained	10,000
% of trainees adopting trained practices	80%
Number of farmers adopting trained practices	8,000
Average household size	5
Total beneficiaries	40,000

Poverty Distribution of Trainees	
% of trainees, extremely poor	10%
% of trainees, poor	50%
% of trainees, near poor	25%
% of trainees, not poor	25%

Costs and Benefits per Farmer	
Training costs	$ 2,000
Benefits	
Initial annual profit per hectare	$ 1,000
Increase in profit per hectare (%)	10%
Average farm size, extremely poor (ha)	0.5
Average farm size, poor (ha)	1
Average farm size, near poor (ha)	2
Average farm size, not poor (ha)	10

Year	1	2	3	…	20
Benefits, extremely poor		$ 48	$ 48	$ 48	$ 48
Benefits, poor		$ 96	$ 96	$ 96	$ 96
Benefits, near poor		$ 192	$ 192	$ 192	$ 192
Benefits, not poor		$ 960	$ 960	$ 960	$ 960
Average Benefits		$ 336	$ 336	$ 336	$ 336
Average Net Benefits	$ (2,000)	$ 336	$ 336	$ 336	$ 336
ERR	16%				

Total Costs and Benefits		
Present Value of Total Project Benefits		
PV of Benefits, extremely poor	$321,213	
PV of Benefits, poor	$3,212,129	
PV of Benefits, near poor	$3,212,129	
PV of Benefits, not poor	$16,060,647	
Present Value of Total Project Benefits Per Beneficiary		
PV of Benefits / Farmer Adopting Practices	$	2,851
PV of Benefits / Beneficiary	$	570
PV of Benefits / Beneficiary, extremely poor	$	80
PV of Benefits / Beneficiary, poor	$	161
PV of Benefits / Beneficiary, near poor	$	321
PV of Benefits / Beneficiary, not poor	$	1,606
Cost Effectiveness: Project Benefits / Total Cost		
Total Project Benefits / Total Cost	$	1.12
Project Benefits / Total Cost, extremely poor	$	0.02
Project Benefits / Total Cost, poor	$	0.16
Project Benefits / Total Cost, near poor	$	0.16
Project Benefits / Total Cost, not poor	$	0.80

Participation Rates by Gender		
% of trainees who are female	25%	
% of trainees, female-headed households	20%	
% of farming households in the region headed by women	15%	
Average farm size, female-headed households (ha)		1

Chapter 6: Guidelines for the Consultative Process

Overview

MCC is committed to the consultative process as a key driver of compact development and successful compact implementation. Development experience confirms that public participation results in programs that better reflect national priorities and have a higher likelihood of success. In addition, the legislation establishing MCC requires that "in entering into a Compact, the United States shall seek to ensure that the government of an eligible country (1) takes into account the local-level perspectives of the rural and urban poor, including women, in the eligible country; and (2) consults with private and voluntary organizations, the business community, and other donors in the eligible country."

This document is designed to provide eligible country partners with an overview of how consultations are integrated into compact development and implementation, and to explain MCC's expectations with regard to management and reporting on this process.

Defining a "Consultative Process"

For MCC, a "consultation" is a two-way communication about compact development and implementation that occurs between the core team (during development) or MCA accountable entity (during implementation), and any stakeholder group. A "consultative process" is a series of consultations that have been strategically organized to provide and collect information from stakeholders regarding compact development or implementation.

The purpose of this process is to establish a sustainable mechanism for effective civic (and other public) engagement in the compact. Consequently, it should make as much use of existing domestic institutions and processes as possible, and avoid one-off efforts to gather information from citizens or civic groups through forums that cannot be re-convened later.

Taking an Integrated Approach

To be effective, consultations are an ongoing process that is integrated into both compact development and implementation, rather than a single discrete activity. MCC expects its country partner governments to consult with appropriate stakeholders including ministries, organizations and others representing the interests of women and other vulnerable/underrepresented groups at national, regional and local levels, as well as those related to environmental sustainability and other relevant interests. These consultations will be conducted at appropriate times throughout the entire compact process, and the results of these consultations will be reflected in the country's actions and decision-making.

The MCC compact development and implementation processes may be most easily thought of as having six distinct phases. Three phases occur before compact signing (Start-up and Preliminary Analyses, Project Definition, and Project Development and Appraisal) and three occur after compact signing (MCA Governing Structures, Implementation Start-up prior to Entry Into Force, and Implementation). An effective compact requires different types of information-gathering and public awareness at each of these phases. Consequently, the methods and tools used for consultations changes as well.

Tailoring consultation activities to each specific phase enables the population groups that may benefit from a compact to describe economic and social obstacles as they experience them; discuss potential solutions that would work in a local context; highlight flaws in previous efforts to address these challenges; debate the technical design and requirements of new proposals; and provide feedback about the impact of a compact project as it is implemented. It also provides the government with a forum in which to explain what decisions have been taken and why.

Depending on where a country is in the compact process, MCA representatives might consult with civic actors, legislative or local government bodies, private sector companies, professional associations, technical experts, labor unions, business associations, religious groups, women-focused organizations, diaspora groups, universities, environmental and social NGOs, or loosely organized citizen groups, among others. For their part, organizations that participate in the process must realize that being consulted does not mean that a given organization's proposed project or particular point of view will necessarily be included or reflected in the compact.

Consultative Process in the Context of a Compact

A. Phase 1 - Start-up and Preliminary Analyses

In this first stage of compact development, an eligible country appoints its core team and initiates a Constraints Analysis (CA). If a PRSP or national development strategy already exists, a decision is taken as to how to draw from it for compact development purposes.[37]

The first step in the consultative process is the development of a strategy for public consultation led by the outreach/participation coordinator in the country's core team. The strategy will include information on the relevant stakeholders and the process for identifying others, a timeline on when they will participate, and the methodology used for the consultation. MCC will review the quality and content of the consultation strategy and provide feedback to the core team before the process begins. The review will also include an assessment of how social / gender considerations are integrated to the strategy in order to ensure meaningful participation of women and men during compact development and implementation.

The CA itself draws on both desk research and conversations with economists and other experts both inside and outside of the government. This represents a first round of consultations. The results of the analysis should inform further consultations with domestic and international private sector actors; the urban and rural poor; gender-focused organizations; environmental and social NGOs; donor agencies; citizen associations of various types; and other appropriate stakeholders.

With the MCC team, the country also conducts a review to identify gender and other social inequalities that can be constraints to growth and poverty reduction or must be addressed to ensure effective project design.

[37] The legislation establishing MCC requires that "the Compact should take into account the national development strategy of the eligible country." Also see MCC guidelines on conducting a constraints analysis for further information, and related requirements in MCC's gender policy and gender integration guidance.

At this point, each consultation has several purposes:

- To manage public expectations about the meaning of eligibility, including general messages about the potential size and timing of a future compact with MCC.
- To explain the compact development and decision-making processes to interested stakeholders so that they will know how and when they can participate in the compact development process, how their views will be sought, and how decisions will be made;
- To gather information about various groups' experience (including women and men of different ages, social class/status, ethnicity, and other social difference) of the constraints to economic growth as defined by the constraints analysis (including prioritization and recommended solutions) so that it is possible to determine the way these obstacles affect growth, poverty, and livelihoods; and
- To identify potential groups and partners for moving forward with consultations throughout the life of the compact.

The information gathered in these consultations should contribute directly to the country core team's prioritization of obstacles and/or sectors for intervention. It is therefore necessary that both women and other vulnerable groups have meaningful participation throughout the process.

To the extent that the government has recently undertaken broad based consultations around its own national development plans and strategies, or constraints analysis, MCC will work together with the country core team to assess what further consultations are appropriate, keeping in mind MCC requirements such as those in the MCC gender policy.

B. Phase 2 - Project Definition

As priority obstacles and sectors are defined, the core team will work to identify possible solutions and opportunities that could stimulate investment and growth and reduce poverty. This requires focused stakeholder consultations and analysis to diagnose root problems and identify actionable responses.

At this point, the purpose of stakeholder working groups and other consultations is to gather the kind of experiential information that is needed to form the basis of proposed compact investments. These consultations would continue with segments of society that are most directly affected by (and/or most directly able to affect) prioritized obstacles and sectors. This includes specific population groups; issue-specific experts or NGOs, especially relevant environmental and social organizations, including women's and gender equality organizations; political and private sector leaders; and the donor community. The feedback from potential beneficiaries and other relevant actors can be used to identify specific programs and interventions that will form the basis of project concept papers.

Core teams are expected to report on consultations undertaken in this phase in their project concept paper submissions.

C. Phase 3 - Project Development and Appraisal

Once a concept paper has been submitted to MCC, public consultations become narrower and more technically focused. Consultations at this stage have several main goals:

To explain publicly why the elements included in potential compact projects were selected;
To gather the locally- (or sector-) specific information needed to refine technical elements of the proposed projects; to ensure that gender and other social dimensions are meaningfully integrated in project design and beneficiary access; and to refine an impact monitoring and evaluation plan.
To ensure that project design alternatives, scoping and approach consider environmental and social impacts and sustainability and comply with related MCC policies and guidelines, national environmental requirements and international agreements.[38]

To access this type of information, the core team, other government agencies involved in project development, and contractors will need to consult with groups that are likely to benefit from or be affected by the detailed design and subsequent implementation of a proposed project. The actual participants will depend on the compact projects proposed and the type of technical detail needed to complete the next step in project design.

Consultations do not take the place of technical project design, feasibility studies, or alternatives studies. They do, however, provide the information needed to complete project design in such a way as to maximize positive impact for the intended beneficiaries, and minimize risks. Once this is complete, and the projects are well-defined and supported by the needed technical studies, the core team shifts its energies to compact negotiation, approval, and signing.

D. Phase 4 – Compact Negotiation

During compact negotiations MCC and the core team finalize a governance structure for compact implementation. As one means of continuing consultations with key civic stakeholders during implementation, most compact countries have incorporated rotating or permanent civil society and private sector representation into the MCA governing structures, other countries have created public/private advisory boards or regularly-consulted stakeholder committees.

E. Phase 5 – Pre-EIF Activities

Once a compact has been signed, the MCA accountable entity finalizes the legal, financial, and staffing requirements needed to begin implementation of compact projects. For this phase the two main outreach tasks are:

- Promote realistic public understanding of the compact (e.g., set or manage public expectations about compact implementation)
- Establish transparency and communication mechanisms to be used in implementation.

When establishing the early communication mechanisms that will be used throughout implementation, MCA outreach officers may find it useful to work with the MCA staff responsible for project management, environment, social and gender assessment, as well as monitoring and evaluation to design a strategy that considers all of MCC's outreach and consultation needs.[39]

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[38] For more information, please refer to MCC's Environmental Guidelines and Gender Policy
[39] To incorporate the consultations dimension into a communications strategy, it may be useful to ask: How will the public find out about Compact progress? How and to whom will the accountable entity need to communicate compact updates?

F. Compact Implementation

Once implementation begins, public consultations become more of an ongoing exchange of information. The communication and transparency mechanisms established during the mobilization phase are used for three purposes:

- To provide intended beneficiaries with the information needed to encourage and enable them to participate in compact projects;
- To gather information from beneficiaries and stakeholders about the impact and effectiveness of compact projects (with an eye to correcting problems and scaling up positive outcomes); and
- To provide interested stakeholders and the general public with information about the progress and impact of the compact as it is implemented.

Throughout implementation, the accountable entity will find itself in various interactions with the groups likely to benefit from or be adversely affected by the implementation of a compact project; civic and private sector groups that will want information on compact implementation as it progresses; the media; national legislative bodies; appropriate local government institutions; and government or civic monitoring bodies.

Managing a Consultative Process

Consultations are intended to be a useful element of compact development and implementation, adding practical beneficiary perspective, reinforcing broad political support, and remaining responsive to the country's own domestic institutions of accountability (legislatures, NGOs, etc.). Core teams or accountable entities should, therefore, plan and manage consultations in the manner that best meets these goals and informs their compact process.

To this end, MCC asks that each country appoint a member of the core team (and ultimately accountable entity) with demonstrated experience planning and managing participatory stakeholder consultations, to develop and implement a comprehensive communications/outreach strategy, and to serve as a resource to the rest of the team. They should be free to work with NGOs, private sector firms, or other groups with experience in consultative processes for guidance on identifying stakeholders, creating a strategic consultation plan, designing and conducting consultations with specific groups that require especially focused approaches, or for synthesizing feedback received during consultations into a useable format for implementation of the plan. They should also have the ability to successfully ensure MCC's requirements for social/gender inclusion in every phase of the consultative process.

At a practical level, detailed consultations with particular demographic groups often require special methods and tools (to accommodate language barriers; overcome social norms regarding gender, class or ethnicity; or to reach traditionally excluded groups). In these cases MCC can offer some technical support or training, but countries should be prepared to identify additional local specialists as needed.

What groups will be best able to give feedback on the effectiveness of various compact projects? What are the most effective communication tools to gather and disseminate information to and from the range of relevant groups?

To date, eligible countries have relied on a number of tactics to integrate consultations into broader compact development and implementation processes. These have included:

- Information dissemination through television, radio, the internet, and newspapers, or Public awareness campaigns through local organizations;
- Preliminary conversations with economists, sociologists, anthropologists, political scientists, and other experts during the constraints analysis and preliminary analysis of social/gender constraints and opportunities;
- Consultations through existing representative bodies such as Local Development Councils;
- Consultations convened through NGOs especially to engage the perspectives of women and vulnerable groups;
- Stakeholder workshops and prioritization sessions conducted for purposes of results based program design;
- Conversations or briefing with elected officials in the legislature or at local levels;
- Project level consultations or focus groups with intended beneficiaries to inform design, environmental and social assessments, or resettlement plans;
- Inter-active discussions at town hall meetings, speaking tours, round-table discussion, and question and answer sessions;
- Information sessions with domestic and international private sector actors during any efforts to leverage private resources to complement compact investments;
- Information dissemination through newsletters, emails, factsheets, and communication workshops
- Direct requests for comment, input, or proposals from domestic non-governmental organizations (whether in writing, at public events, or in one-on-one meetings);
- Conversations and collaboration with other international donors active in-country;
- Integration of civic organizations into the formal accountable entity governance structure;
- Reasonable cooperation with domestic civic efforts to monitor aid-effectiveness; and
- Consultations, focus groups, or surveys to inform mid-term evaluations or re-designs.

In developing an approach, countries should be aware that on-going, participatory and meaningful consultation with stakeholder groups requires different skill sets, methods and tools than those usually associated with media communications, and that both are necessary functions.

Reporting on Consultations

Because the consultative process is not a stand-alone phase of the compact, reporting on these efforts is integrated into the other documents and products delivered to MCC by core teams or accountable entities. MCC asks for:

An appendix to the constraints analysis that briefly describes how, following the completion of the analysis, country partners consulted with a broad range of individuals and groups to solicit feedback on whether the identified constraints generally reflected their views on key barriers to economic growth and poverty reduction. The appendix should note the extent to which these consultations presented new information or led to alternative analysis. As part of this review, countries should describe how analysis of social/gender differences informed the consultation design and their plans to ensure the meaningful participation of women and men as the compact is further developed and implemented.

As part of the project concept paper, there are several sections in which the country core team should describe how their work has been shaped by the consultative process.

As part of a commitment to transparency in implementation, MCC expects accountable entities to develop and use regular mechanisms to solicit public feedback. MCC will monitor these efforts by looking at the information and events that accountable entities make public.[40]

[40] MCC requires all accountable entities to establish and maintain a web-page with contact information, as well as procurement, disbursement, and implementation updates or data. While this does not meet all outreach and consultation needs, it can be a useful coordinating point.

Chapter 7: Guidance on Second Compacts

Second compacts are consistent with MCC's mandate to invest in poverty reduction through economic growth. For the poorest countries, even the ones with the right policies to support growth, it takes years of sustained growth to lift citizens out of poverty. [41] MCC seeks to work with partner countries – both new and existing -- where investments will have the greatest returns in terms of poverty reduction and economic growth, and where U.S. resources will be used effectively. MCC therefore seeks to work with countries already committed to policies that support growth.

MCC is selective in choosing partners eligible for second compact agreements, and MCC does not intend to have open-ended commitments with partner countries. In fact, eligibility for a second compact is more difficult than for a first compact because, in addition to candidate countries' policy performance, MCC considers country performance in implementation of the first compact. Countries must show meaningful progress toward achieving first compact results before being considered for a second compact.

Building on experiences and knowledge gained during first compact implementation, MCC expects to see an evolution in the nature of its relationship with second compact countries. This includes significant country resources in compact development and implementation; increased emphasis on seeking compact partnerships with the private sector, other donors and civil society organizations; increased emphasis on ensuring that social and gender analysis is integrated into compact processes; explicit application of lessons learned in first compact implementation; and a continued high standard for sustainability of outcomes from MCC-funded investments. With these aims in mind, MCC's investment decisions for second compacts will continue to be based on the potential for proposed investments to support economic growth and poverty reduction.

MCC's formal engagement with partner countries for second compact development begins once a country is deemed eligible for a second compact by the MCC Board of Directors. Prior to this, MCC is available to clarify questions about this guidance, but will not dedicate technical staff time or resources to review or support compact proposals. Once countries are deemed eligible for second compacts, country counterparts are responsible for leading project proposal and compact development, according to MCC's Compact Development Guidance. MCC will enter into compact agreements only upon identification, development, and negotiation of project proposals that have promising returns to economic growth.

This document provides an overview of MCC's approach on second compacts, including selection of partner countries, and guidance for developing compact proposals.

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[41] For example, even though it was the world's fastest growing economy for years, it took Botswana 30 years to go from an average annual per capita income of $675 to $4,300 in 2006. (Source: Center for Global Development, *U.S. Assistance for Global Development,* 6/15/2006.) At this per capita income level, Botswana has graduated out of the Lower-Middle Income Country category, and is therefore not a candidate for partnership with MCC.

1. Country Selection for Second Compacts

The selection of countries as eligible for MCC assistance is a decision by MCC's Board of Directors. The Board's determination of eligible countries is based primarily on country performance on MCC selection indicators. For a country to be selected as eligible for an MCC assistance program, it must demonstrate a commitment to just and democratic governance, investments in the people of a country, and economic freedom as measured by 20 different policy indicators. In determining country eligibility, the Board also considers the opportunity to reduce poverty and generate economic growth within a country, and the availability of MCC funds.

In addition, for countries that are candidates for second compact selection, the Board considers each country's performance implementing its first compact. To assess first compact implementation performance, the Board considers country performance in three general areas:

- Progress towards achieving compact results, including significant progress relative to the planned compact timeline and on process and output indicators, degree to which compact programs are on track to reach compact targets, and level of commitment to monitoring and evaluation plans included in the compact.

- The nature of the country partnership with MCC, including political will and capacity to implement compact programs, pro-active management of implementation challenges, and achievement of policy reforms associated with compact investments.

- The degree to which the country has implemented the compact in accordance with MCC's core policies and standards, including in the areas of preventing fraud and corruption, procurement, environmental impact, gender integration, monitoring and evaluation, and legal provisions as defined in the compact agreement and other supplemental documents.

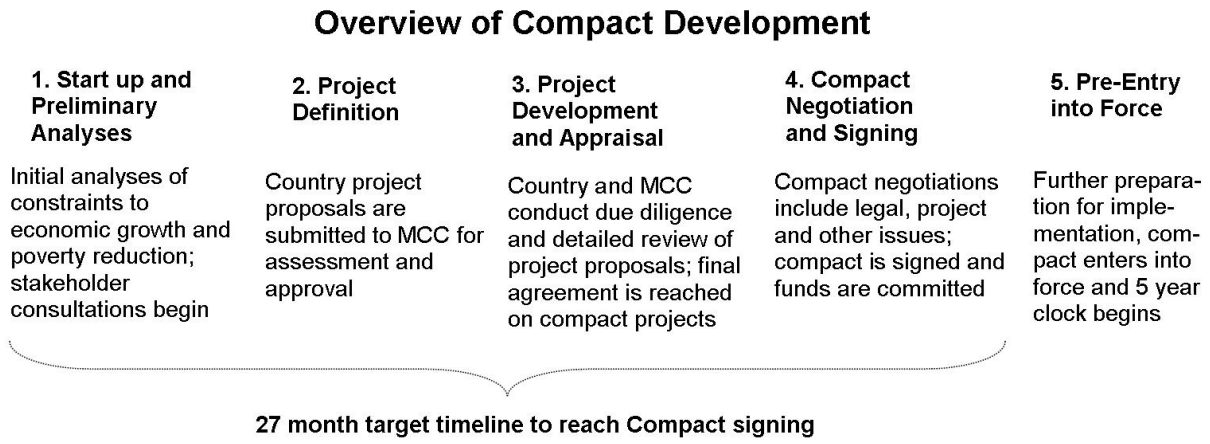
2. Guidance for Compact Development

Overview of the Compact Development Process

The starting point for second compact development is MCC's current guidance for development of all compacts contained within this guidance document. All second compact proposals (both those that build on first compact programs and those that propose different sectors or approaches) will be assessed according to MCC's standards for economic growth and poverty reduction.

The process for developing compact programs has evolved significantly since 2006, building upon lessons learned from implementation of earlier compacts and founded on the belief that a closer early partnership, with more clearly defined milestones, increases the likelihood of more effective compact development and implementation. The figure below summarizes the phases of compact development.

The major refinements to this process since 2006 are summarized below. Some or all of these steps will be new to early second compact countries. In general, MCC puts greater emphasis on more intensive upstream engagement with partner countries to set expectations and communicate investment standards.



- Each country prepares a **constraints analysis** identifying key constraints to economic growth through a rigorous analytical framework, developing a shared understanding of country needs and providing a framework for targeted public consultations and subsequent investment ideas. Where the analysis identifies sector-specific policy, regulatory or management issues as key constraints, or as important for maximizing impact of proposed investments, MCC invites country proposals for funded projects that specifically address reforms in these areas.

- **Public consultations** are now more focused on sectors and policies identified as key constraints to growth. MCC offers tools to facilitate these consultations and to identify potential investments, including Results Focused Project Design / Logical Framework methodologies, and guidance on private sector engagement.

- Each country prepares **concept notes** **and** **concept papers** as a first step for potential projects, rather than submitting detailed compact proposals. These concept papers serve as the basis for MCC and its country partners to prioritize potential projects and provide an early platform for detailed discussions on the rationale, feasibility, and risks of project at the conceptual stage. They also serve to focus MCC and country resources by identifying at an early stage those projects which are unlikely to be considered suitable for MCC investment because of project risks or tenuous links to economic growth and poverty reduction, before significant investment has been made in developing them.

- MCC has a high standard for program preparation prior to compact signing, and requires completion of as many of the necessary **project preparatory studies** as possible prior to submission of the overall program for Board approval. These include feasibility and preliminary design studies, environmental and social impact assessments, economic and beneficiary analyses, and gender analysis. Such studies help increase the certainty of cost estimates, prepare mitigation strategies for

environmental and social impact issues, ensure projects are designed for maximum impact, and reduce implementation and completion risks. MCC can provide limited financial support to undertake these additional studies.

- For countries that propose the use of existing country systems for procurement and financial management of MCC-funded programs, MCC has developed guidance on the **use of country systems** to make transparent the factors that it considers in assessing these proposals.

- Because of its relationship to economic growth and poverty reduction, gender equality is a priority area for MCC. To reflect this priority, and to complement MCC's Gender Policy, MCC has developed detailed **Guidance on Gender Integration** and has incorporated gender integration aspects into other compact guidance documents.

Focus on Results and Performance of the First Compact
MCC and country counterparts will consider the available actual and expected results and implementation performance in the first compact throughout the development and implementation process for a potential second compact:

- Available results data from the first compact will be presented to the MCC Board to review during the **country selection** process for second compact eligibility.

- Concept papers submitted for sectors that were part of the first compact must include an analysis of actual and expected results, planned versus actual timeline, and other **lessons learned** from the first compact. Proposals must address how risks encountered during first compact implementation, including environmental and social issues, will be mitigated.

- MCC's decisions regarding viable concept notes and concept papers and its **project development and appraisal** process will be informed by evidence available from actual and projected results and the track record of first compact implementation, including performance on meeting compact conditions and compliance with MCC guidelines.

- In determining proposed **project costs**, MCC and country partners will include careful analysis of the factors that influenced final project costs during first compact implementation, especially in cases where actual project costs exceeded estimated budgets.

- As additional first compact information becomes available, including through post-compact assessments and impact evaluations, MCC and country partners will use this use data to inform project proposal assessment, **project design** and implementation approaches.

3. Compact Partnerships

MCC expects to see an evolution in the nature of its relationship with second compact countries. MCC expects second compact country partners to build on their previous experience working with MCC and reflect a clear understanding of MCC's model and approach. MCC expects that this will translate into quick mobilization of a core team for second compact development, streamlining of the compact development process relative to the first compact, project proposals that are a good match to MCC's model, and explicit incorporation of lessons learned from first compact implementation. MCC also expects second compact country partners to commit significant country resources in compact development and implementation, and to manage a robust consultative process that places increased emphasis on seeking compact partnerships with the private sector, other donors, and civil society organizations.

Compact development core team

Consistent with MCC's Core Team guidance, country counterparts are responsible for project design and compact development. Second compact eligible countries must support a core team focused exclusively on the second compact. It is important to draw lessons learned from implementation of a first compact, and incorporate those lessons into the development process. However, completion of the first compact is the top priority for first compact MCA staff, and first compact funds cannot be directed toward second compact development. Therefore, first compact MCA staff currently engaged through MCC funding can only serve in an advisory capacity regarding second compact development. For example, this might include providing relevant program documentation including monitoring and evaluation data, sharing implementation lessons from projects relevant for second compact development, and providing feedback on proposed implementation approaches based on first compact experiences.

Resources for compact development

Country contributions during compact development and implementation are critical, because such contributions promote ownership, demonstrate commitment, provide for more meaningful and equitable partnerships, and reflect responsible MCC management of scarce public resources.

All compact-eligible countries hold responsibility for leading and mobilizing funding for the compact development process. In addition to supporting the compact development core team, each country must undertake extensive public consultations and conduct a range of economic, technical, social, gender and environmental studies during the preparation and appraisal of concept papers. Countries eligible for second compacts will be expected to identify and commit significant resources to manage and fund the compact development and appraisal process. MCC provides support to this process through MCC's technical and country relations staff, as well as consultants hired directly by MCC. In addition, MCC may enter into contracts on behalf of, or make grants to, any compact eligible country for the purpose of facilitating the development and preparation for implementation of the compact between the United States and the country, through MCC's 609(g) authority. This funding has been used for feasibility studies, environmental and social impact analysis, and detailed design work. All countries receiving 609(g) funding are required to provide, at a minimum, facilities, logistical support, data, and other resources to work with MCC staff and consultants throughout the project development and appraisal process.

Resources for meeting compact objectives
MCC already requires lower middle income countries to identify a contribution toward meeting the objectives of the compact during compact implementation. This contribution should be in addition to government spending allocated for such purposes in the country's budget for the year immediately preceding the establishment of the compact, and should continue for the duration of the compact.

As with the compact development process, all second compact eligible countries will be expected to identify and commit significant resources to be contributed during the compact implementation period. Countries in the low-income country category are expected to contribute 7.5% of the total compact amount to meeting compact objectives. Countries in the lower-middle income category are expected to contribute 15%. These contributions should be focused on supporting improved performance towards or sustainability of compact objectives. MCC will work with its counterparts to identify and estimate the value of these contributions, with the goal of maximizing the benefit from available resources without introducing excessive complications. MCC has a strong institutional interest in country contributions that will have long-term impact in terms of development results and sustainability of MCC-funded investments.

Private sector engagement and innovation

MCC recognizes that the non-governmental sector – including the private sector (international as well as domestic, small- and medium-sized as well as large), foundations, philanthropic and social responsibility funds, non-governmental organizations (NGOs), and international financial institutions – must play a key role in economic growth and poverty reduction, particularly in regard to the sustainability of investment impact and the efficient mobilization and application of capital. Increasing private sector engagement has been identified as one of MCC's core priorities. Consideration and, where feasible, inclusion of private sector partners and strategies for private sector development are expected to be factors in the development and implementation of compact programs. MCC will be seeking evidence that, at a minimum, private sector-led or directed strategies have been considered as part of the compact development process.

Alongside encouragement of broad types of partnerships focusing on program design and delivery, MCC is also interested in encouraging a broad range of financing instruments, such as guarantees and other risk-sharing instruments, investment facilities, output-based aid, performance contracting, parallel financing, matching grants, first loss facilities, etc. MCC is also interested in innovative program content, including the application of new and appropriate technology. These types of instruments and program content can be used if they follow logically from the identification and analysis of constraints to growth, are part of projects that have promising returns in terms of poverty reduction and economic growth, and have the potential to increase the impact and/or sustainability of MCC funded investments.

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?

2. 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.

3. 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.

Chapter 8: Concept Notes Template and Guidance

Background

In order to meet the target 27 month timeline for compact development, it is necessary for core teams and MCC transaction teams to begin identifying potential projects as soon as possible. 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 preliminary project proposals (i.e., "concept notes",) outlining potential projects for consideration. These concept notes, not to exceed five pages, should provide MCC with an initial outline of basic project characteristics, including a project description, economic logic, link to a binding constraint to economic growth, whether feasibility or design studies already exist, and whether the project builds on or complements existing government or donor projects. Concept notes should also provide a short qualitative description of the potential economic benefit streams and beneficiaries of the proposed investment. 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. In some cases, projects that are clearly incompatible with MCC's model will be removed from consideration. Others will proceed to the development of more comprehensive concept papers.

Guidance on Project Selection

Country ownership is a core principle of MCC's operations, and the project selection process must ultimately be a country-led process. Nonetheless, MCC has over time learned that particular kinds of projects are more likely to be achievable within a five year implementation time frame under the managerial control of partner country staff. Once there is agreement on one or more binding constraints to growth, MCC should begin immediate discussions with the core team to identify those projects most likely to satisfy MCC's multiple investment criteria. The following page provides a template countries may use to structure the concept note submissions to MCC.

Concept Note Template

Project Title:

Project Description:

Link to Constraints Analysis:

Project Goal and Objectives:

Intended Project Results:

Project Logic:

Project Location:

Is the project new, or is it an extension of another government or donor project?

Are there feasibility studies or engineering designs available for the project?

Chapter 9: Project Concept Paper Template and Guidance

On the basis of MCC's technical assessment of a core team's concept cotes, the core team will proceed to develop more detailed project proposals – project concept papers. MCC experience has shown that compact programs proceed more smoothly and efficiently when they are based on sufficiently detailed, high-quality investment proposals. High-quality proposals evolve from a shared understanding of (i) the main constraints to growth and poverty reduction, (ii) the types of corresponding investments most suitable for MCC financing, and (iii) the assessments needed to progress from concepts to fully developed projects.

The purpose of the project concept paper is to help partner countries and MCC reach this common understanding on how proposed investments will lead to economic growth and poverty reduction. Specifically, the project concept paper is designed to:

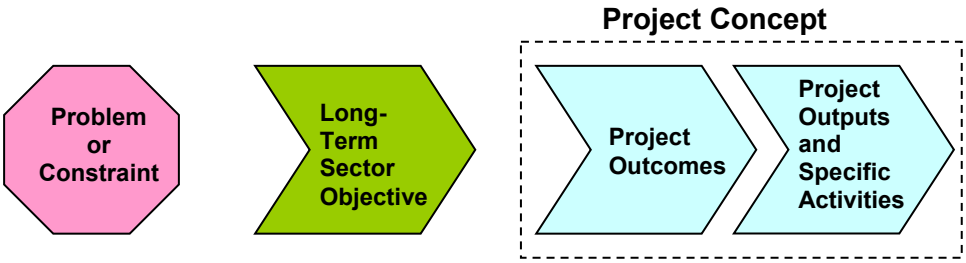
- Give partner countries an opportunity to clarify, organize, and prioritize their own investment ideas in written form, as well as to establish the programmatic logic that underlies them;
- Inform detailed discussions between MCC and candidate country on the rationale, feasibility, and risks of projects still at the conceptual stage, and agreement on where to focus resources for further development;
- Give MCC an opportunity to provide guidance to partner countries on the structure, approach, activities, and other aspects of project concepts before they are fully developed; and
- Help MCC and partner countries reach agreement on outstanding issues that need to be addressed to develop fully the project concepts into detailed investment proposals, and the related assessments, studies, and data that will be required.

MCC does not have a preference for investments in any specific sector, or for specific financing or implementation arrangements. MCC is open to working with the private sector, building on existing donors' programs, or exploring alternatives to traditional public sector project finance. Project concept papers will be assessed according to their potential to address key constraints to economic growth or otherwise contribute to economic growth and poverty reduction, their technical feasibility, potential risks, and likely impacts on environmental sustainability and social/gender equality, as detailed in the attached template and guidance.

The overall length of the concept paper for each individual concept project typically will be between 15 and 30 pages. The amount of information to be provided in each section will depend largely on the nature of the concept project itself, and current level of preparation.

I. Project Rationale and Description (2-4 pages)

The project rationale and description will provide MCC with the underlying logic for the proposed project described in the concept paper. It should clearly identify the constraint to economic growth that the concept project is meant to address, as well as how the concept project will contribute overall to poverty reduction through economic growth.



- **Problem or constraint statement:** Clearly identify the root problem or constraint that the concept project is meant to address.

- **Desired long-term sector objective:** Describe the long-term sector objective that the concept project will contribute to.

- **Expected project outcomes:** Describe how the specific results of the concept project will contribute to the desired long-term sector objective. For example, a transportation project could result in reduced vehicle operating costs or a financial sector reform project could result in broader participation in financial markets and reduced cost of credit. Please also include a statement about how the project will contribute to the overall goal of poverty reduction through economic growth.

- **Description of project outputs and specific activities:** For example, privatization of utilities, construction of a clinic, school, road, or other civil works, training, or technical assistance to farmers. Include in the description available details of each activity, such as geographic scope.

- **Estimated cost:** Include summary cost estimates at the activity level, and indicate what project preparation activities are included in the estimate, if any – such as feasibility studies, environmental and social assessments, resettlement (including land taking), capital works, technical assistance, etc. Detailed budgets are not required but, if available, should be attached as an annex.

II. Project Context and Development Plans

The project context will provide MCC with a clear understanding of the sector in which the concept project would be implemented.

Sector and strategy description:

- Describe the role of the targeted sector or intervention(s) in the overall economy – for example, its contribution to GDP and employment, and links to other productive sectors.
- Describe the roles of government and the private sector – for example, in ownership, management, operation, or regulation of key assets, delivery of services and production.
- Explain how the selection of this concept project in the sector is linked to analyses of economic constraints analysis, social/gender inequalities, investment opportunity, sector analyses, and stakeholder consultations.

- Describe the government's strategies and plans for development of the sector, including for network projects such as power and transport whether there are any sector master plans or similar studies.
- Describe the Government's broad policy framework for the sector or intervention(s), including a description of recent reforms and governing documents, as well as reform results or obstacles, if known.
- Describe how this concept project is linked, if at all, to other project concepts submitted to MCC.
- After submission of the concept papers, core teams should be prepared to provide to MCC additional documentation, such as a list and the relevant documents related to the intervention, including for laws, regulations and other pertinent documentation.

Description of recent, ongoing or expected investments in the sector:

For each recent, ongoing or planned project (other than the concept project) in the targeted sector, briefly describe:

- Source of funding (national budget, donor agency, private sector)
- Project objectives and major activities, including scope, and geographic region
- Expected or actual cost
- Expected or actual completion date
- Linkages with the concept project
- Potential for collaboration with the private sector or other donors on project preparation financing, and implementation, and
- Project outcomes (if completed).

III. Inventory of Existing Preparatory Work

To assist MCC to assess the level of effort that will be needed to develop fully a project proposal from each concept project, please provide an inventory of existing studies already undertaken. This preparatory work is not a requirement for submission of the project concept, though many of the items below typically will need to be completed prior to compact signing or prior to disbursements. The final determination of necessary preparatory work will depend on the type of concept project proposed, and availability of existing studies and data.

Please check the boxes below to indicate existing preparatory work, and provide summary information as described below. Sections IV and V provide an opportunity to describe key findings from any existing preparatory work.

☐ **Sector studies and/or plans:** (For example, an education sector plan, road sector master plan, or sector-wide approach.)

- Brief description
- Agency or contractor that completed the work; source of funding; date completed. Please also be prepared to provide these documents shortly after submission of concept papers at MCC's request. Delay in doing so can seriously delay the further development and preparation of compact projects.

- **Public consultations:**

    - Brief description conveying the depth and breadth of consultations conducted during compact development, including the format and number of consultations, geographic scope, major stakeholder groups involved, including the degree and type of representation of women and other vulnerable groups.

- **Economic studies:** Provide a brief description of study conclusions and resulting data (include sex disaggregated results and data, if possible), as well as the agency or contractor that completed the work, source of funding for the study and date completed. Content in this section may include, for example, expected economic returns to the project, quantitative data on relevant historical trends, details on expected beneficiaries, and the current baseline situation for the relevant sector such as surveys of household incomes, enterprises, and agricultural production. Also of interest is any evidence of expected results derived from progress reports and impact evaluations from similar projects.

- **Social and gender studies:** Brief description of relevant studies and findings or fact-based hypotheses regarding significant differential impacts or increased economic inequality resulting from the proposed project. For example, list conclusions or fact-based hypotheses highlighting inequalities in access to human, financial, physical, natural, social and/or political capital that significantly constrain the ability of women and/or other potentially vulnerable demographic groups to benefit from the project; social norms, practices, and preferences that would adversely or positively influence project success; and any existing evidence from surveys and qualitative studies of the project areas or evaluations of similar projects.

- **Supporting technical data:** Please provide any existing engineering or technical data supporting the project. Examples include: [i] road project – geotechnical surveys and historical traffic counts available; [ii] irrigation – studies of the hydrology of the scheme, reservoir operations, irrigation demand at reservoir, hydrological year spill examinations, geologic and hydrogeologic modeling, etc.; [iii] agricultural development – market data on production, demand, prices, exports for targeted agricultural products; [iv] education – data on participation and completion rates, educational outcomes, literacy, etc.

    - Brief description – how many years of data are available; periodicity; level of detail (include sex disaggregated data, if possible)
    - Agency or contractor that collected and/or updated the data set

- **Preliminary studies:** (The studies may include preliminary assessments of the technical and economic viability of a concept project, a comparison of alternative approaches to various elements of the concept project and recommendation for further analysis of the most suitable alternatives, rough estimates of costs and the anticipated benefits, etc. Examples of preliminary studies: [i] infrastructure projects – prefeasibility studies; [ii] land tenure project – preliminary assessments of the legal and customary framework of the land tenure system; [iii] financial services project – analysis of the depth and breadth of financial markets and unmet demand for specific services.)

- Brief description (include sex disaggregated data, if possible)
- Agency or contractor that completed the work; source of funding; date completed

☐ **Full feasibility studies:** (A feasibility study covers all economic, institutional, environmental and social (including resettlement and health and safety risks), and technical and engineering aspects of the concept project. The need for the concept project is analyzed along with resource availability, and refined estimates are made of (i) concept project benefits; (ii) capital costs of construction; (iii) annual costs of operation and maintenance; (iv) economic parameters for evaluation, i.e., Net Present Value, Internal Rate of Return or other; and (v) sustainability analysis.[42])

- Brief description (include sex disaggregated data, if possible)
- Agency or contractor that completed the work; source of funding; date completed

☐ **Detailed budgets:** (Detailed cost estimates at the activity level, including local and foreign costs, material costs vs. cost of labor, etc.)

- Brief description
- Agency or contractor that completed the work; source of funding; date completed

☐ **Environmental and social impact analyses:** (For reference to the types of analyses that may be required prior to investment, see MCC's Environmental Guidelines, available at www.mcc.gov)

- Brief description
  Agency or contractor that completed the work; source of funding; date completed

☐ **Gender analyses:** (For reference to the types of analyses that may be required prior to investment, see the MCC Gender Policy.) and MCC Guidance on Gender Integration.

- Brief description (include sex disaggregated data, if possible)
- Agency or contractor that completed the work; source of funding; date completed

☐ **Resettlement Action Plans (RAPs):** (For reference to the types of analyses and steps that may ultimately be required prior to construction, see World Bank Operational Policy 4.12 on Involuntary Resettlement and other documents describing resettlement and/or any land expropriation, see OP 4.12.

- Brief description
- Agency or contractor that completed the work; source of funding; date completed

Plans for additional studies to develop the concept project:

- Description
- Timeline
- Sources (actual or proposed) of funding

[42] Source: http://www.oas.org/dsd/publications/Unit/oea03e/ch13.htm

IV. Project Benefits and Beneficiaries

The purpose of this section is to provide a preliminary assessment of the potential economic returns to the concept project, based on a cost-benefit analysis, and to provide information on the target beneficiaries. This information could come from the preparatory studies described in Section III above, other sources, or internal estimates by the core team and experts involved in drafting the concept paper. Please also note whether this description is informed by consultations with potential beneficiaries and other relevant stakeholders, or if these consultations are planned for later.

Expected economic returns to the concept project

- Describe how the proposed project will increase income within the economy, including a discussion of key supporting evidence (quantitative and qualitative, as appropriate).
- Provide preliminary estimates, if available, of incremental costs (including investment and recurrent expenditures) and incremental benefits over the life of the project.
- Identify key parameters/ assumptions underlying the estimates of incremental costs and benefits.
- Provide an indication of the level of uncertainty around key assumptions or parameter estimates.
- Present the estimated ERR in a summary table together with an estimate of the range within which the ERR is expected to vary given identified uncertainties in the values of critical parameters.
- Based on the model, suggest possible indicators for monitoring project outcomes.

Description of target beneficiaries

- Describe who will principally benefit from the proposed concept project, by location and income (if possible, identify the share of beneficiaries below the national poverty line).
- Provide sex disaggregated information of the potential beneficiaries.
- If possible, report the anticipated change in average annual income among poor and non-poor beneficiaries on a per capita or household basis.
- Describe the basis of this estimation of the distribution of income benefits.

Gender considerations

- Based on an analysis of gender differences and inequalities, countries will identify project beneficiaries disaggregated by sex and provide an explanation of how projects will be designed to take into account gender differences and correct gender inequalities that are constraints to economic growth and poverty reduction. Countries should refer to the MCC Gender Policy for specific guidance on gender analysis.

V. Environmental, Social, and Gender Risks and Opportunities

The purpose of this section is to describe environmental, social, and gender issues within and outside of the direct control of the project that need to be considered and mitigated to ensure the project is implemented in an environmentally and socially responsible manner, consistent with MCC Environmental Guidelines and Gender Policy. Examples include involuntary resettlement and/or unavoidable impacts to vulnerable groups or sensitive natural resources, protected areas, or cultural heritage sites. The concept paper should provide a brief description of the project's biophysical and sociocultural setting, with a focus on issues most critical to successful project design and implementation, including any that may attract public opposition to the project, require extensive mitigation, or otherwise cause project delays. The information could be drawn from any existing

studies identified in Section III, or other sources. It is understood that much of this information may be preliminary or unavailable at the concept stage. Please also note whether this description is informed by consultations with potential beneficiaries and other relevant stakeholders, or if these consultations are planned at a later date. If applicable, please also describe how the concept project enhances environmental, social, or gender benefits, or enhances the sustainable use of natural resources.

Include a preliminary assessment of key environmental and social issues that may need to be addressed in the design, permitting, and implementation of the concept project, including but not limited to the following:

- **Describe the concept project's physical setting:** For example, describe sensitive habitats, protected areas, privately-held land, natural hazard zones, and water courses near or in the project area.
    - Description
    - Sources of information

- **Describe the concept project's social setting:** For example, prevalence of underrepresented or vulnerable groups, ethnic minorities, significant inequalities between men and women, HIV/AIDS and other diseases, division of labor, and other key social, cultural, political, institutional factors in the project area or affected by project activities.
    - Description (include sex disaggregated data, if possible)
    - Sources of information

- **Human occupation of the concept project site and right of way:** For infrastructure projects, including those with small-scale civil works, describe the estimated number of households that may incur a loss of assets including land, whether legally occupied or not. Include a description of livelihood activities located there, temporary occupation, use for burial/sacred purposes, or other culturally valuable sites within the concept project area.
    - Description (include sex disaggregated data, if possible)
    - Sources of information

- **Potential for disputes:** Describe any past or current controversy associated with the proposed approach and/or location of the concept project, or with similar projects.

- **Potential for enhancing social or environmental benefits:** Describe how the concept project enhances the environment or provides social benefits.

VI. Project Sustainability

The purpose of this section is to identify risks to project sustainability and to describe measures planned or needed to ensure that the benefits from the concept project can be sustained beyond the period of MCC financing. Some of the items below are representative of sustainability issues most common to infrastructure and natural resource extraction projects.

- **Environmental sustainability:** If the project impacts the natural environment, either through discharge of waste products or extraction of renewable resources such as water, fish, timber, etc., describe measures to ensure the sustainable use of environmental amenities.

- **Operations and maintenance – financial:** In the case of proposed infrastructure projects, describe recent public sector funding and performance on operations and maintenance in the sector, and the additional operations and maintenance expenses expected with the concept project.

- **Operations and maintenance – institutional:** Describe institutional capacity for operations and maintenance of existing assets and proposed new investments, and any plans to improve operational efficiency either as part of the concept project or a separate effort.

- **Tariffs and user fees:** Describe whether services delivered by the concept project will be financed in whole or in part by levies, tariffs, licenses, or other forms of user fees. Do such fees already exist for the same or similar services provided in the concept project area or elsewhere? If so, what share of operations and maintenance costs are recovered from user fees and to what extent are services subsidized? To the extent that new or increased cost recovery mechanisms are contemplated, please describe and indicate whether the government has conducted public demand and "willingness to pay" assessments.

- **Policy, legal and regulatory issues:** Describe policy, legal and regulatory issues that may affect the concept project's contribution to the intended long-term objective. Examples: [i] land reform project – are there legal impediments to registration of land titles?; [ii] financial services project – does the judicial system provide adequate protection to lenders?; [iii] export promotion project – are delays at the border common due to customs issues?

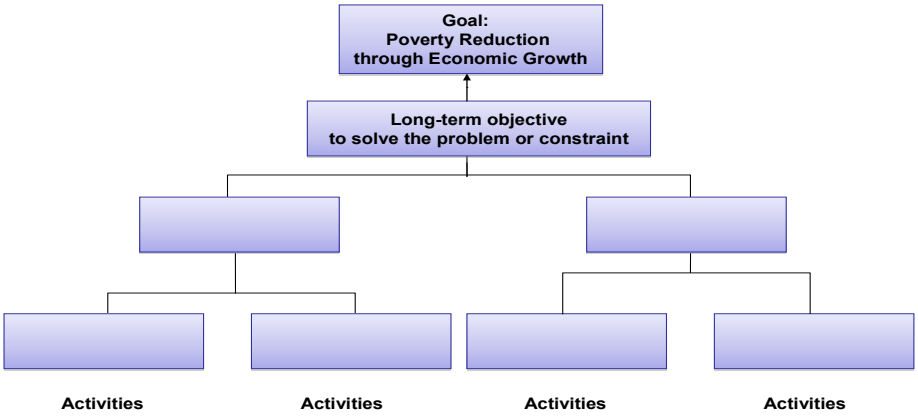
VII. Project Results and M&E Methodology/Plan

The purpose of this section is to present preliminary ideas on expected results and their measurement, consistent with MCC's Policy for Monitoring and Evaluation of Compacts and Threshold Programs[43]. It should include the following:

- **Summary of Program Logic:** Based on the Concept Paper's Section I: Project Rationale and Description, a Summary of Program Logic should graphically depict the links between the proposed activities and anticipated higher-level economic impacts of the concept project, which are consistent with the preliminary economic analysis. The summary should clearly highlight the logic of the interventions and the channels through which key activities are expected to reduce poverty through economic growth. The diagram will serve as a foundation for determining indicators.

[43] Available at: http://www.mcc.gov/documents/guidance/policy-051209-mande.pdf

Program Logic Framework



- **Potential Indicators:** The Concept Paper's Section IV: Project Benefits and Beneficiaries requires a suggestion of possible indicators for monitoring project results. Such indicators typically include the key quantities driving economic returns and are thus drawn, naturally, from the economic rate of return (ERR) analysis. This section of the M&E section allows for additional information to be provided on these indicators, including definitions, sources, and baselines (where they exist) and 5-year targets consistent with the ERR calculations. This section could also include additional indicators related to expected project impacts that are not included in the economic analysis. A suggested format for the description of potential indicators is presented below:

Indicator	Definition	Unit of Measurement	Source/ Responsible Entity	Data Collection Instrument (e.g. survey, administrative data)	Baseline Value	Year 5 Target Value

- **Data Gaps:** The "source/responsible entity" column of Table 1 above will highlight gaps in baseline data that may require new data collection. If funding is **not** available from existing sources (such as the government or other projects), MCC **may** provide funding for Compact Development. If possible, a specific list of expected data requirements, with any estimates of data collection costs and time required, should be provided in this section of the Concept Paper.

- **Impact evaluation opportunities:** The constraints analysis could identify problems which various different interventions could address. The concept paper may also include untested interventions to be piloted under a Compact. If opportunities exist to use rigorous evaluation methods to test which interventions are most impactful, they should be discussed and highlighted.

- **M&E Sources and Reference Documents:** This section should include a preliminary inventory of existing M&E-relevant documentation at the national, regional and sector levels.

Examples include:

- National poverty monitoring and evaluation strategy
- National strategy for development statistics
- Recent surveys, sector studies, or other analytical or empirical work related to the concept project (e.g. on household incomes, enterprises, and agricultural production), including especially any studies or supporting evidence cited in the economic and beneficiary analysis
- Monitoring and evaluation strategies and systems for the sectors presented in the Concept Paper
- Progress reports and impact evaluations from projects similar to the ones presented in the Concept Paper

VII. Implementation Arrangements

The purpose of this section is to describe potential implementation arrangements for the concept project, including an assessment of the capacity of relevant implementing entities. For example, has the country implemented similar projects of this scale in the past? In the targeted sector? Are there existing entities, such as World Bank or other donor project implementation units, that could participate in the implementation of the concept project? Does the country have the capacity – in its own ministries or other governmental bodies – to implement the concept project? Do the relevant implementing entities have experience with international procurement of goods and services for large-scale projects? If yes, please describe the projects and their implementation performance. Is there a competitive private market for the execution of similar projects?

- **Description of government or other entities that would have a role in oversight and implementation of the concept project:**
    - Brief overview of entities;
    - Past experience implementing similar projects;
    - Technical capacity that can be provided for project implementation (for example, project managers, civil engineers, social sector specialists, environmental scientists, etc.); and
    - Description of capacity building needs (including gender analysis, when applicable).

- **Implementation timeline:** Please provide an estimate of the time needed to complete each step below. If a project implementation schedule has been produced, please include it as an annex.
    - Establishment of management unit(s) with staff and office space;
    - Preparation of bidding documents;
    - Procurement;
    - Mobilization;
    - Time in field for experts (in case of TA); and
    - Construction (in case of civil works).

- **Consultations and accountability:** Please provide information on proposed mechanisms to sustain consultations with civil society during implementation, to involve civil society organizations in project governance structures, and to receive feedback from the general public regarding implementation.

- **Plans for longer-term project activities:** If concept project activities are to continue beyond the five-year term of MCC financing, describe briefly how these activities will be financed and managed.

VIII. Annexes

- Bibliography of sources consulted to develop the concept paper (documents, data, institutions, or individuals)
- Other annexes as needed

PHASE III: PROJECT DEVELOPMENT AND APPRAISAL

Once MCC's senior management has approved a country's concept paper through a Concept Paper Assessment Memorandum, the due diligence process will begin. The following chapters outline due diligence guidance for projects in specific technical areas, as well as environmental and social assessment and monitoring and evaluation guidelines that are applicable across all project types.

Chapter 10: MCC Policy on 609(g) Funding

PURPOSE

The following sets forth the policy of the Millennium Challenge Corporation ("**MCC**") with respect to assistance under Section 609(g) of the Millennium Challenge Act of 2003, as amended, to support development and implementation of compacts ("**609(g) funding**" or "**609(g) funds**") before and after such compacts are signed.

SCOPE

This policy applies to all assistance MCC provides under Section 609(g) of the Millennium Challenge Act of 2003, as amended.

AUTHORITIES

Statutory Authorities
Section 609(g) of the Millennium Challenge Act of 2003, as amended (the "**Act**").

Related MCC Policies and Procedures
609(g) Financial Management Policy and Procedure Manual (A&F-2007-78.2)
Guide on Appropriate Funding Sources for MCC Activities (A&F-2009-01.1)

POLICIES

Purpose

As Section 609(g) of the Act states, the purpose of 609(g) funding is to support the development and implementation of compacts. While the statute does not specify the timing of 609(g) funding, since implementation of a compact continues through the term of a compact, activities to *facilitate* compact development and implementation are most likely to happen before entry into force ("**EIF**") of a compact or soon thereafter, and therefore most obligations of 609(g) funds will occur before that milestone or soon thereafter, although the expenditure of 609(g) funding has often continued beyond EIF.

Pre-Compact 609(g) Funding Not a Further Commitment

A commitment by MCC to provide 609(g) funding to a particular eligible country before compact signing is not a commitment by MCC (i) to enter into a compact with that country, or (ii) to fund any project that may be developed with the use of such 609(g) funding.

Uses for 609(g) Funding

609(g) funding must be used to support the development and implementation of compacts. In practice, 609(g) funds have been used in the following ways (but this list is not intended to limit how 609(g) funding can be used):

By MCC, or to allow a recipient country, to develop investment projects early in the process, such as for technical feasibility, social and environmental assessments, and detailed design work;
To assist an eligible country to conduct a consultative process; and
To develop and put into place the compact implementation framework, which includes the accountable entity responsible for the implementation of the compact (the "**Accountable Entity**"), the fiscal agent, the procurement agent, the bank, and any implementing entities or project managers to allow work to start promptly at EIF.

Approval Process for 609(g) Funding

Investment Management Committee review, approval by MCC's CEO, and notice to Congress are required before 609(g) funds may be committed. Furthermore, a grant and implementation agreement or other written instrument is required to obligate 609(g) funds.

Country teams should make every attempt to formulate comprehensive 609(g) budgets that anticipate, to the extent possible, current and future funding needs (including for expenditures that may occur after compact signing and before EIF) to avoid the need to request additional funds. If necessary, however, requests of additional 609(g) funds for compact implementation will again require Investment Management Committee review, approval by MCC's CEO, and notice to Congress.

In the documentation submitted to the Investment Management Committee and MCC's CEO for review and approval, country teams will establish a reallocation threshold amount, in no event greater than ten percent of the total amount requested, under which the country team with the review and approval of the Vice President, Compact Operations, may reallocate 609(g) funds without Investment Management Committee and MCC's CEO review and approval.

Limitations on Uses for 609(g) Funding

Country contributions

609(g) funding is intended to assist an eligible country only after it has made significant, tangible, and material contributions of its own resources to develop a compact proposal. The following generally constitutes acceptable evidence of such contributions to a compact proposal:

a. Appointment and adequate support (*e.g.*, salaries and other remuneration and administrative expenses, including the cost of office space, office furniture, information technology, computers, and vehicles) of the necessary full-time point of contact and compact development core team (together, the "**Core Team**");
b. A successful initial consultative process in accordance with MCC's guidelines for conducting such a process;
c. A thorough constraints analysis; and
d. The development of project concept papers.

An eligible country may be required to make additional contributions as well, especially if it is pursuing a second compact, pursuant to MCC's recommendations on country contributions distributed from time to time.

Notwithstanding the foregoing, MCC may consider 609(g) funding for an eligible country pursuing an initial compact but facing resource constraints that may otherwise delay preparation and development of the compact or receipt of concept papers.

Funding Core Team

MCC may consider providing 609(g) funding for Core Team expenses if MCC has determined that the country has insufficient resources available to establish a Core Team, or has paid an amount that MCC deems, in the aggregate, as being appropriate for the salaries and other expenses of the Core Team from the country's resources, and that the continued availability of the Core Team personnel is necessary for the completion of compact development.

To provide 609(g) funding for Core Team expenses, MCC must enter into an agreement with the country that will, at a minimum: (i) stipulate the number of Core Team members receiving salary support from 609(g) funding, the amount of salary provided per Core Team member, and the areas of expertise of or activities supported by such Core Team members; (ii) reflect the country government's commitment to provide for all other necessary costs not funded by the 609(g) funding granted to the country to ensure timely and efficient completion of the compact development process; (iii) require that payments be made strictly on a reimbursable basis to the country government on specified periodic payment terms (e.g., monthly); (iv) specify the maximum amount of time that 609(g) funding for Core Team expenses will be available; and (v) specify that all salary payments for the Core Team must cease within a specified period of time following the establishment and staffing of the Accountable Entity.

Additional Limitations

In general, before MCC will consider making 609(g) funds available for use by or for an eligible country:

a. A country has identified clear investment priorities through its constraints analysis and consultative process;
b. A preliminary evaluation of the country's concept paper(s) by the MCC country team has determined that the concept paper(s) is likely to generate meaningful economic growth and poverty reduction benefits;
c. MCC is satisfied as to how the funds will be used, including having a timeline and budget for the use of the 609(g) funding; and
d. Either MCC or the eligible country has defined satisfactory financial management and procurement processes to control 609(g) funds (including provision for auditing the use of the 609(g) funds).

Legal Requirements for 609(g) Funding

609(g) funding, as discussed in this policy, is subject to, among other things, the following conditions:

a. the use of funds may not violate statutory limitations on the use of MCC funding;
b. the use of funds must comply with any written requirements by MCC; and

c. the availability of 609(g) funding will not extend beyond the earlier of the expiration or termination of the grant and implementation agreement or the compact.

RESPONSIBILITIES

Chief Executive Officer

The Chief Executive Officer is responsible for approving this policy and any revisions to it.

Vice President, Compact Operations; Vice President, Administration and Finance; Vice President and General Counsel

A request for waiver of any provision under this policy shall be requested by the relevant DCO regional Deputy Vice President (or his/her delegate) via action memorandum to the Vice President, Compact Operations who shall be responsible for approving any requests for waiver of any requirements under this policy. A request to waive a provision of this policy may not be granted without clearance by the Vice President, Administration and Finance, and Vice President and General Counsel. Any such waiver request should specifically cite the applicable provision of this policy that is the subject of such waiver request.

Deputy Vice Presidents, Compact Operations

The applicable Deputy Vice President, Compact Operations is responsible for requesting a waiver of any requirements under this policy for a country.

Reorganization

In the event of a reorganization of MCC, the responsibilities ascribed to any officer in this section 5 will be carried out by his or her successor.

Chapter 11: General Infrastructure Guidance

The following guidance applies to all infrastructure projects, regardless of sub-sector or type of project and should be considered as general guidance. The guidance is intended to cover all aspects of a complex project in a comprehensive manner.

In accordance with MCC's compact development process, an early assessment of an eligible country's concept paper shall be made to determine whether the projects contained in the concept paper qualify for project development or appraisal, should be dropped from further consideration by MCC, or should be modified and developed further prior to appraisal. This assessment is primarily focused on: (i) **justification** of the proposed project, i.e., whether the proposed project has sufficient characteristics to be able to contribute to poverty reduction through economic growth; (ii) whether the proposed project is **sufficiently well developed**, and if so, whether MCC recommends that appraisal could commence; (iii) an early indication that the project is **technically viable**; (iv) an early indication that the project **can be implemented within the compact term** (maximum of 5 years); and (v) an early indication that the project benefits **can be sustained over time**. Moreover, the concept paper assessment will also make a determination on: (a) whether mitigation measures required to improve the project's sustainability or reduce project risks are formidable; and (b) whether fundamental policy and regulatory environments relating to the project or applicable sector are acceptable to MCC, and if not, whether meaningful changes can be made within the compact development or compact implementation time frame. Typically, MCC would not recommend that appraisal or project development be continued if any of these factors are found to be unsatisfactory.

For most infrastructure projects, MCC requires a comprehensive, recent (i.e., not older than 5 years) feasibility study of acceptable quality to commence appraisal. A generic table of contents for a feasibility study should include the following:

1. Detailed Project Description
2. Policy and Regulatory Environment and Issues; Conformance with Sector Strategy
3. Analysis of Site Conditions
4. Special Studies (such as topographic, geological, geotechnical, hydrological, structural, as may be appropriate for the particular project)
5. Project Justification
6. Project Design and Project Alternatives
7. Comprehensive Project Costs and Schedule
8. Beneficiary and Economic Analysis
9. Environmental and Social Impact Assessment
10. Financial Sustainability
11. Operations and Management (O&M)
12. Institutional Capacity and Capability
13. Implementation Management and Construction Schedule
14. Construction Resources
15. Pre-Construction Activities

MCC will use the feasibility study as the basis to make a determination on what supplemental studies, if

any, are required to develop the project sufficiently so that appraisal could commence. **Once MCC has made the determination to commence appraisal, the MCC infrastructure group will conduct the assessments and identify any key constraints.**

The remainder of the guidance is provided for each major project type due to differences in requirements.

Chapter 12: Roads

MCC will use the feasibility study for the roads project as the basis to examine the following to make a determination on what supplemental studies, if any, are required to develop the project sufficiently so that appraisal could commence:

- Preliminary description of rationale, including nature and measure of benefits, and beneficiaries.
- Confirmation, supported by appropriate data, that the proposed project is likely to deliver the stated benefits.
- Identification of the role of the project in the national sector strategy and investment plan.
- Information on whether the proposed road provides links within the context of the overall road network.
- Available technical data, with particular emphasis on surveys, cadastral data establishing road alignments (if any exists), legal status of existing road alignments and road reserves.
- Data on road-making material, in particular pavement materials and water (availability, location, action taken by applicant on approvals needed to extract gravel or water), as well as aggregate if a paved road is proposed.
- Available data for drainage design, including catchment mapping, rainfall records, rainfall frequency, and intensity curves.
- A preliminary description of the institutional arrangements in place to manage and maintain public roads, the responsible organization, funding arrangements, maintenance history, and general capability.
- Identification of areas which require obtaining more detailed, current or reliable information. If a new road (or realignment of an existing road) is proposed, obtaining approvals from all relevant parties for land may be a significant and time consuming issue; identify the party responsible, process, who has to approve, and a timeline at commencement of the appraisal phase.
- Collection and integration of satellite imagery and topographical maps at the appropriate scale (typically 1:25,000 for urban planning) identifying key elements of existing and proposed infrastructure, rights-of-way, and service areas. In addition, it may be appropriate for the appraisal process to identify other geo-spatial data – including but not limited to census data, water resources, and geological data – and combine them into a single GIS database.

Once MCC has made the determination to commence appraisal, the infrastructure group will conduct the following assessments and identify any key constraints:

Technical Assessment: Engineering (Major Roads)

- Review all aspects of preliminary technical designs and proposed standards and confirm appropriateness for design criteria, demand requirements and environmental factors.
- Review geological, seismic, survey, traffic, and mapping and rainfall data available and identify the need for further data.
- Assemble cost data and prepare detailed cost estimates for materials (gravel, bitumen, aggregate, concrete, and bridge materials) and construction equipment.
- Assemble data for drainage design and confirm completeness of rainfall intensity, frequency, and duration data.

- Review traffic volume data and traffic design; identify any traffic counts needed to confirm assumptions. Evaluate traffic volume projections used in the economic analysis and estimate their accuracy.
- Prepare a road safety report on the proposed road, identify potential issues, and confirm design and construction standards.
- Prepare and assess economically justified alternative design options including vertical and horizontal alignments, pavement (balance of unbound, deep lift asphalt, and concrete), drainage structures, location and arrangements for intersections.
- Prepare preliminary designs and plans for drainage structures, options, materials, and design standards.
- Prepare preliminary designs for bridges, including approximate level, spans, and materials, and review special measures required for major floods and earthquakes. Prepare concept designs of standardized minor creek crossings, floodways and culverts. Relate the proposed level of service to proposed benefits. Describe the basis for estimating flood flows.
- Assess secondary impact of the proposed project on other transport infrastructure, including proposed intersections on local road networks, and identify any need for a more detailed assessment.
- Review maintenance requirements and costs, and compare against current maintenance arrangements (see the sustainability assessment section below).
- Identify major project risks and quantify, as much as possible, the impact of these risks on project cost, timeline and quality. Develop mitigation measures and estimate the cost of mitigation
- Develop project cost estimates of +/-35%, including all associated costs, such as costs relating to environmental mitigation, resettlement compensation, social safeguard measures, construction supervision, project management and technical audits.
- Develop provisions to be included in project cost estimate, such as physical contingency, allowances for specific risks that were identified in appraisal, price contingencies, and allowance for the effects of foreign exchange rate fluctuations, and determine meaningful rates of inflation – local and foreign – to apply to base costs.

Technical Assessment: Engineering (Rural Roads)

- Review all aspects of preliminary technical designs and proposed standards and confirm appropriateness for criteria, demand requirements and environmental factors.
- Prepare preliminary design (20%) sufficient to confirm the road alignment, standard, constructability, estimated cost, maintenance requirements and to identify all issues to be addressed for the road to be constructed and maintained, such as land clearance.
- Confirm details of design and construction standards applicable in the location, where such standards exist. Establish and justify proposed standards for horizontal and vertical geometry, design speed, design vehicle, and road design life.
- Review traffic counts or other sources of information about traffic volumes. Evaluate traffic volume projections used in the economic analysis and estimate their accuracy. Where existing data is inadequate, arrange minimum seven day traffic counts for suitable locations to be completed by the end of the economic assessment.
- In conjunction with the economic and financial assessment, assess levels of service that are economically justified based on traffic, economic growth potential and social factors.

- Establish level of drainage serviceability and compare to similar roads and other segments of the proposed road, where appropriate. Prepare preliminary designs for bridges, including approximate level, spans, and materials, and review special measures required for major floods and earthquakes. Prepare concept designs of standardized minor creek crossings, floodways, and culverts. Relate the proposed level of serviceability to proposed benefits. Describe the basis of estimating flood flows.
- Confirm availability of and identify sources for road making materials including expected quality based on previous experience of using material from the sources.
- Prepare preliminary designs including horizontal alignment, typical cross section, major drainage structures, and location of minor drainage. Identify locations of all drainage outlets. Identify any locations where steep gradients may cause problems, extent of earthworks to reduce gradient and/ or drainage design to minimize erosion. Identify if earthworks can be contained in the road reserve. For upgrades to an existing road, identify any locations where the horizontal alignment will need to be changed to achieve an acceptable design standard.
- Identify major project risks and quantify, as much as possible, the impact of these risks on project cost, timeline and quality. Develop mitigation measures and estimate the cost of mitigation.
- Develop project cost estimates of +/-35%, including all associated costs, such as costs relating to environmental mitigation, resettlement compensation, social safeguard measures, construction supervision, project management and technical audits.
- Develop provisions to be included in project cost estimate, such as physical contingency, allowances for specific risks that were identified in appraisal, price contingencies, and allowance for the effects of foreign exchange rate fluctuations, and determine meaningful rates of inflation – local and foreign – to apply to base costs.

Technical Assessment: Economic and Financial

The MCC economist responsible for the assessment of the project will work to ensure that the proposed road project complies with MCC Guidelines for Economic and Beneficiary Analysis. The economic rate of return for each project should be sufficiently high to warrant investment and eligible countries should have reviewed relevant governance practices, including laws and regulations, and undertaken reforms, as possible, to enhance the anticipated economic benefits generated by the road project. Infrastructure input to this analysis may include the following:

- Provide a description of the economy of the catchment area and wider region, and the impact of road conditions. Quantify recent trends in economic activity for the catchment based on best available data and consultation with local organizations.
- Identify benefits expected to flow from upgraded or new roads, focusing on increases in incomes for workers, firms, and households. Identify the beneficiaries, to the extent possible, disaggregated by income, gender, age, and ethnicity. Compare projected incomes and other benefits with and without the proposed project.
- Summarize the design standards, design life and cost estimates (capital and maintenance) and confirm these are consistent with the assumed benefits and duration of the benefit stream. Note that the duration of the benefit stream is typically assumed to be twenty years. Assumptions that the duration is longer or shorter than this should be clearly justified.
- Confirm that costs and project life are consistent with the engineering design.
- Complete a financial analysis and FIRR for income generating subprojects (to the extent benefits

contribute to EIRR of road project).

Technical Assessment: Environment, Social and Gender

MCC environment and social assessment and gender experts will review the proposed project for compliance with MCC's Environmental Guidelines, Gender Policy, and resettlement guidance, which include an expectation of compliance with host-country laws, regulations and standards, as well as requirements by which the host country is bound under international agreements. Particular attention must be paid to issues which generally arise, including, but not limited to, land ownership and right of way, incursion into sensitive areas (reserves, parks, wetlands, etc.), drainage and erosion control (especially in hilly or mountainous situations). Assessment will also inform design by including gender analysis of use, control of resources, design appropriateness, and how well gender is integrated into project design, participatory planning processes, and implementation.

- Identify country-, region- or sector-level assessments, strategies and commitments with respect to climate change and their relevance to compact activities.
- Identify climate change impacts (from the project) and risks (to the project) and corresponding mitigation and/or adaptation opportunities, as relevant.
- Provide by income, gender, and age taking into consideration motor, non-motor, and pedestrian road use (including pedestrian crossing access, roadside commerce for men and women, access to health and education services, etc.), potential resettlement and persons and/or livelihoods impacted by resettlement.
- Identification of potential social risks of road construction and operation, including HIV/AIDS, human trafficking, child and forced labor, impacts on local communities, and impacts on physical cultural resources.
- Determine whether the local community has been consulted using participatory approaches in accordance with the MCC Gender Policy with mechanisms in place to ensure design takes into account findings from consultation with various stakeholders, including men, women, children, and vulnerable populations, including the elderly and the disabled.

Sustainability Assessment

- Review a detailed description of current arrangements for ownership, management and maintenance of roads, including details of the legislative framework, administrative framework, funding arrangements and maintenance responsibilities.
- Review existing performance with respect to clarity and acceptance of arrangements and responsibilities, acceptance of road reserves, road maintenance. Identify causes of inadequate performance including legislative or administrative arrangements, resources, technical capability and capacity, and funding.
- Review road maintenance programs to ensure that such plans are suitable for the new road and wider road network including responsibilities, resources, funding. Identify shortfalls with current arrangements and provide details of a program to strengthen road management and maintenance arrangements.
- Review details of alternative road maintenance funding options, including details of income derived from road users and potential for increased cost recovery.
- Prepare a summary of actions needed to maintain the road network to an acceptable level,

including institutional strengthening, funding (responsibility and funding levels) and additional resources needed.

- Review arrangements for transferring the road to the appropriate governmental entity at the end of the compact term.

Risk Management Assessment

- Identify significant risks to the project with particular respect to construction cost increases, delays, sustainability of the road, local acceptance and take up of benefits, and other factors affecting economic performance and distribution of benefits
- Identify and assess significant risks relating to durability, and confirm that design criteria adopted shall mitigate these risks within acceptable tolerance levels.
- Prepare a risk management plan to minimize the negative impact of the risks.

Implementation Assessment

- Provide a summary of the technical and construction resources available in country, and experience with projects of similar size, nature and type.
- Details of implementation options available, including with respect to the appropriate implementing entity.
- Identify local factors that may affect the timely completion of the works, including transport to/from the location for the contractor's equipment, fuel and other materials, seasonal weather patterns such as avoiding the wet season.
- Prepare an implementation program including contract awards, any approvals and permits needed, construction times, cash flow, government commitments and other hold points as appropriate.
- Recommend an appropriate procurement procedure, sequencing, and packaging.
- Recommend suitable supervision and management arrangements.

Chapter 13: Sea Ports

MCC will use the feasibility study of the port project as the basis to examine the following and to make a determination on what supplemental studies, if any, are required to develop the project sufficiently so that appraisal could commence:

- Preliminary description of the rationale for MCC interventions, including nature and measure of benefits and beneficiaries (disaggregated by income, gender, age, and ethnicity).
- Confirmation supported by appropriate data, that the proposed project is likely to deliver the stated benefits to identified beneficiary groups, informed by meaningful public consultation which may include income- and gender-based focus groups and a stakeholder analysis including social and women's government ministries and NGOs.
- Information on market demand which justifies the project financially, economically and operationally. The information should take into account competition, total costs of operations, and forecast the future growth of demand.
- Identification of alternatives to accomplish the objective, such as expansion of an existing port or construction of a new port or other transport modes, where applicable, including environmental and social considerations related to each alternative.
- Identification of the facilities' throughput and operating statistics, including current vessel service and cargo handling characteristics in comparison with international norms and definition of performance targets for operations after completion of the project. Data should include current trends and forecasts of future throughput parameters; current and expected vessel service capabilities and efficiencies; cargo discharge/load and take away rates; efficiencies and capabilities of cargo processing systems such as container yards, warehouses, and container freight station (CFS) operations on the terminal and overall port performance capabilities, including total throughput and growth rates; average vessel waiting and service times; average cargo dwell times; and overall cargo processing costs.
- Data on terminal congestion indicators to identify the need for off-terminal service facilities.
- Data on port operations and overall cargo distribution costs to identify the potential economic impact of the project on the local and regional economy.
- Information on whether project components, engineering design, and associated technologies are considered appropriate for the port in relation to its international shipping network.
- A <u>preliminary</u> description of the institutional arrangements at the port including without limitation: (i) the entity responsible for overall oversight of port facilities and its scope of authority; (ii) other government institutions/entities operating in the port; (iii) any other government entity operating in the port; (iv) other private sector or other entities/organizations operating in the port, including role and capacity; (v) arrangements/institutions in place to manage and maintain port facilities, including, without limitation, road and rail networks inside and outside of the port; (vi) funding arrangements for port facility maintenance and oversight; (vii) maintenance history; and (viii) general capability of all involved government institutions/entities.
- Identification of the current and projected land uses to define and evaluate the existing utilization of land, including, if an existing port, the current port operators, both private concessionaries and government, as well as options for changing land uses to maximize operating efficiencies for existing and future systems, and land resources for long term development.
- Consideration of land acquisition and/or relocation requirements (potential for resettlement) as

necessary.

- Identification of areas which require obtaining more detailed, current or reliable information. If a new port (or expansion of an existing port) is proposed, obtaining approvals from all relevant parties for land may be a significant and time consuming issue that requires additional risk assessment. Identify the party responsible for acquiring or developing the information, the process to acquire that information, the party responsible for approval, and a timeline for information acquisition at commencement of the due diligence phase. This analysis may also require a preliminary assessment of a party's willingness to provide an approval and the ability of a government to renegotiate or modify existing land use arrangements in a port.
- Collection and integration of satellite imagery and topographical maps at the appropriate scale (typically 1:25,000 for urban planning) identifying key elements of existing and proposed infrastructure, rights-of-way, and service areas. In addition, it may be appropriate for the due diligence process to identify other geo-spatial data – including but not limited to census data, water resources, and geological data – and combine them into a single GIS database.
- Description of the local process by which the project will receive the necessary permits and approvals of design documents and construction work.
- A preliminary description of the applicable local and regional laws, regulations and codes, as well as international agreements/treaties, related to port operations.

Once MCC has made the determination to commence appraisal on a project, the infrastructure group will conduct the following assessments and identify any key constraints.

Technical Assessment: Engineering

- Review all aspects of preliminary technical designs and proposed standards and confirm appropriateness for criteria, demand requirements and environmental and social factors.
- Survey and assess channel and navigational characteristics (including draft, width, turning radiuses, shoaling areas, navigational aids, and anchorages) and environmental factors which may affect the safe navigation of the channel to define the maximum size, operating characteristics of water access, and assist requirements for vessels to safely access and operate within the port harbor.
- Survey and assess existing piers, wharfs, or other vessel mooring and discharge/load facilities to define their physical condition, operating characteristics and constraints, and to assess safety issues, accessibility to storage and cargo processing areas and any obstructions or impediments to efficient work flow.
- Confirm that project design is based on internationally accepted engineering standards for port civil works.
- Assess capital operating equipment including rail-mounted or mobile shore cranes, container handling and/or specialized cargo discharge/load systems, or other capital equipment to define their capacities and capabilities, service life expectancy, maintenance and repair needs, and long-term replacement requirements.
- Survey and assess warehouses, container yards, bulk storage facilities, and specialized operations areas to define their physical condition, functions, operational capacities, environmental and safety concerns, and impediments to work organization and traffic flow.
- Assess accessibility of the port to land transportation and to terminal storage and cargo processing areas to define system capacities, operational limitations, bottlenecks and

impediments to traffic flow, associated transport and distribution costs, and environmental, social, and safety concerns including impacts to surrounding communities, HIV/AIDS, human trafficking, child and forced labor, and gendered impacts on existing income-generating activities.

- Survey and assess security systems including perimeter fencing and surveillance systems, gate and access control systems, and emergency response systems and capabilities to determine if they meet International Maritime Organization (IMO) standards, International Ship and Port Security (ISPS) codes and International convention for Prevention of Pollution from Ships (MARPOL) requirements.
- Review topographic map of the project area.
- If projects are to be constructed within the marine environment, conduct a bathymetric survey of the project site to measure water depths, define the topographic features of the bathymetric landscape, identify potential impediments to construction, and identify archaeological remains or environmentally sensitive areas.
- Complete a geotechnical investigation of the subsurface strata of the project area to determine the characteristics of the sub-surface material and its potential impact on the engineering design.
- Identify major project risks and quantify, as much as possible, the impact of these risks on project cost, timeline and quality. Develop mitigation measures and estimate the cost of mitigation.
- Develop project cost estimates of +/-35%, including all associated costs, such as costs relating to environmental mitigation, resettlement compensation, social safeguard measures, construction supervision, project management and technical audits.
- Develop provisions to be included in project cost estimate, such as physical contingency, allowances for specific risks that were identified in Appraisal, price contingencies, and allowance for the effects of foreign exchange rate fluctuations, and determine meaningful rates of inflation – local and foreign – to apply to base costs.

Technical Assessment: Economic and Financial

The MCC economist responsible for the assessment of the project will work to ensure that proposed port project complies with MCC Guidelines for Economic and Beneficiary Analysis. The economic rate of return for each project should be sufficiently high to warrant investment and eligible countries should have reviewed relevant governance practices, including laws and regulations, and undertaken reforms, as possible, to enhance the anticipated economic benefits generated by the port project. Infrastructure input to this analysis may include the following:

- Identify benefits expected to flow from project, focusing on increases in incomes for workers, firms, and households disaggregated, to the extent possible, by income, gender, age, and ethnicity. Identify the beneficiaries, to the extent possible. Compare projected incomes and other benefits of the various demographics with and without the proposed project.
- Make an assessment of how benefits resulting from increased efficiencies (e.g., reduction in wait and queue time) are likely to accrue to the extremely poor, poor, near-poor, and not-poor and how the benefits would impact poverty reduction on the various demographic groups.
- Summarize the design standards, design life and cost estimates (capital and maintenance) and confirm these are consistent with the assumed benefits and duration of the benefit stream. Note that the duration of the benefit stream is typically assumed to be twenty years. Assumptions that the duration is longer or shorter than this should be clearly justified.

- Confirm that the costs and project life are consistent with the engineering design.
- Complete a financial analysis.
- Confirm that the technologies that are proposed in the project and the engineering design will allow fulfillment of operational performance, financial, and economic objectives.
- Assess regional port activities, specifically addressing demand and growth for port services.

Technical Assessment: Environment, Social and Gender

MCC environment and social assessment and gender experts will review proposed projects for their compliance with MCC Environmental Guidelines and Gender Policy and resettlement guidance (www.mcc.gov), which include an expectation of compliance with host-country laws, regulations and standards, as well as requirements by which the host country is bound under international agreements (including the identification of such international agreements and obligations). Particular attention must be paid to issues which generally arise including, but not limited to, the potentially toxic nature of dredged material and disposal of dredged sediment, seasonal wildlife issues, degradation of the marine ecology, and hazardous/toxic materials currently or potentially transiting through the port as cargo, including an assessment of safeguards in place to handle/contain such materials. Assessment will also inform design by including gender analysis of use, control of resources, design appropriateness, and how well gender is integrated into project design, participatory planning processes, and implementation.

- Identify country-, region- or sector-level assessments, strategies and commitments with respect to climate change and their relevance to compact activities.
- Identify climate change impacts (from the project) and risks (to the project) and corresponding mitigation and/or adaptation opportunities, as relevant.

Sustainability Assessment

- Review detailed description of current arrangements for ownership, management and maintenance of ports, including details of the legislative framework, administrative framework, funding arrangements and maintenance responsibilities. This will build on the preliminary description included in the feasibility study and should include and identify, without limitation: (i) local, regional and international laws, regulations and codes relating to port construction and operations (such as local codes and laws, as well as international agreements to which the country is a signatory); (ii) the entity responsible for overall oversight of port facilities and its scope of authority; (iii) other government institutions/entities operating in the port; (iv) any other government entity operating or acting in the port; (v) other private sector or other entities/organizations operating in port, including role and capacity; (vi) arrangements in place to manage and maintain port facilities, including road and rail networks inside and outside of the port; (vii) funding arrangements port facility maintenance and port oversight; (viii) maintenance history; and (ix) general capability of implicated government institutions/entities.
- Review existing performance with respect to clarity and level of acceptance of arrangements and responsibilities, and acceptance of reserves for maintenance. Identify causes of inadequate performance including legislative or administrative arrangements, resources, technical capability and capacity, and funding.
- Review maintenance programs to ensure that such plans are suitable for the new or improved port, including responsibilities, resources and funding. Identify shortfalls with current

arrangements and providing details of a program to strengthen port management and maintenance arrangements.

- Review details of alternative maintenance funding options, including details of income derived from users and potential for increased cost recovery.
- Prepare a summary of actions needed to maintain the port to an acceptable level, including institutional strengthening or modifications to institutional arrangements, funding (responsibility and funding levels) and additional resources needed. To the extent that institutional modifications, including modifications to existing land use arrangements or concessions within an existing port, are required, indicate parties from which approvals will be required and such party's role within the existing institutional and operational structure.

Risk Management Assessment

- Identify significant risks to the project, with particular respect to required third party approvals or consents (e.g., from private sector operators already operating within the port), construction cost increases, delays, sustainability of the port, trade union issues, and local acceptance and take up of benefits, and other factors affecting economic performance and distribution of benefits, including social and health risks such as exacerbation of existing gender inequalities, HIV/AIDS, human trafficking, child/forced labor, or resettlement.
- Identify and assess significant risks relating to durability and confirm that design criteria adopted shall mitigate these risks within acceptable tolerance levels.
- Prepare a risk management plan to minimize the negative impact of identified environmental, social, and sustainability risks.

Implementation Assessment

- Provide a summary of the technical and construction resources available in country, and experience with projects of similar size, nature and type.
- Identify local factors that may affect the timely completion of the works, including transport to/from the location for the contractor's equipment, fuel and other materials, seasonal weather patterns, and health issues that may impact the labor force during construction or operation such as HIV/AIDS, among others.
- Prepare an implementation program including contract awards, any approvals and permits needed, construction times, cash flow, government commitments and other hold points as appropriate.
- Recommend an appropriate procurement procedure, sequencing, and packaging.
- Recommend suitable supervision and management arrangements.

Chapter 14: Airports

MCC will use the feasibility study of the airport project as the basis to examine the following and make a determination on what supplemental studies, if any, are required to develop the project sufficiently so that appraisal could commence:

- Preliminary description of rationale, including nature and measure of benefits, and beneficiaries by income, gender and age.
- Demonstration supported by appropriate data and documentation, that the proposed project is likely to deliver the stated benefits.
- Identification of the need and principal driver(s) for a new airport or airport expansion and/or improvement, such as capacity restrictions, failure to meet ICAO and/or FAA safety/security standards, forecast growth of air traffic, changes in the aircraft mix, establishment of an economic/transportation hub at the airport, change in status from domestic to international airport, provision of necessary access to remote areas, etc.
- Identification of the range of alternatives – expansion/upgrading of existing facilities, construction of a new airport, site and size options, including any socio-economic and environmental considerations related to each alternative.
- Demonstration supported by appropriate data, that government, commercial or private financing is not available for the project (and the reasons for its unavailability) or would require the proposed project as a necessary precondition for complementary investments.
- Identification of areas which require obtaining more detailed, current or reliable information. If a new airport (or expansion/upgrading of an existing airport) is proposed, obtaining approvals from all relevant parties for land acquisition and/or imposition of zoning restrictions may be a significant and time consuming issue; identify potential resettlement and person and/or livelihoods, impacted by resettlement, as well as the parties responsible for providing approvals, and a timeline at commencement of the due diligence phase.
- Collection and integration of satellite imagery and topographical maps at the appropriate scale (typically 1:25,000 for urban planning) identifying key elements of existing and proposed infrastructure and utilities, rights-of-way, zoning restrictions and service areas. In addition, it may be appropriate for the due diligence process to identify other geo-spatial data – including but not limited to census data, water resources and geological data – and combine them into a single GIS database.
- Meaningful public consultations (including gender, age and income-based focus groups where relevant) among project affected persons and key stakeholders including women's civil society organizations.
- Identification of potential social risks of airport construction and operation, including HIV/AIDS, human trafficking, or child and forced labor, and impacts on local communities including resettlement or impacts on physical cultural resources.

Once MCC has made the determination to commence appraisal on a project, the infrastructure group will conduct the following assessments and identify key constraints.

Market Assessment

- Determine airport's potential and growth prospects through thorough market assessment and

traffic forecasts for major market segments (e.g., domestic, international and transit passengers, aircraft movements, cargo, mail, etc.). The analysis should be based on comprehensive compilation of a statistical database on aviation, tourism, trade and economic data from airline schedule data, immigration or T-100 data or equivalent, ICAO, ACI and IATA traffic data, regional tourism association annual reports and aviation forecasts from Boeing, Airbus, Bomabardier, Embraer and other aviation organizations.

- Compare the growth prospects and traffic forecasts against the country's demographic and economic trends, a minimum 10-year airline service history in the country and the country's relative competitive position to determine conformance.
- Check whether a route development plan has been developed, and assess whether the plan provides a competitive advantage relative to nearby airports. Determine the realistic potential (supported by numbers) for route diversification to address under-supplied or no-service markets.
- Review the country's international agreements regarding access to its air transportation markets (bilateral air service agreements, regional treaties, etc.) and the extent to which they are being applied. Review the country's official policies regarding the freedom of air carriers to offer both domestic and international services.

Logistics and Cargo Distribution

- Assess the potential of the airport to exploit cargo markets in order to develop its logistics and distribution activities in the region. Evaluate the likelihood of all-freighter carriers locating or expanding at the airport.
- Determine the prospects for logistics and distribution activities by examining the indigenous environment for consolidators, freight forwarders, consignees, shippers and cargo agents.
- Assess multi-modal transportation and distribution potential, especially with sea ports, if applicable.
- Project the potential for transshipment volume, clearly assessing market dynamics by sources of origin and destination.
- Determine capacity requirements for airfreight terminals, cargo agent buildings, freight aircraft parking bays, freight forwarders' facilities and free trade zone facilities.

Airport Commercial Property Development

- Assess the potential of the airport and surrounding land for use by aviation-related industries, such as engine overhaul centers, aircraft component manufacturing/servicing and various suppliers to airport users, as well as non-aviation industries that benefit from close proximity to the airport, such as hospitals/clinics for medical evacuation services, commercial/office facilities, etc.

Commercial Plan

- Assess the airport's commercial plan for generating aeronautical and non-aeronautical revenues, as well as aviation-related and commercial businesses.
- Evaluate additional job creation potential based on vetted business and commercial plan, including plans for expansion of opportunities for small businesses and/or microenterprises.

Financial Plan

- Prepare a financial analysis of the airport operation, including a projection of airport revenues and costs, based on the previously-mentioned forecasts of air traffic, data on recent financial statements of the airport operator and the potential for optimization.
- Aeronautical revenues: Determine the sustainable values for aeronautical charges for landing and parking, passenger service charges and security charges. Ensure that the fee structure can be optimized to recover the costs, and yet remain sufficiently competitive to promote traffic growth and support the marketing strategies of the airport. Benchmark these charges against other airports in the region to assess viability and impact on demand.
- Non-Aeronautical revenues: Non-aeronautical revenues of successful airports in developed countries can represent on the order of 60% of revenues. Assess existing retail contracts. If applicable, determine potential for increase in patronage and passenger-spend at new or modernized terminal facilities. Calculate the returns on airport space ($ per m^2). Construct realistic projections for other commercial opportunities within the passenger terminal (including food and beverage retailers, office rentals, car rentals, business lounges, taxi permits, fueling, car parking, counter rentals and banks) and on the airport lands.
- Assess commercial opportunities for small retailers, food vendors, and service providers within passenger terminal and around airport lands by income, age, gender and ethnicity to the best extent possible.
- Calculate FIRR for the airport with a distribution profile with demand as the key driver.

Technical Assessment: Engineering

- Review all aspects of preliminary technical designs and proposed standards and confirm appropriateness of design criteria, demand requirements and environmental and social impacts
- Compare the proposed design criteria to the standards (ICAO, FAA, IATA) to which the airport terminal is designed.
- Landside Facility Capacities: Identify the capacity of the existing landside facilities including, but not limited to aviation facilities such as passenger terminals, hangars, aircraft parking aprons, ATC, rescue and firefighting, ground handling, airport maintenance and fuel facilities; compatible non-aviation facilities such as commercial/industrial parks; and common facilities such as automobile parking, access roads and public utilities.
- Landside Facility Requirements: Evaluate existing landside facilities and compliance with applicable safety and design requirements. Based on the safety and capacity computations as well as the forecasts of aviation demand for the airport, identify the needed improvements for the landside facilities (see above).
- Airside Facility Capacities: Identify the capacity of the existing airside facilities including, but not limited to such aviation facilities as runways, taxiways, aprons and holding bays, including operational capacity (number of aircraft movements/parking positions, etc.) and strength (ACN/PCN comparison).
- Airside Facility Requirements: Evaluate existing airside facilities and compliance with applicable safety and design requirements. Based on the safety and capacity computations as well as the forecasts of aviation demand for the airport, identify the needed improvements for airside facilities including, but not limited to runways, taxiways, aprons, clearways, stopways, holding bays, obstacle free and height limitation zones and rescue and firefighting access and

including pavement section alternatives.

- Confirm acceptability of surface gradient standards and line of sight standards.
- Assess existing condition and capability, as well as future requirements for Navaid and ATC facilities, including but not limited to instrument landing systems, nondirectional beacons, approach lighting systems, lead-in lighting systems, traffic control towers, surveillance radars, surface detection equipment, and Automatic Weather Observation Stations, among others.
- For new airports, ensure all appropriate tests have been carried out, including a thorough wind and weather analysis, including an analysis of crosswinds, coverage and orientation of runways.
- Evaluate local conditions, including local material suppliers, sources and capabilities; and evaluate drainage alternatives.
- Review airfield electrical lighting layouts and determine system relocation possibilities, if applicable.
- Review and evaluate project layout, including verifying master plan dimensions and data.
- Ensure that soils investigations are complete, including field exploration with test pit explorations and laboratory testing (e.g., compacted CBR test, sieve analysis, Atterberg limit determinations).
- Ensure completeness and quality of the pre-feasibility report, including geotechnical investigation, topographical surveys and designs of applicable airport landside and airside facilities (e.g. passenger terminal and other landside installations, pavement section design and analysis, drainage design analysis, runway lighting, signing and basic system circuitry layout).
- Strategize bidding procedures to provide a basis for competitive bidding.
- Complete estimates of probable construction costs for the recommended alternatives and conduct an initial cost analysis and life-cycle cost analysis.
- Identify major project risks and quantify, as much as possible, the impact of these risks on project cost, timeline and quality. Develop mitigation measures and estimate the cost of mitigation.
- Develop project cost estimates of +/-35%, including all associated costs, such as costs relating to environmental mitigation, resettlement compensation, social safeguard measures, construction supervision, project management and technical audits.
- Develop provisions to be included in project cost estimate, such as physical contingency, allowances for specific risks that were identified in Appraisal, price contingencies, and allowance for the effects of foreign exchange rate fluctuations, and determine meaningful rates of inflation – local and foreign – to apply to base costs.

Technical Assessment: Economic and Financial

The MCC economist responsible for the assessment of the project will work to ensure that the proposed airport project complies with MCC Guidelines for Economic and Beneficiary Analysis. The economic rate of return for each project should be sufficiently high to warrant investment and eligible countries should have reviewed relevant governance practices, including laws and regulations, and undertaken reforms, as possible, to enhance the anticipated economic benefits generated by the airport project. Infrastructure input to this analysis may include the following:

- Identify benefits expected to flow from the project, focusing on increases in incomes for workers, firms, and households. Identify the beneficiaries by income, age, gender, and ethnicity to the best extent possible. Compare projected incomes with and without the proposed project.
- Make an assessment of how benefits (i.e., increased incomes) resulting from increased efficiencies

(e.g., reduction in wait and queue time) would impact poverty reduction. Determine impacts by income and gender.

- Summarize the design standards, design life and cost estimates (capital and maintenance) and confirm that these are consistent with the assumed benefits and duration of the benefit stream. Note that the duration of the benefit stream is typically assumed to be twenty years. Assumptions that the duration is longer or shorter than this should be clearly justified.
- Confirm that the costs and project life are consistent with the engineering design.
- Complete a financial analysis.
- Confirm that the technologies that are proposed in the project and the engineering design will allow fulfillment of operational performance, financial, and economic objectives.

Technical Assessment: Environment, Social and Gender

MCC environment and social assessment and gender experts will review proposed projects for their compliance with MCC Environmental Guidelines, Gender Policy, and Resettlement Guidance (www.mcc.gov), which include an expectation of compliance with host-country laws, regulations and standards, as well as requirements by which the host country is bound under international agreements. Particular attention must be paid to issues which generally arise including, but not limited to, siting related to adjacent land use (particularly concerning noise), the management and storage of fuel and aircraft fueling.

- Identify country-, region- or sector-level assessments, strategies and commitments with respect to climate change and their relevance to compact activities.
- Identify climate change impacts (from the project) and risks (to the project) and corresponding mitigation and/or adaptation opportunities, as relevant.

Legal and Regulatory Assessment

In consultation with MCC legal staff, the infrastructure group will assess projects to ensure that proposed projects do not violate any existing laws of the country or that MCC's assistance of such projects would violate any law or U.S. policy applicable to MCC. The infrastructure group will also review relevant governance practices in the sector, including laws and regulations, and any reforms the country has or proposes to undertake. Finally, the infrastructure group will, in consultation with MCC legal staff, review and comment on any contracts related to the implementation of the proposed infrastructure projects. This assessment may include the following:

- Identify government policies and regulations specifically related to airport construction, operation and maintenance. Identify any international agreements specifically related to airport construction, operation and maintenance. Identify any issues arising from such agreements, policies and regulations.
- Identify any governmental agencies or other entities whose cooperation and assistance are necessary to the success of the airport.
- Identify the proposed chain of ownership of the airport, and whether any changes in ownership will be needed upon the end of the proposed compact.
- Identify any special arrangements that need to be made with any contractors performing work on the airport.
- Identify any military presence that would benefit from the airport.

- Confirm that the technologies that are proposed in the project do not require any exemptions from local import regulations.

Sustainability Assessment

- Review detailed description of current arrangements for ownership, management and maintenance of airport, including details of the legislative framework, administrative framework, funding arrangements and maintenance responsibilities.
- Review compliance with applicable security standards (e.g., FAA) that are necessary to sustain and grow demand.
- Review existing performance with respect to clarity and acceptance of contractual arrangements and responsibilities, and acceptance of financial reserves for maintenance and future capital investment requirements. Identify causes of inadequate performance including legislative or administrative arrangements, resources, technical capability and capacity and funding sources and airport charges structure.
- Review of maintenance programs to ensure that such plans are suitable for the new or improved airport, including responsibilities, resources, funding, taking into consideration gender roles and access. Identify shortfalls with current arrangements and provide recommendations for a program to strengthen airport management and maintenance arrangements.
- Review of details of alternative maintenance and capex funding options. Include details of income derived from users, disaggregated by gender and potential for increased cost recovery, if applicable.
- Prepare a summary of actions needed to maintain the airport to an acceptable level, including institutional strengthening, sources and structure of funding (responsibilities and funding levels) and additional resources needed.

Risk Management Assessment

- Identify significant risks to the project, in particular construction cost increases, administrative and other delays related to availability of materials and/or expertise, reliability of traffic forecasts, financial and environmental sustainability of the airport, trade union issues, local acceptance and take-up of benefits, and other factors affecting economic performance and distribution of benefits by income, gender, age and ethnicity (this could include risks such as HIV/AIDS, health and safety, resettlement, human trafficking, and child or forced labor.
- Identify and assess significant risks relating to durability and confirm that design criteria adopted shall mitigate these risks within acceptable tolerance levels.
- Prepare a risk management plan to minimize the negative impact of the risks.

Implementation Assessment

- Provide a summary of the technical and construction resources available in country and previous experience with projects of similar size, nature and type.
- Identify local factors that may affect the timely completion of the works, including transport to/from the location for the contractor's equipment, fuel and other materials, seasonal weather patterns such as avoiding the wet season, potential resettlement or social risk factors such as HIV/AIDs.
- Prepare an implementation program including contract awards, any approvals and permits needed, construction times, cash flow, government commitments and other hold points as appropriate.

- Recommend an appropriate procurement procedure, sequencing, and packaging.
- Recommend suitable supervision and management arrangements.

Chapter 15: Railroads

MCC will use the feasibility study of the railroad project as the basis to examine the following and make a determination on what supplemental studies, if any, are required to develop the project sufficiently so that appraisal could commence:

- Preliminary description of rationale, including nature and measure of benefits, and beneficiaries disaggregated by gender, age, income, and ethnicity.
- Demonstration supported by appropriate data that the proposed project is likely to deliver the stated benefits to various beneficiary demographics.
- Identification of the need and principal driver(s) for a new railroad or for expansion/rehabilitation of an existing railroad.
- Demonstration supported by appropriate data that commercial or private financing is not available for the project and the reasons for its unavailability.
- Demonstration supported by appropriate data that privatization – including concession contracts with EPC arrangements – is not possible, and the reasons why.
- Identification of the range of alternatives with respect to adding tracks, extending the railroad, building a new one, or new spurs and alternative transport modes, including any environmental and social considerations (including potential resettlement) related to each alternative.
- Identification of areas which require more detailed, current or reliable information. If a new railroad is proposed, obtaining approvals from all relevant parties for land may be a significant and time consuming issue; identify the party responsible, process, who has to approve and a timeline at commencement of the due diligence phase.
- Collection and integration of satellite imagery and topographical maps at the appropriate scale (typically 1:25,000 for urban planning) identifying key elements of existing and proposed infrastructure, rights-of-way, and service areas. In addition, it may be appropriate for the due diligence process to identify other geo-spatial data – including but not limited to census data, water resources, and geological data – and combine them into a single GIS database.
- Meaningful public consultations (including gender, age, and income-based focus groups in communities potentially impacted by construction and operation and with beneficiaries involved in marketing activities/ trade, including with key NGOs and women's civil society organizations.

Once MCC has made the determination to commence appraisal on a project, the infrastructure group will conduct the following assessments and identify key constraints.

Market Assessment

- Review and validate statistics on passenger ridership and freight traffic demands on which sizing of the railway infrastructure is based to ensure economic viability of the investment. Particular attention should be given to traffic demand trends (i.e., growth or contraction) over the past ten, five, and three year period.
- Assess the positive and negative reasons for changes in traffic trends, such as competition, economic changes, labor unrest, strikes, and other issues not categorized above.
- Assess the recent patterns of change in terms of its sustainability, management capacity and institutional capacity conditions.
- Review projections for increased passenger and freight business and the underlying basis for the

projections, including market surveys, contract offers, speculation, or a 'build it and they will come' approach.

- Assess the current competitive situation with respect to price sensitivity, service sensitivity, competitor's resource, and lack of highway investment.
- Describe the threat of future competitors with respect to price, service, inter/intra modal, technology and other corridor competition.
- Investigate if the traffic projection capacity is constrained due to no rail capacity, due to lack of trains per day, track capacity, motive power, rail wagons, lack of coaches, or other reasons.
- Assess the threat of regulated prices or cross subsidization of other services such as low priced coal or fuel or passenger services that could lead to some freight customer loss.
- Ascertain if the demand projections are integrated into a transportation master plan or an operating plan for the expanded traffic on railway.

Projected Operations

- Describe the alternative operating plan scenarios in terms of management/organizational structure, business model, resource allocation, budget, organizational development, freight marketing and sales, work force (disaggregated by gender, age, income, and ethnicity and considering formal and informal labor force).
- Review the changes and pattern of train operating statistics before and after any construction project, including but not limited to train-miles, locomotive requirements, average km per day per locomotive, etc.
- Analyze how the railroad can add capacity by adapting new trainload and weight standards such as train length, train tonnage and axle loads.
- Assess how the railroad will reduce the capital requirement for acquiring new rolling stock (wagons and locomotives) to handle the predicted traffic growth and analyze the implications of these operational and traffic changes through a projected financial plan.
- Assess how railroad will impact communities and livelihoods (of project impacted persons by gender, age, income, and ethnicity), particularly around areas with increased market activities (e.g., human trafficking, child labor, HIV/AIDS).

Technical Assessment: Engineering

- Evaluate the condition of all relevant existing rail assets, where appropriate, including (but not limited to) track, stations, maintenance facilities, bridges and drainage structures, switching and dispatching systems, rolling stock (locomotives and cars), and other assets.
- Evaluate technical upgrade options of existing assets to meet the projected increased traffic demand.
- Review all aspects of preliminary technical designs and proposed standards for upgrading existing assets and for new assets, and confirm appropriateness for criteria, demand requirements and environmental and social factors, including (but not limited to) track, stations, maintenance facilities, bridges and drainage structures, switching and dispatching systems, rolling stock (locomotives and cars), and other assets, informed by public participation from various beneficiary groups to identify technical design feature requirements for different demographics (gender, age, income, culture, ethnicity, etc).
- Compare the proposed design criteria to the standards to which the railroad is designed.

- Confirm that design specifications for construction investment match the market size of the proposed business plan.
- Confirm that the design uses resources in an amount that is consistent with good management and the intended financial performance of the railway.
- Confirm that the design is based on sound engineering standards that are a good fit with the intended traffic loads and traffic services and technically sound from a user's perspective use by various beneficiaries.
- Confirm that the project has analyzed, assessed and considered all important engineering, train operation, and market plans used to advertise for the investment.
- Confirm that preliminary designs for the added/new track and train capacity are detailed and robust enough to provide accurate cost information.
- Confirm that the demand projections for traffic are accurate.
- Confirm that the proper legal basis (and possible regulatory procedures) are in place to support the pricing of the service in order to protect the revenue projections and the resulting pro forma financial calculations.
- Confirm that the resulting investment package is of sufficient detail and documentation to attract the total required capital to complete the entire scope of necessary capacity addition objectives.
- Complete estimates of the probable construction costs for the recommended alternatives.
- Ensure that communications and dispatching links have been noted and their impact on line capacity increase objectives have been established and simulated.
- Ensure that qualified engineers complete preliminary siding and main line track designs and that an MCC engineering consultant checks these designs. Confirm that these designs provide sufficient pre-bid cost information with an accuracy of +/-20%.
- Ensure quality materials such as: rails, ties, ballast, structural steel, other track materials (OTM) and other materials are available locally or can be sourced internationally without being subjected to import restrictions or delays.
- Ensure plant and machinery required for construction is available locally or can be mobilized without being subjected to import restrictions or delays.
- Ensure drainage requirements have been assessed for different categories of rail track and match the intended railway business plan.
- Identify major project risks and quantify, as much as possible, the impact of these risks on project cost, timeline and quality. Develop mitigation measures and estimate the cost of mitigation
- Develop project cost estimates for the purposes of investment decision, including all associated costs, such as costs relating to environmental mitigation, resettlement compensation, social safeguard measures, construction supervision, project management and technical audits.
- Develop provisions to be included in project cost estimate, such as physical contingency, allowances for specific risks that were identified in Appraisal, price contingencies, and allowance for the effects of foreign exchange rate fluctuations, and determine meaningful rates of inflation – local and foreign – to apply to base costs.

Technical Assessment: Economic and Financial

The MCC economist responsible for the assessment of the project will work to ensure that the proposed railroad project complies with MCC Guidelines for Economic and Beneficiary Analysis. The economic rate of return for each project should be sufficiently high to warrant investment and eligible countries

should have reviewed relevant governance practices, including laws and regulations, and undertaken reforms, as possible, to enhance the anticipated economic benefits generated by the infrastructure projects. Infrastructure input to this analysis may include the following:

- Identify benefits expected to flow from the project, focusing on increases in incomes for workers, firms, and households. Identify the beneficiaries disaggregated by gender, age, income, and ethnicity, to the extent possible. Compare projected incomes and other benefits with and without the proposed project.
- Make an assessment of how benefits resulting from increased efficiencies (e.g., increased cargo and passenger capacity) are likely to accrue to the extremely poor, poor, near-poor, and not-poor.
- Summarize the design standards, design life and capital and maintenance cost estimates and confirm these are consistent with the assumed benefits and duration of the benefit streams. Note that the duration of the benefit stream is typically assumed to be twenty years. Assumptions that the duration is longer or shorter than this should be clearly justified.
- Confirm costs and project life is consistent with the engineering design.
- Confirm that the technologies that are proposed in the project and the engineering design will allow fulfillment of operational performance, as well as financial and economic objectives.

Technical Assessment: Environment, Social and Gender

MCC environment and social assessment experts will review projects for their compliance with MCC Environmental Guidelines and Gender Policy and resettlement guidance (www.mcc.gov), which include an expectation of compliance with host-country laws, regulations and standards, as well as requirements by which the host country is bound under international agreements. Particular attention must be paid to issues that generally arise including, but not limited to, the environmental (potentially toxic) impacts of train machine and washing shops. Assessment will also inform design by including gender analysis of use, control of resources, design appropriateness, and how well gender is integrated into project design, participatory planning processes, and implementation.

- Identify country-, region- or sector-level assessments, strategies and commitments with respect to climate change and their relevance to compact activities.
- Identify climate change impacts (from the project) and risks (to the project) and corresponding mitigation and/or adaptation opportunities, as relevant.

Legal and Regulatory Assessment

In consultation with MCC legal staff, the infrastructure group will assess projects to ensure that proposed projects do not violate any existing laws of the country or that MCC's assistance for such projects would not violate any law or U.S. policy applicable to MCC. Infrastructure will also review relevant governance practices in the sector, including laws and regulations, and any reforms the country has or proposes to undertake. Finally, Infrastructure will, in consultation with MCC legal staff, review and revise any contracts related to the implementation of the proposed infrastructure projects. This assessment may include the following:

- Identify government policies, laws and regulations specifically related to railroad construction, operation and maintenance. Identify any international agreements specifically related to railroad construction, operation and maintenance. Identify any issues arising from such agreements, policies

and regulations.

- Identify any governmental agencies or other entities that regulate the railway sector and whose involvement is necessary for the granting of licenses or permits and the setting of fees and tariffs for the proposed railroad project.
- Identify the ownership, lease and concession arrangements for the railway sector in general and for the proposed projects in particular.
- Identify any special arrangements that need to be made with any contractors performing work on the railroad.
- Identify any military presence that would benefit from the railroad, if any.
- Confirm that the technologies that are proposed in the project do not require any exemptions from local import regulations.
- Identify any laws or regulations governing private sector participation in the railway sector, through public private partnerships, concessions or other arrangements.
- Identify any competition laws or regulations applicable to the sector, including with respect to access by foreign carriers to the railway lines and the extent to which state-owned enterprises may compete with private enterprises.
- Identify any laws applicable to the financing, leasing (financial and operating), and acquiring of security interests in rolling stock and other railroad assets.
- Identify any laws and regulations relating to the ownership of land on which the railroad project is situated and rights of way and easements related to such land.
- Identify any laws and regulations governing foreign investment in the railway sector and any privatization laws.
- To the extent the project will involve international trade in cargo, identify and analyze any import and export laws, customs and other duties that may apply to the project.
- Identify and analyze any laws on public procurement to the extent that the project depends on the procurement of goods, works or services by state-owned entities.
- Identify any safety and inspection laws and regulations applicable to the proposed project.

Sustainability Assessment

- Review detailed description of the current arrangements for ownership, management and maintenance of the railroad, including details of the legislative framework, administrative framework, funding arrangements and maintenance responsibilities.
- Review existing performance with respect to clarity and acceptance of arrangements and responsibilities, and acceptance of reserves for maintenance. Identify causes of inadequate performance including legislative or administrative arrangements, resources, technical capability and capacity, and funding.
- Review maintenance programs to ensure that such plans are suitable for the new or improved railroad, including responsibilities, resources, funding. Identify shortfalls with current arrangements and provide details of a program to strengthen railroad management and maintenance arrangements.
- Review details of alternative maintenance funding options, including details of income derived from users and potential for increased cost recovery.
- Prepare a summary of actions needed to maintain the railroad to an acceptable level, including institutional strengthening, funding (responsibility and funding levels) and additional resources

needed.

Risk Management Assessment

- Identify significant risks to the project, in particular construction cost increases, delays, sustainability of the railway, trade union issues, local acceptance, existing gender inequalities in market activities supported by the railroad or in the labor market, health risks (including HIV/AIDS), and take up of benefits across different demographics, take up of benefits across different demographics, and other factors affecting economic performance and distribution of benefits. Identify and assessing significant risks relating to durability, and confirm that design criteria adopted shall mitigate these risks within acceptable tolerance levels.
- Prepare a risk management plan to minimize the negative impact of the risks.

Implementation Assessment

- Provide a summary of the technical and construction resources available in country and the previous experience with projects of similar size, nature and type.
- Identify local factors that may affect the timely completion of the works, including transport to/from the location for the contractor's equipment, fuel and other materials, seasonal weather patterns such as avoiding the wet season, and health and safety risks including HIV/AIDS.
- Prepare an implementation program including contract awards, any approvals and permits needed, construction times, cash flow, government commitments and other hold points as appropriate.
- Recommend an appropriate procurement procedure and packaging.
- Recommend suitable supervision and management arrangements.

Chapter 16: Water and Sanitation Projects

MCC will use the feasibility study of the proposed water and sanitation project as the basis to examine the following and make a determination on what supplemental studies, if any, are required to develop the project sufficiently so that appraisal could commence:

- Preliminary description of rationale, including nature and measure of benefits, and beneficiaries disaggregated at the intra-household level by gender, age, income, and ethnicity.
- Demonstration supported by appropriate data, that the proposed project is likely to deliver the stated benefits to the various beneficiaries within households.
- Assessment of demand to assure that it can justify the project financially, economically and operationally. The assessment should take into account total installation costs of main lines (including environmental and social mitigation costs), hook-up costs for lateral connections into households (water and sewer), operational and maintenance (O&M) costs, and forecast the future demand growth.
- Assessment of whether the source of water supply targeted by the proposed program contributes to a transboundary water body and ensure that appropriate operational policies and procedures are in place. If such procedures are lacking, the World Bank OP 7.50 on international waterways shall apply.
- Assessment of existing master plans for water supply and wastewater treatment to evaluate capacity available in the water supply system, and respectively, in the wastewater treatment collection and treatment systems, and water reuse schemes, with respect to the projected demand. In cases where there is no water supply master plan available, identify (in preliminary pre-feasibility evaluation) water supply sources to meet the projected demand.
- Demonstration that sufficient reliable hydrology information has been provided in feasibility reports on issues such as riverstage and discharge or borehole yield and drawdown, total solids in suspension, total dissolved solids, and specific substances in suspension and solution, as appropriate.
- Preliminary impact assessment of the proposed water supply and sanitation systems on the appropriate watershed/s.
- Identification of options to meet water supply demand and their respective capital and O&M costs to maximize operating efficiencies for existing and future systems.
- Demonstration that sufficient reliable information has been provided about alternative sanitary sewer systems (other than fully piped collection system and conventional WWTPs) that have been operating effectively in the country, and proven new technologies, from the simplest household latrine to a community wastewater treatment plant, and verify their installation and O&M costs.
- For planned water systems with groundwater supply sources, confirmation that there is no fatal flow in aquifer characteristics, or related environmental issues such as contamination.
- Demonstration that there are no constraining hydrological issues related to capacity of water sources by examining actual data (preferably climatologic data over 25 years), identification of competing water uses (households and industry), and confirmation that there are no constraining contamination impacts on water availability.
- Identification of related policy, legal, regulatory, and institutional frameworks, and evaluation of their potential key impacts and implications on project implementation, including laws on gender equality and resource management/ ownership.

- Preliminary evaluation of capacity for the utility or other agency responsible for the oversight of the water supply and sanitation systems at the local, sub-national, and/or national levels.
- A preliminary evaluation of the financial sustainability and/or rate impact of the proposed investment. A preliminary review of the tariff structure and the potential barriers to serving the poor/promoting economic growth – including but not limited to lifeline tariffs, connection charges, and fixed charges and their impacts on control of, access to, and management of, water and sanitation resources and decisions within households (by gender).
- Identification of data gaps and areas that require more detailed, current or confident information.
- Collection and integration of satellite imagery and topographical maps at the appropriate scale (typically 1:25,000 for urban planning) identifying key elements of existing and proposed infrastructure, rights-of-way, and service areas. In addition, it may be appropriate for the due diligence process to identify other geo-spatial data – including but not limited to census data, water resources, and geological data – and combine them into a single GIS database.
- Benchmark Data for the utility including those identified by the AWWA and/or IBNET
- Meaningful public consultations (including gender, age, and income-based focus groups in rural and/or urban areas where relevant) among project affected persons and key stakeholders including women's civil society organizations, which includes identification of men and women's roles and responsibilities, as well as distribution of benefits by gender.
- A preliminary description of the applicable local and regional laws, regulations and codes, as well as international agreements/treaties, related to the project.

Once MCC has made the determination to commence appraisal on a project, the infrastructure group will conduct the following assessments and identify key constraints.

Technical Assessment: Engineering

Engineering analysis of the project should follow industry best practices with consideration given to specific country situations. This analysis should establish the technical soundness of the project with regard to civil, mechanical and electrical engineering work.

- Review all aspects of preliminary studies, technical designs and proposed standards and confirm appropriateness for criteria, demand requirements, watershed impacts, and environmental and social factors, including culture and gender appropriateness of design and use, including the location and physical design and the difference in use between men and women.
- Determine that satisfactory survey techniques (i.e., auger holes, trial pits) have been used to test leaching and permeability characteristics where septic systems are planned, and that survey results evaluated.
- For new water supply systems, conduct hydrological and hydrogeological surveys to assess water resource availability using long-term records of aquifer water level, reservoir and lakes level fluctuations, river flow rates, and related water quality. Evaluate affected aquifer radius, or 3 km in absence of data. Evaluate yield, existing and other planned pumping, and pump drawdown data where available within the affected aquifer radius. In the absence of historical data, provide estimates and create simulation models. An MCC engineering consultant must validate the yield studies.

- Evaluate water quality standards for domestic water supply. If existing standards are not suitable, USEPA, WHO, or other standards for clean water will apply, as acceptable by MCC. Evaluate impacts of contamination on water quality.
- Assess wastewater effluent discharge standards and the implications for receiving waters as well as water treatment costs.
- For new water distribution systems connected to existing water supply network, determine if there is adequate capacity in the existing network to support the new distribution systems and what peripheral facilities such as pumping stations, reservoirs, tanks, etc. will be required. Evaluate impact of network expansion on capacity demand and water pressure.
- Conduct adequate topographical and/or aerial surveys along the proposed alignment of major pipelines (or evaluate existing data) indicating locations of buildings, roads, drainage structures, and other infrastructure.
- Conduct geotechnical and sub-surface utility location site exploration along the proposed alignments of major pipelines (or evaluate existing data) to identify subsurface conditions which affect the design and construction of proposed pipelines. Confirm geotechnical properties of underlying soils.
- Prepare preliminary, general specifications for any pumping stations for water and lift stations for sewer (including any power extensions) to provide sufficient pre-bid cost information with an accuracy of +/-20%, to be confirmed by MCC's engineering consultant.
- Prepare preliminary, general specifications for any water tanks or reservoirs that may be required, to provide sufficient pre-bid cost information with an accuracy of +/-20% to be confirmed by MCC's engineering consultant.
- Complete preliminary engineering designs including such items as major pipe lengths and types, valves, metering system, etc. MCC's engineering consultant should confirm that these designs provide sufficient pre-bid cost estimation to an accuracy of +/-20%.
- Evaluate design standards and propose alternative standards if existing ones are not acceptable to MCC.
- Confirm availability of local materials and required construction machinery and installation expertise.
- Evaluate the energy requirements and potential costs and their impacts on willingness to pay by various beneficiaries for the new systems and the availability of generation capacity and distribution networks to serve these systems.
- Identify other factors that can affect cost or scheduling including: site preparation, road closure and diversions for construction, utility provision (including possible encroachment and relocation), implementation of any Resettlement Action Plan (RAP), construction staging camps, environmental clean-up, and equipment mobilization and de-mobilization.
- If the water supply system includes a dam that is classified as "large" by the International Commission of Large Dams (ICOLD), ensure that all appropriate environmental evaluations and engineering design and safety criteria are met.
- Identify major project risks and quantify, as much as possible, the impact of these risks on project cost, timeline and quality. Develop mitigation measures and estimate the cost of mitigation.
- Develop project cost estimates for the purposes of investment decision, including all associated costs, such as costs relating to environmental mitigation, resettlement compensation, social safeguard measures, construction supervision, project management and technical audits.

- Develop provisions to be included in project cost estimate, such as physical contingency, allowances for specific risks that were identified in appraisal, price contingencies, and allowance for the effects of foreign exchange rate fluctuations, and determine meaningful rates of inflation – local and foreign – to apply to base costs.

Technical Assessment: Economic and Financial

The MCC economist responsible for the assessment of the project will work to ensure that proposed water and sanitation project complies with MCC Guidelines for Economic and Beneficiary Analysis. The economic rate of return for each project should be sufficiently high to warrant investment and eligible countries should have reviewed relevant governance practices, including laws and regulations, and undertaken reforms, as possible, to enhance the anticipated economic benefits generated by the infrastructure projects. Infrastructure input to this analysis may include the following:

- Identify benefits expected to flow from project, focusing on increases in incomes for workers, firms, and beneficiaries within households disaggregated by gender, age, income, and ethnicity. Identify the beneficiaries and describe poverty level and gender to the extent possible. Compare projected incomes and other benefits with and without the proposed project for formal and informal businesses by gender, age, income, and ethnicity, as benefits may accrue informally within households and have impacts on livelihoods.
- Assess who pays, how, and where (by gender, age, ethnicity, income), financial flow of benefits and distribution of benefits within households, and what financing is appropriate for water vs. sanitation.
- Assess the capacity of the affected communities to use the available water and utilize the perceived benefits from improved access to water and sanitary sewer facilities, including appropriateness of the technical design taking into consideration various user groups by gender, age, income, and ethnicity, as well as cultural appropriateness.
- Summarize the design standards, design life and cost estimates (capital and maintenance) and confirm these are consistent with the assumed benefits and duration of the benefit stream. Note that the duration of the benefit stream is typically assumed to be twenty years. Assumptions that the duration is longer or shorter than this should be clearly justified.
- Confirm that the costs and project life are consistent with the engineering design.
- Complete a financial analysis for income generating subprojects.
- Confirm that the technologies that are proposed in the project and the engineering design will allow fulfillment of operational performance, as well as financial and economic objectives. Economic objectives have been confirmed as viable and useable through participatory planning approaches that take into consideration various beneficiary groups by gender, age, ethnicity, and income.

Technical Assessment: Environment, Social and Gender

MCC environment and social assessment experts will review the proposed projects for their compliance with MCC Environmental Guidelines, Gender Policy, and Resettlement Guidance (www.mcc.gov), which include an expectation of compliance with host-country laws, regulations and standards, as well as requirements by which the host country is bound under international agreements (including the identification of such international agreements and obligations). Particular attention must be paid to issues which generally arise including, but not limited to, land ownership and right of way, incursion

into sensitive areas (reserves, parks, wetlands, etc.), watershed and aquifer impacts, drainage and erosion control (especially in hilly or mountainous situations) and sludge management. Assessment will also inform design by including gender analysis of use, control of resources, design appropriateness, and how well gender is integrated into project design, participatory planning processes, and implementation.

- Identify country-, region- or sector-level assessments, strategies and commitments with respect to climate change and their relevance to compact activities.
- Identify climate change impacts (from the project) and risks (to the project) and corresponding mitigation and/or adaptation opportunities, as relevant.

Technical Assessment: Legal

The MCC legal staff will work to ensure that proposed water and sanitation projects neither encounter any legal obstacles nor violate any existing laws. The MCC legal staff will also assist in reviewing relevant governance practices, including laws and regulations, and any reforms the country has or proposes to undertake. Finally, MCC legal staff will, if necessary, review and comment on any contracts related to the proposed infrastructure projects. Infrastructure input to this analysis may include the following:

- Identify government policies and regulations specifically related to the project's construction, operation and maintenance. Identify any international agreements specifically related to such construction, operation and maintenance. Identify any issues arising from such agreements, policies and regulations.
- Identify any governmental agencies or other entities whose cooperation and assistance are necessary to the success of the project.
- Identify the proposed chain of ownership of the project, and whether any changes in ownership will be needed upon the end of the proposed compact.
- Identify any unusual arrangements that need to be made with any contractors performing work on the project.
- Confirm that the technologies that are proposed in the project do not require any exemptions from local import regulations.

Sustainability Assessment

- Assess the financial strength and independence of the utility including ability to withstand financial uncertainties and to access commercial and/or bond financing. This assessment also includes a review of the tariff structure and its ability to provide predictable revenue streams; and, the determination of basic utility performance indicators.
- Assess the technical capacity of utility staff by gender, the ability of the utility to hire and retain staff by gender, training programs and gender competency, and the ability to evaluate and procure outside consulting services.
- Evaluate the rate making process.
- Evaluate operational and control procedures of existing systems, including but limited to pressure control, leak identification, repair and maintenance programs; and, metering policy and meter testing/repair/replacement capacity.
- Evaluate customer care programs/community outreach/communication strategies, based on information from participatory planning tools that may include public consultation, focus groups,

or surveys (that are gender and culturally appropriate).

- Assess existing water conservation program, including any demand-side management arrangements in place.
- Review current arrangements for ownership, management, maintenance, tariffs structure, and user subsidies of water and wastewater systems by gender, age, income, and ethnicity, including a stakeholder analysis and identification of community engagement. Include details of legal, regulatory and administrative frameworks, funding and maintenance responsibilities.
- Review existing performance with respect to clarity and acceptance of arrangements and responsibilities, and financial and maintenance management, including assessment of existing gender inequalities and gender roles in management. Identify causes of inadequate performance including legal, regulatory or administrative arrangements, resources, technical capability, institutional capacity, and funding availability.
- Review maintenance programs, including responsibilities, resources, and sustainable funding mechanism. Identify shortfalls with current arrangements and provide details of a program to strengthen management and maintenance arrangements.
- Review alternative maintenance funding options, including details of income derived from water and user users by gender, changes in subsidies, and potential rate increases to facilitate sustainable cost recovery.
- Summarize actions needed to maintain water resources management at acceptable level, including gender competent institutional strengthening, funding (responsibility and funding levels), a social and gender integration plan, and additional resources needed.
- Water resource availability in the face of global climate change (increasing variability in precipitation, decreases in average precipitation, changes in snow pack).

Risk Management Assessment

- Identify significant risks to the project, with particular respect to required third party approvals or consents (e.g., from private sector operators already operating within the project), construction cost increases, delays, long-term sustainability of the scheme, local acceptance and take-up of benefits, and other factors affecting economic performance and distribution of benefits, including gender inequalities in control, management, or access to water resources, HIV/AIDS, or impacts of potential resettlement.
- Identify and assess significant risks relating to durability, and confirm that design criteria adopted shall mitigate these risks within acceptable tolerance levels.
- Prepare a risk management plan to minimize the negative impact of the risks.
- Description of existing methods and procedures to manage quality, e.g., existing documentation on quality assurance plans.

Implementation Assessment

- Provide a summary of the technical and construction resources available in country, and experience with projects of similar size, nature and type.
- Market assessment of competent consulting and contractor firms active in area (last 5 years).
- Provide details of implementation options available.
- Identify local factors that may affect the timely completion of the works, including permitting processes, transport to/from the location for the contractor's equipment, fuel and other materials, seasonal weather patterns such as avoiding the wet or freezing seasons, or other health and safety

factors including HIV/AIDS, as appropriate.

- Prepare an implementation program including contract awards, any approvals and permits needed, construction times, cash flow, government commitments and other hold points as appropriate.
- Recommend an appropriate procurement procedure, sequencing, and packaging.
- Recommend suitable supervision and management arrangements.

Chapter 17: Dams and Hydrology

MCC will use the feasibility study of the proposed project as the basis to examine the following and make a determination on what supplemental studies, if any, are required to develop the project sufficiently so that Appraisal could commence:

- Preliminary description of rationale, including nature and measure of benefits, and beneficiaries (disaggregated by income, gender, and ethnicity).
- Confirmation supported by appropriate data and meaningful public consultation with potential beneficiaries, which may include income- and gender-based focus groups, that the proposed project is likely to deliver the stated benefits.
- Identification of the role of the dam in the strategic plan for water resources development and management at the national or regional levels and the role of the dam in the river basin strategic plan.
- Demonstration supported by appropriate data and information that the dam project is the result of a preliminary alternatives assessment involving key stakeholders representative of potentially impacted parties (by income, gender, age, ethnicity, etc.) including social and women's government ministries and NGOs and potential beneficiaries, riparian communities and meaningful and participatory public consultations in the river basin.
- In the case of a dam developed on an international waterway, provide no objection statement of the countries sharing the waterway or a proof of notifications and consultations under process in conformity with the World Bank OP7.50 procedure.
- In the case of a dam affecting indigenous people, confirm with appropriate data that they have been meaningfully consulted utilizing gender-competent participatory processes and that their views and interests have been considered in the dam planning and preliminary design, in conformity with World Bank OP 4.10 procedure.
- Preliminary assessment of the water resources in the river basin, their quantity, quality, usages, and the role of the dam in achieving holistic and sustainable development for the overall river basin. Holistic, as used here, means that all water and development issues in the river basin have been considered in an integrated way.
- Demonstration that sufficient and reliable meteorological, hydrological and hydraulic data and studies have been provided in preliminary or feasibility reports on issues such as river characteristics, river flows, yields and regime, rare floods and their hydrographs, sediments transports, ground water pattern and its interaction with surface water, total solids in suspension, total dissolved solids, and specific substances in suspension and solution.
- A preliminary evaluation of the dam reservoir long term firm yield, based on sound hydrological models, to ensure that the reservoir will sustain its purpose(s) for the long term with acceptable reliability.
- Definition, assessment, and evaluation of current and projected land uses and occupation in the proposed dam site and reservoir area. Identification of possible physical cultural assets, specific natural habitats within the reservoir area and land resources management in the area for long term development.
- Determination that preliminary geological and geotechnical surveys have been conducted to determine the feasibility and the viability of the dam's site, the imperviousness of the reservoir area and to identify the major faults and the treatments necessary for reservoir area, the dam foundations and abutments.

- Determination that the necessary materials to build the dam (earth materials, aggregates, rock materials for construction and protections, sand or crushed rock for filters and concrete, etc.) exist close to the site for the construction of the dam and appurtenant structures.
- A preliminary alternative sites and dam type assessment based on hydrological, topographic, geological and geotechnical data analysis.
- Preliminary design criteria, design and drawings, specifications and cost for construction, operation, maintenance, surveillance and inspection of the dam and appurtenant structures.
- A preliminary dam instrumentation and monitoring plan which will include the main parameters to be monitored, the instruments to be installed on the dam and appurtenant structures, and monitoring schedule in normal and emergency situations.
- A preliminary cost benefit analysis for the dam project, including the cost of producing the dam's proposed services and goods (electricity, water for irrigation, drinking water, floods protection, river regulation, etc.).
- A preliminary description of the institutional framework and organization to build the dam and the schedule for the implementation of the dam project.
- A specific dam potentials risk assessment and classification according to the country regulations on dam safety and risk management or, in the case where there is no regulation, the classification according to ICOLD criteria.
- For a large dam project, provide a preliminary safety and risk management plan including the organization for the surveillance and inspection of the dam and preliminary floods emergency plan or elements.
- For a large dam project, provide a panel of expert's review of all safety issues raised during the preliminary or feasibility studies according to the World Bank OP 4.37 procedures.
- A preliminary description of the institutional arrangement for dam operation, maintenance and surveillance for the dam's safety regulation.
- Identification of related policy, legal, regulatory, and institutional frameworks, and general evaluation of their potential impacts and implications on project implementation.
- Identification of data gaps and areas that require more detailed, current or reliable information.
- Determination that satisfactory aerial photos and satellite images of the site, the projected impounded area and the watershed have been collected and are complemented by adequate topographic surveys and studies of the site. Integration of satellite imagery and topographical maps at the appropriate scale, identifying key elements of existing and proposed infrastructure, rights-of-way, and service areas. In addition, it may be appropriate to identify other geo-spatial data, including but not limited to census data, water resources, geological and geotechnical data.

Once MCC has made the determination to commence appraisal on a project, the infrastructure group will conduct the following assessments and identify key constraints.

Technical Assessment: Engineering

Evaluation of dam project planning process

- Review the dam project planning process to ensure that the project is consistent with the national, regional and river basin water resources strategic plan and is developed in the framework of holistic management of the river basin.
- Review and assess the project alternatives studies and verify that the project is the best

alternative and option to achieve the project goals and purposes and that the alternatives studies and assessments have been conducted in conformity with recognized international standards. Recommend additional and further studies if required to improve option effectiveness.

- Review and assess the dam planning process to ensure that the views and interests of keys stakeholders including affected people, indigenous people if applicable and the general public have been considered in the project options and design.

Review and assessment of dam potential risk classification

- Review the preliminary dam potential hazards and risk assessment and verify the dam hazards and risk classification to ascertain that the classification is consistent with the country regulations or recognized international standards (ICOLD).

Topographic data and mapping assessment

- Review and assess all topographic and maps data and surveys available, evaluate their consistency for proper design of the project at feasibility level and, if necessary, provide a program for additional topographic surveys, including remote sensing methods (aerial and satellite photo), land tachometric surveys, GIS and all adapted methods, in order to provide accurate data at the appropriate scale on the dam site, the reservoir area and the watershed, to define land use and occupation, and to provide the topographic model of the dam site, the reservoir area and the watershed. In the case of modifications of existing dams, conduct bathymetric surveys to establish the actual characteristics of the reservoir area and a detailed topographic survey of the existing structures.

Geological and geotechnical studies review and assessment

- Review all geological data available (regional maps, boreholes logs, satellite and remote sensing images and photos, etc.); evaluate their completeness for a feasibility level analysis. Provide recommendations for additional data needed (e.g., geological regional maps collection, and/or detailed field geological surveys of the river basin, reservoir area and the dam site) to identify the geological features (e.g., existing parent rocks, faults and others major discontinuities, seismicity, ground water and its patterns, weak strata, interbeds and seams, soluble rocks) for the establishment of the dam site geological model and identification of construction materials sources.
- Review and assess all hydro-geological data and analysis and provide recommendations for complementary investigations, including geophysical surveys, drilling etc., needed to establish ground water patterns and/or ground water modeling and to identify potential leakage and seepage problems associated with the dam site.
- Review and assess all geotechnical data and analysis for the dam site and reservoir area and evaluate their adequacy for the proper design and treatment of the foundations and abutments of the dam.
- Review and assess the available geotechnical data on construction materials, including earth and rock materials, sand and gravel for filters, and aggregate, and evaluate their consistencies for the design and construction of the dam. Provide, if required, recommendations for additional detailed investigations and data collection to ensure proper design and construction of the dam

and appurtenant structures.

Sites selection review and assessment

- Review and assess the site selected based on the socio-economic, topographic, geological and geotechnical investigations results.

Hydrological studies review and assessment

- Review and assess all meteorological, hydrological and hydraulic data for the river and neighboring rivers and tributaries to evaluate their quantity, quality and appropriateness for sound hydrological and hydraulic studies of the reservoir, rare floods estimation (peaks, volume and hydrographs), downstream flows and regime modifications, and their adequacy based on the size and complexity of the proposed dam.
- Review and assess the hydrological and hydraulic studies for water resources availability based on long-term records of river flows and water quality or simulations models using rainfall records for the catchment or stream flow of neighboring rivers and taking into consideration actual and forecast development of the basin.
- Review and assess the river sediment transport data, potentials impacts on the reservoir life and operation and the preliminary recommendations for watershed management to control sedimentation.
- Review the assessment of the reservoir long term yield and ensure that the analysis is based on sound hydrological models. Confirm the estimate and reliability of reservoir long term firm yields and ensure consistency with the project purpose(s).
- Review the preliminary reservoir operation rules according to the findings of long term reservoir simulations and firm yield evaluations and provide recommendations to modify these if necessary, based on the results of the reservoir simulation models.
- Review and confirm the results of the hydrological evaluation of the proposed project impact on the appropriate watershed, as needed.
- Review the estimation of rare floods (100, 1000, 10000 years return period floods, probable maximum flood (PMF), etc.) and their respective hydrographs for the determination of design and check floods for the design of the spillways.
- Review and assess the estimation and the definition of the design floods (10 to 100 years return floods depending on the size and potential risks of the works) for the design of river diversion structures for works protections during construction.
- If required, confirm that all necessary investigations have been completed to determine whether existing upstream dams can threaten the safety of the proposed dam as a result of poor design, weak construction, lack of proper surveillance and safety measures, etc., and that proper measures to mitigate these risks have been developed.

Dam and appurtenant structures design review and assessment

- In accordance with the dam potential risk classification, review the hydrological design criteria (100 years return period to PMF and their hydrographs) for check and design floods based on the country regulations or ICOLD guidelines if there are no regulations in the selected country.
- Review, according to the dam risk classification, the proposed structural design criteria for the

spillways and structural elements of the dam and ensure that these are appropriate for the design of the dam and its appurtenant structures.

- Review and assess the proposed construction materials and foundation design parameters (density, shear strength, consolidation index, etc.) and the load cases considered. Ensure that the parameters are appropriate, adequate and derived from the results of tests available. Also ensure that the load cases are based on the specific features of the site and dam and are consistent with country regulations (if they exist) or with international standards (ICOLD).
- Review and assess the foundations treatment measures proposed in the feasibility or preliminary studies (key trenches, grouting, anchors, drainage systems, etc.) to ensure effectiveness and appropriateness with the problems identified by the geological and geotechnical investigations and laboratory tests results.
- Review and assess the dam type and cross section selection based on the site characteristics, the construction materials available, and the foundation characteristics. Verify the dam stability analysis and confirm that this is the best economical and technical option.
- Review and assess the adequacy of the spillways design for passing the check and design floods, and confirm the structural stability of the spillways structures during these events.
- Review and assess the adequacy of the design of outlet and river diversion structures and their capacity to discharge the works protection design discharge, to drawdown the reservoir in the required time span and also to deliver the ecological flow downstream.
- Review and assess all structural elements for environmental and social impacts mitigation, such as fish ladders, and verify their appropriateness and adequacy.
- Review all aspects of preliminary technical designs and proposed standards and confirm appropriateness of criteria, demand requirements and environmental and social factors.

Dam gates and hydro mechanical equipment

- Review and assess the design criteria, design and specifications of gates, valves, pipes, gantries, stand-by generators and miscellaneous equipment and identify data gaps where improvements to the design and specifications are necessary to ensure proper functioning, operation, maintenance and durability of this equipment.

Dam maintenance inspection and safety management program review and assessment

- Review according to the dam potential risks classification, the preliminary instrumentation plan, which is a plan for the installation of instruments to monitor and record the dam and appurtenant structures behaviors and the related hydro meteorological, structural, and seismic factors based on significant parameters to be monitored. Assess the adequacy of the plan.
- Review and assess the adequacy of the plan and preparation for the first impoundment of the reservoir including the rate of reservoir filling, the instrumentation and auscultation monitoring schedule and the warning levels for the main parameters, describing the dams and appurtenants structures behaviors during the first filling and the elements of the reports on first filling required.
- Review and assess the adequacy of the preliminary operation, maintenance and surveillance plan, which covers organizational structure, staffing, technical expertise and training needs, equipments and facilities needs to conduct these tasks.
- For large dams, review and assess the adequacy of the preliminary emergency preparedness plan

which defines the role of responsible parties when dam failure is considered imminent or when expected operational flow release threatens downstream life, properties and ecosystems. The plan includes the following items: clear statements on the responsibility for dam operation, decision making and related emergency communications, maps outlining inundations levels for various emergency conditions, flood warning systems and procedures for evacuating threatened areas and mobilizing emergency forces and equipment and the cost related to such measures.

- Review and ensure that all appropriate environmental and social evaluations and engineering design and safety criteria are met.
- Review and assess the adequacy of the proposed river diversion works for the protection of the works during construction against flooding and recommend as necessary, elements to improve the river diversion measures for the construction of the dam.

Dam works specifications and cost analysis evaluation

- Review and assess preliminary specifications for the dam and appurtenant structures, evaluate their adequacy to provide sufficient pre-bid cost information with an accuracy of +/-30%.
- Review preliminary engineering designs. MCC's engineering consultant should confirm that these designs provide sufficient pre-bid cost estimation to an accuracy of +/-30%.
- Review and assess dam project cost estimation and ensure that all costs have been considered. Recommend possible cost adjustments to fit the actual and forecast economic conditions.
- Evaluate proposed design standards and suggest alternatives when existing standards are not acceptable to MCC.
- Confirm assessment of availability of local materials, required plant and machinery.
- Identify other factors not identified during project studies, that can potentially affect cost or scheduling including site preparation, access roads for construction, utility provision (including possible encroachment and relocation), construction camps, environmental clean-up, and equipment mobilization and de-mobilization.

Institutional and regulatory framework for dam safety management assessment

- Review and assess the institutional and regulatory framework existing and proposed for dam maintenance and safety management to ensure that the dam will be operated, maintained and inspected according to the best international practices such as the ICOLD Guidelines for dam safety.

Coordination with Large Dams Panel of Experts

For large dam projects (large according to the ICOLD classification system), the selected country will appoint a panel of experts to review all the criteria, data, design and dam safety assessments to provide recommendations in conformity with the World Bank OP 4.37 procedures. The recommendations of the panel will be implemented during the overall process of design, construction and operation of the dam. The panel shall be involved in assessing and tracking the project from feasibility studies to the first filling of the dam reservoir.

Technical Assessment: Economic and Financial

The MCC economist responsible for the assessment will work to ensure that the proposed project

complies with MCC Guidelines for Economic and Beneficiary Analysis. The economic rate of return for each project should be sufficiently high to warrant investment and eligible countries should have reviewed relevant governance practices, including laws and regulations, and undertaken reforms, as possible, to enhance the anticipated economic benefits generated by the dam project. Infrastructure input to this analysis may include the following:

- Identify benefits expected to flow from the projects in close consultation with the MCC economist, focusing on increases in incomes for workers, firms, and households disaggregated by income, gender, age, and ethnicity. Identify the beneficiaries, to the extent possible. Compare projected incomes and other benefits with and without the proposed project.
- Summarize the design standards, design life and cost estimates (capital and operations and maintenance) and confirm these are consistent with the assumed benefits and duration of the benefit stream. Note that the duration of the benefit stream is typically assumed to be twenty years. Assumptions that the duration is longer or shorter than this should be clearly justified.
- Confirm that the costs and project life are consistent with the engineering design.
- Complete a financial analysis for income generating subprojects.

Technical Assessment: Environment, Social and Gender

MCC environmental and social assessment experts will review projects for their compliance with MCC Environmental Guidelines, Gender Policy, and resettlement guidance, which include an expectation of compliance with host-country laws, regulations and standards, as well as requirements by which the host country is bound under international agreements. Particular attention must be paid to issues which generally arise including, but not limited to, land ownership and right of way, incursion into sensitive areas (reserves, parks, wetlands, etc.), drainage and erosion control (especially in hilly or mountainous situations). Assessment will also inform design by including the impact of the dam and construction on livelihoods, gender analysis of use, control of resources, design appropriateness, and how well gender is integrated into project design, participatory planning processes, and implementation.

- Identify country-, region- or sector-level assessments, strategies and commitments with respect to climate change and their relevance to compact activities.
- Identify climate change impacts (from the project) and risks (to the project) and corresponding mitigation and/or adaptation opportunities, as relevant.

Sustainability Assessment

- Review detailed description of current arrangements for ownership, management, maintenance, surveillance and inspection of dams and appurtenant structures, including details of the legal framework, administrative framework, funding arrangements and maintenance responsibilities.
- Review existing performance with respect to clarity and acceptance of arrangements and responsibilities, acceptance of dams funding reserves for maintenance and inspection. Identify causes of inadequate performance including legal or administrative arrangements, resources, technical capability and capacity and funding.
- Review and assess the impacts of sediment transport on the capacity of the reservoir and verify that watershed protection measures have been proposed for water and soils conservation to reduce the impacts of sediments transport on the reservoir life.

- Review and assess the dam safety program including inspection guidelines, instrumentation and monitoring guidelines, maintenance manuals and emergency action plan guidelines, to ensure that such plans are suitable for the dams and include responsibilities, resources, funding. Identify shortfalls with current arrangements and provide details of a program to strengthen dam safety management, including review of gender competency and cultural appropriateness.
- Review details of alternative maintenance funding options, including details of income derived from the project.
- As required, provide a summary of additional analyses required to bring planned dam maintenance and water management programs to an acceptable level, including additional studies for participatory and gender competent institutional strengthening, funding (responsibility and funding levels) and additional resources needed, etc.

Risk Management Assessment

- Identify significant risks to the project, with particular respect to construction cost increases, delays, sustainability of the scheme, local acceptance and take-up of benefits by various beneficiary groups disaggregated by socio-economics, gender, age, and ethnicity, and other factors affecting economic performance and distribution of benefits including potential resettlement, HIV/AIDS, human trafficking, child/forced labor. Identify and assess significant risks relating to durability, and confirm that design criteria adopted shall mitigate these risks within acceptable tolerance levels.
- Prepare a risk management plan to minimize the negative impact of the risks.

Implementation Assessment

- Provide a summary of the technical and construction resources available in country, and experience with projects of similar size, nature and type.
- Provide details of implementation options available.
- Identify local factors that may affect the timely completion of the works, including transport to/from the location for the contractor's equipment, fuel and other materials, seasonal weather patterns such as avoiding the wet season, or health risks including HIV/AIDS.
- Prepare an implementation program including contract awards, any approvals and permits needed, construction times, cash flow, government commitments and other hold points as appropriate.
- Recommend an appropriate procurement procedure, sequencing, and packaging.
- Provide a plan for construction supervision and quality assurance which covers the organization, staff levels, procedures equipment and qualifications for construction of the new dams or the remediation of an existing dam.

Chapter 18: Irrigation Systems

MCC will use the feasibility study as the basis to examine the following and to make a determination on what supplemental studies, if any, are required to develop the project sufficiently so that appraisal could commence:

- Preliminary description of rationale, including nature and measure of benefits, and beneficiaries.
- Technical viability and proposed technical solutions.
- Demonstration, supported by appropriate data, that the proposed project is likely to deliver the stated agricultural benefits to various beneficiary groups.
- Definition, assessment, and evaluation of current and projected land and water uses in the proposed irrigated and/or flood areas. Identification of options for changing land and water uses to maximize operating efficiencies for existing and future systems, and identification of land resources for long term development, including an analysis of impacts based on access to land resources and land ownership by gender, age, income, and ethnicity.
- Assessment of market demand for increased agricultural production and water use to financially, economically and operationally justify the project. The assessment should take into account total costs of operations, and forecast the future growth of demand for water use, including a gender-competent value chain analysis.
- Demonstration that sufficient reliable hydrology information has been provided in feasibility reports on issues such as river stage and discharge or borehole yield and drawdown, total solids in suspension, total dissolved solids, and specific substances in suspension and solution.
- Demonstration that satisfactory land classification and soil suitability surveys (i.e., auger holes, trial pits) have been used or survey results have been tested for validity.
- Demonstration that realistic crop water requirements (including studies of evaporation ratios of open water surfaces) have been estimated sufficiently using climatologic data from adequate and reliable records and that factors such as field level water control technology are taken into account (an error of 20% in crop water use estimates can make a considerable difference to the economic analysis, especially if water cost is a major constraint).
- Demonstration that there are no constraining hydrological issues related to capacity of water sources and conveyance structures by examining actual data (preferably climatologic data over 25 years), identification of competing water uses (between households and industry and within households for different water uses), and confirmation that there are no constraining contamination impacts on water availability.
- Identification of related policy, legal, regulatory, and institutional frameworks, including land ownership and use rights by gender, and any existing water rights or water user association laws. Evaluation of their potential impacts and implications on project implementation and implications for control or management of resources by gender, age, income, or ethnicity.
- Identification of existing or proposed irrigation system management arrangements.
- Identification of data gaps and areas that require more detailed, current or confident information.
- Identification of key elements of existing and proposed infrastructure, rights-of-way, and service areas using satellite imagery and topographical maps at the appropriate scale (typically at 1:10,000 or 1:20,000 for feasibility level; 1:5,000 for detailed design). In addition, it may be appropriate to identify other geo-spatial data – including, but not limited to, census data, water resources, and geological data – and combine them into a single GIS database.
- Meaningful public consultations (including gender, age, and income-based focus groups in rural

and/or urban areas where relevant) among project affected persons and key stakeholders including women's civil society organizations.

- Description of the local process by which the project will receive the necessary permits and approvals of design documents and construction work.
- A preliminary description of the applicable local and regional laws, regulations and codes, as well as international agreements/treaties, related to the project.

Once MCC has made the determination to commence appraisal, the infrastructure group will conduct the following assessments and identify any key constraints:

Technical Assessment: Engineering

- Review all aspects of preliminary and detailed technical designs and proposed standards and confirm appropriateness for design criteria, demand requirements and environmental and social factors including design appropriateness for use by various beneficiaries (taking into consideration use and cultural appropriateness by gender, age, etc.).
- Assess the adequacy of soil surveys (soil structure, vertical and horizontal disposition, permeability, pH value, salinity, soil depth and topography) to define soil types, drainage characteristics, and agricultural potential.
- Review and confirm the hydrological surveys and water resource availability assessments using long-term records of river flows and water quality. In the absence of historical data, such analyses may include estimates based on simulation models using rainfall records for the catchment or stream flow of neighboring rivers. Validate the yield studies (including instream flow requirements and considering catchment erosion and sedimentation).
- Review and confirm any hydrological evaluation for assessing proposed project's impact on the appropriate watershed.
- Review and confirm topographical surveys of irrigable areas and locations of canals, buildings, roads and hydraulic structures.
- Review and confirm site exploration, including exploration of such sub-surface conditions that may affect the design and construction of a proposed substructure such as the mechanical properties of the subsoil at foundation levels and the corrosiveness of the groundwater. Confirm the strength of underlying soils.
- Assess structural engineering aspects of any proposed dam structures (including mapping of the bedding planes to confirm shear strength parameters) and propose appropriate detailed modifications.
- Review the proposed water control concepts and the associated technology, with a view toward efficiencies (manually operated gated systems have very low efficiencies and provide poor service to the users).
- Review and assess specifications for any pumping plants/stations (including any power extensions) and assess maintenance capacity, including power supply.
- Review preliminary and/or detailed engineering designs and confirm that these designs provide sufficient pre-bid cost estimation.
- Evaluate design standards and propose alternatives when existing standards are not acceptable to MCC.
- Review and confirm assessment of availability of local materials and required plant and machinery.

- Confirm that proposed storage facilities take into account crop water use, domestic and livestock requirements, conveyance losses, and corresponding flow rates.
- Confirm preliminary estimates of on-farm works as the basis for estimating total costs for economic analysis.
- Confirm assessments of drainage requirements for different categories of land use applied to typical soil profiles and verify that that the drainage system (from field drain to outfall) is adequately coordinated with the canal system.
- Identify other factors that can affect cost or scheduling, including site preparation, access roads for construction, utility provision (including possible encroachment and relocation), construction camps and potential health and safety safeguards including HIV/AIDS risk management, potential resettlement, environmental clean-up, and equipment mobilization and de-mobilization.
- If any dams are classified as "large" by the International Commission of Large Dams (ICOLD), ensure that all appropriate environmental and social evaluations and engineering design and safety criteria are met, as well as the appointment of a dam safety panel.
- Confirm that meaningful public consultations (including gender, age, and income-based focus groups where relevant) among project affected persons and key stakeholders, including women's civil society organizations, have been undertaken.
- Identify major project risks and quantify, as much as possible, the impact of these risks on project cost, timeline and quality. Develop mitigation measures and estimate the cost of mitigation.
- Develop project cost estimates for the purposes of investment decision, including all associated costs, such as costs relating to environmental mitigation, resettlement compensation, social safeguard measures, construction supervision, project management and technical audits.
- Develop provisions to be included in project cost estimate, such as physical contingency, allowances for specific risks that were identified in appraisal, price contingencies, and allowance for the effects of foreign exchange rate fluctuations, and determine meaningful rates of inflation – local and foreign – to apply to base costs.

Technical Assessment: Economic and Financial

The MCC economist responsible for the assessment of the project will work to ensure that proposed irrigation project complies with MCC Guidelines for Economic and Beneficiary Analysis. The economic rate of return for each project should be sufficiently high to warrant investment and eligible countries should have reviewed relevant governance practices, including laws and regulations, and undertaken reforms, as possible, to enhance the anticipated economic benefits generated by the irrigation project. Infrastructure input to this analysis may include the following:

- Identify benefits expected to flow from the project, focusing on increases in incomes for workers, firms, households, and beneficiaries within households. Identify the beneficiaries, to the extent possible, disaggregated by gender, age, income, and ethnicity. Compare projected incomes of disaggregated homogeneous beneficiary groups and other benefits with and without the proposed project.
- Summarize the design standards, design life and cost estimates (capital and maintenance) and confirm these are consistent with the assumed benefits and duration of the benefit stream. Note that the duration of the benefit stream is typically assumed to be twenty years. Assumptions that the duration is longer or shorter than this should be clearly justified.
- Confirm that the costs and project life are consistent with the engineering design.

- Complete a financial analysis and FIRR for income generating subprojects.
- Confirm that the technologies that are proposed in the project and the engineering design will allow fulfillment of operational performance, as well as financial and economic objectives based on analysis of use by disaggregated homogenous demographic groups.

Technical Assessment: Environment, Social and Gender

MCC environment and social assessment and gender experts will review the proposed project for compliance with MCC Environmental Guidelines, Gender Policy, and resettlement guidance (www.mcc.gov), which include an expectation of compliance with host-country laws, regulations and standards, as well as requirements by which the host country is bound under international agreements. Particular attention must be paid to issues which generally arise including, but not limited to, land ownership and right of way, incursion into sensitive areas (reserves, parks, wetlands, etc.), drainage and erosion control (especially in hilly or mountainous situations). Assessment will also inform design by including gender analysis of use, control of resources, design appropriateness, and how well gender is integrated into project design, participatory planning processes, and implementation.

- Identify country-, region- or sector-level assessments, strategies and commitments with respect to climate change and their relevance to compact activities.
- Identify climate change impacts (from the project) and risks (to the project) and corresponding mitigation and/or adaptation opportunities, as relevant.

Technical Assessment: Legal

The MCC legal staff will work to ensure that proposed irrigation project neither encounters any legal obstacles nor violates any existing laws. The MCC legal staff will also assist in reviewing relevant governance practices, including laws and regulations, and any reforms the country has or proposes to undertake. Finally, MCC legal staff will, if necessary, review and comment on any contracts related to the proposed infrastructure project. Infrastructure input to this analysis may include the following:

- Identify government policies and regulations specifically related to the project's construction, operation and maintenance. Identify any international agreements specifically related to such construction, operation and maintenance. Identify any issues arising from such agreements, policies and regulations.
- Identify any governmental agencies or other entities whose cooperation and assistance are necessary to the success of the project.
- Identify the proposed chain of ownership of the project, and whether any changes in ownership will be needed upon the end of the proposed compact.
- Identify any unusual arrangements that need to be made with any contractors performing work on the project.
- Confirm that the technologies that are proposed in the project do not require any exemptions from local import regulations.

Sustainability Assessment

- Review detailed description of current arrangements for ownership, management and maintenance of irrigation systems, including details of the legislative framework, administrative

framework, funding arrangements and maintenance responsibilities.

- Review existing performance with respect to clarity and acceptance of management arrangements and responsibilities, acceptance of irrigation funding reserves for maintenance. Identify causes of inadequate performance including legislative or administrative arrangements, resources, technical capability and capacity, and funding.
- Review maintenance programs to ensure that such plans are suitable for the new irrigation systems including responsibilities, resources, funding. Identify shortfalls with current arrangements and provide details of a program to strengthen irrigation system management and maintenance arrangements.
- Review details of alternative maintenance funding options, including details of income derived from water users and potential for increased cost recovery.
- Prepare a summary of actions needed to maintain any dams and water management to acceptable level, including institutional strengthening, funding (responsibility and funding levels), a social and gender integration plan, and additional resources needed.

Risk Management Assessment

- Identify significant risks to the project, with particular respect to construction cost increases, adequate scheduling and delays, management and sustainability of the scheme, local acceptance and take-up of benefits, and other factors affecting economic performance and distribution of benefits including social and health factors such as impacts of potential resettlement, HIV/AIDS, human trafficking, child or forced labor, and existing gender inequalities in water resource management, agricultural production ownership and management, land ownership and management, participation, or labor wages and benefits.
- Identify and assess significant risks relating to durability, and confirm that design criteria adopted shall mitigate these risks within acceptable tolerance levels.
- Prepare a risk management plan to minimize the negative impact of the risks.

Implementation Assessment

- Review and confirm availability of local construction capacity in view of other competing projects in the same time period.
- Define all activities that are required to be completed prior to the commencement of the construction related activity, such as detailed engineering design and RAP, and develop Terms of Reference for these studies in association with the country counterparts or the implementing entities (cost of completing these studies should be included in the project budget).
- Identify and critically assess implementation and contract management options.
- Identify local factors that may affect the timely completion of the works, including transport to/from the location for the contractor's equipment, fuel and other materials, seasonal weather patterns such as avoiding the wet season, and health and safety factors including HIV/AIDS impacts on the labor force and migratory trends.
- Prepare an implementation program (work plan) including contract awards, any approvals and permits needed, construction times and floats, cash flow, contingencies and management reserves, government commitments and other hold points as appropriate.
- Recommend an appropriate procurement procedure, sequencing, packaging and time frames.
- Recommend suitable supervision and management arrangements during construction and

management arrangements during operations.

Chapter 19: Power Projects

MCC will use the feasibility study of the proposed power project as the basis to examine the following and to make a determination on what supplemental studies, if any, are required to develop the project sufficiently so that appraisal could commence:

Sector Background

- Legal, regulatory, organizational and ownership structure of the power sector and the project; list of key decision makers and stakeholders/ consumers in the power sector.
- Prior feasibility or pre-feasibility studies conducted on the project or alternative projects. Previous economic, environmental and financial analyses of the project that quantify estimated costs and benefits and identifies potential beneficiaries (rural/urban, marginalized groups, household and livelihood use of power by gender, age, and ethnicity).
- Prior studies on rural electrification projects, rules of electrical interconnection with the national grid and power wheeling rules, if any.
- Interconnection rules for on-site and inside-the-fence generators (e.g., for the sale of power back to the utility from roof-top solar PV operators, or on-site power generators, etc.), if any.
- National utility law and laws governing private ownership, operation, or management in the power sector, if any; analysis of private sector involvement in the sector; copies of Power Purchase Agreements with IPPs; copies of management/operating agreements between utility/government and private operator, if any.
- List of donor activities with respect to the proposed project, overall power sector, and rural electrification strategy.
- Stakeholder analysis at the intra-household level to identify power use disaggregated by gender and demographics to establish that the project has been identified as a priority.
- Meaningful public consultations (including gender, age, and income-based focus groups in rural and/or urban areas where relevant) among project affected persons and key stakeholders, including women's civil society organizations.

Demand Drivers

- Number of customers by category (residential, industrial/commercial, residential/ small business, commercial agriculture/ household garden plots, other) and voltage class (low, medium, high, etc.).
- Historical power consumption (kWh) and growth rates by customer category in the project area, regionally and nationally.
- Historical annual peak demand (MW) of the system/region/project area.
- Long term forecast of power demand (kWh) and system peak load (MW).
- Seasonal variations in power demand. System load duration curve and load factor.
- % population disaggregated by gender with access to power; share of that served by interconnected grid and share served by isolated systems.
- Studies or analyses of suppressed demand, if available.
- Value of unserved energy.

Supply

- Portfolio of existing power generators by resource type (hydro, diesel, coal, natural gas, wind, solar, other) at project, regional and national level.
- Current list of power generation projects that are proposed or in development (both by private sector and public sector).
- Vintage and condition of individual plants, historical availability factors, O&M costs, annual fuel consumed (coal, diesel, gas, etc.); annual capital expenditures for upgrade and upkeep of generators; forced outage rates of individual generating plants and the system as a whole.
- Analysis and assessment of resource potential by category (total MW of hydro, tons of coal, tcf of natural gas, solar insolation, wind potential, etc).
- Resource analysis, particularly if based on hydro; flood/drought probability; historical water flow information. For other fuel types, provide summary of fuel supply sources and contractual arrangements.
- Power supply expansion plan studies (resource planning) or identification of least cost options. Power supply curve that shows the merit order dispatching of each plant.
- Level of import and export of electricity with neighboring utilities/countries and maximum transmission interface capacity (MW) at power exchange hubs.
- Estimation or analysis of backup power and inside-the-fence power generation by size of gensets, fuel used, ownership (residential, businesses, public sector, and other) and genset heat rates in different regions of the country.

Transmission & Distribution

- State of the transmission and distribution infrastructure including length of lines and number of substations/transformers by voltage class, and vintage.
- Regional interconnections and arrangements, including power pool participation.
- Annual investments in T&D infrastructure; analysis of the need for new capacity including T&D capacity expansion plans, if any.
- T&D losses including technical and non-technical (e.g., theft) as a % of power generated.
- Statistics and analysis of number and causes of catastrophic T&D failures in the past five years.
- Collection and integration of satellite imagery and topographical maps at the appropriate scale (typically 1:25,000 for urban planning) identifying key elements of existing and proposed infrastructure, rights-of-way, and service areas. In addition, it may be appropriate for the appraisal process to identify other geo-spatial data – including but not limited to census data, water resources, and geological data – and combine them into a single GIS database.

Pricing

- Cost of service study.
- Studies conducted on pricing methodology used by the electric utility - marginal cost vs. average cost.
- Tariff structure used by the utility - energy (currency/kWh), capacity (currency/kW-yr or kW-month), and ancillary services by voltage class and customer type.
- Fossil fuel prices (diesel, kerosene, natural gas, heavy fuel oil, coal).
- Electricity prices and explanation of price changes over time.
- Estimates of income elasticity and price elasticity of electricity demand from previous studies.
- Surveys or analyses of ability/willingness to pay for power (at the intra-household level surveying both male and female household heads for residences). A proxy might include

estimation of cost of electricity from backup generators, or expenditure on total energy services by households and businesses converted to electricity equivalent.
- Analyses, if any, of subsidies and cross subsidies.

Institutional
- Determine sector providers or utilities and their role in the market, and examine the corporate/institutional structure and governance of each entity; management background, expertise and experience of the above.
- Determine whether corporate and financial reporting and record-keeping is up-to date; review most recent audited financial statements, examining historical financial performance of each provider/utility, debt burden, sources of financing, and key obligations.
- Determine revenue by customer category, corporate overhead, fuel costs, etc. Number of employees and analysis of performance metrics such as number of employees/MW installed or kWh generated; number of employees/number of customers, etc.
- Metering, billing and customer information systems; frequency and method of meter reading/billing/collection.

Once MCC has made the determination to commence project appraisal, the infrastructure group will conduct the following assessments, and identify any key constraints.

Market Assessment

A market assessment will be undertaken, including an analysis of supply, demand, pricing and competition for products/services provided by the project. This assessment should provide baseline information to calculate a provisional financial IRR (FIRR) for the project.

- Review and validate power demand statistics on which sizing of the project is based, to ensure economic viability of the investment. Particular attention should be given to demand growth, reserve margin, frequency and duration of outages, loss of load probability in the absence of the project, and the target population's ability to pay for power (disaggregated by gender, income, age, ethnicity, rural/urban, etc.).
- Review projections for increased energy consumption and the underlying basis for the projections, including market surveys.
- Analyze the power pricing methodology - average cost versus marginal cost; energy only (¢/kWh) vs. energy and capacity charges ($/kW-month); all-in cost of delivered power vs. disaggregated cost including generation, transmission, distribution and customer service charges.
- Analyze the cost and availability of fuel for electricity generation. If hydro based, analyze probability of drought; if fossil fuel based, analyze international prices and cost to imported fuel.
- Assess the current competitive situation with respect to price sensitivity, service sensitivity, competitor's resources, if any, and lack of power sector investment.
- Assess the threat of future competitors with respect to price, service, on-site generation, technology such as photovoltaics, small wind turbines, etc.
- Analyze backup generators used in the country, their installed cost ($/kW), heat rate, and O&M costs.
- Assess the impact of any cross-subsidy (e.g., higher industrial/commercial rates to subsidize residential customers) on the financial viability of the project.

- Calculate provisional FIRR based on projected revenues and operating costs of the project. Confirm that appropriate level of capital expenditures (e.g., land acquisition, replacement parts and long term maintenance) is included in O&M costs to sustain the project.

Technical Assessment: Engineering

Engineering analysis of the project should follow international industry best practices, with consideration given to specific country situations. This analysis should establish the technical soundness of the project with regard to civil, mechanical and electrical engineering work.

- Assess whether the proposed project is part of the country's expansion planning model (resource optimization model). Identify and compare alternatives that are outlined in the government's long range resource plan.
- Review all aspects of preliminary technical designs and proposed standards and confirm appropriateness of design criteria, demand requirements and social environmental factors, including resettlement.
- Confirm details of design and construction standards applicable in the location, where these exist.
- Compare the proposed design criteria to international industry standards and best practices. Assess capital cost of new projects (e.g., in $/kW installed for generation or demand management projects, $/kVA for substations and $/mile for T&D line) and compare these costs to industry/regional standards. Analyze bill of materials and capital cost.
- Analyze fuel and operating costs and the resulting life cycle costs (e.g., in $/kWh).
- Confirm availability of, and identify sources of energy technology supply chain (e.g., is technology market ready, availability of parts, after sales service and logistics, warranties), systems maintenance, anti-theft mechanisms, revenue collection, billing and customer service. Technologies and standards adopted in the power system should not be unique or proprietary.
- For <u>supply side projects</u> such as hydro power, confirm that the project can be completed within the compact term, including contingency, construction management, and construction of access roads, if any. Confirm that the project includes appropriate analysis of transformers and ancillary equipment required, and transmission capacity to bring power to distribution hubs.
- For <u>T&D projects</u>, confirm type (aluminum vs. copper) of wires/cables, capacity rating of transformers, insulators, transfer switches and circuit breakers, include type of breakers to be used (e.g., SF6 is a highly potent greenhouse gas).
- For <u>demand side management</u> projects, confirm that appropriate institutional and regulatory mechanisms for implementation (measurement and verification is an important component of such projects) are in place or can be created early in the compact term.
- For <u>rural electrification projects</u>, confirm that the institutional capacity and regulatory arrangements are or will be in place to operate such projects. Assess the level of interconnection from large inside-the-fence generation that might be desirable to improve stability of the system. Analyze appropriate rules and regulations that might be required for such interconnection.
- For performance based regulation, analyze list of metrics to be used to measure performance. Analyze interconnection standards for distributed generation, feed-in tariff rates, wheeling charges interconnected with the national grid and other technical requirements of operating a network that is separate from the national utility/grid.
- Identify major project risks and quantify, as much as possible, the impact of these risks on

project cost, timeline and quality. Develop mitigation measures and estimate the cost of mitigation.

- Develop project cost estimates of +/-35%, including all associated costs, such as costs relating to environmental mitigation, resettlement compensation, social safeguard measures, construction supervision, project management and technical audits.
- Develop provisions to be included in project cost estimate, such as physical contingency, allowances for specific risks that were identified in Appraisal, price contingencies, and allowance for the effects of foreign exchange rate fluctuations, and determine meaningful rates of inflation – local and foreign – to apply to base costs.

Technical Assessment: Economic and Financial

The MCC economist responsible for the assessment will work to ensure that proposed power project complies with MCC Guidelines for Economic and Beneficiary Analysis. The economic rate of return for each project should be sufficiently high to warrant investment and eligible countries should have reviewed relevant governance practices, including laws and regulations, and have undertaken reforms, as possible, to enhance the anticipated economic benefits generated by the power project. Infrastructure input to this analysis may include the following:

- Estimate the project's revenue and cost stream for FIRR analysis. Financial modeling should broadly follow International Financial Report Standards, if possible.
- In consultation with the MCC economist, assess the current economy of the region(s) to benefit from the investment. Quantify economic activity for the region based on best available data and consultation with local organizations (including civil society organizations and women's NGOs).
- Confirm the number of customers (by gender, income, age, ethnicity, etc.), energy consumption and energy expenditures by different customer classes. Estimate the level of suppressed demand in the region. Estimate the level of inside-the-fence power generation by customer class and estimate ability to pay.
- Identify the beneficiaries (by gender, income, age, ethnicity, etc.). Estimate number of households and enterprises (including small enterprises from households) affected by the investment and increased economic activity (by sector), including small-scale household run income-generating activities expected to flow from the new investment. In close consultation with the MCC economist, compare the expected increase in economic activity with current levels, and assess the capacity of the local and wider region to absorb the increased level of service.
- Benefits should include an estimate of reduction in the number and duration of power outages and the economic value of reduced outages. Analyze positive impacts on women and children. Benefits to households include reduced expenditure on electricity (for those relying in backup power), improved indoor air quality (for those switching from firewood to electricity), etc.
- If diesel power generation is displaced, economic analysis should include reduction of oil imports and balance of payment improvement.
- Confirm design standards, life and cost estimates (opex, capex) are consistent with the assumed benefits and duration of the benefit stream. Note that the duration of the benefit stream is typically assumed to be twenty years. Assumptions that the duration is longer or shorter than this should be clearly justified.

Technical Assessment: Environment, Social and Gender

MCC environment and social assessment experts will review projects for their compliance with MCC Environmental Guidelines, Gender Policy, and resettlement guidance (www.mcc.gov), which include an expectation of compliance with host-country laws, regulations and standards, as well as requirements by which the host country is bound under international agreements. Particular attention should be given to the assessment of project alternatives - including the no-project alternative - and their respective environmental and social costs and benefits, any temporary and/or permanent land acquisition (e.g. for new construction or transmission rights-of-way), and relevant environmental laws and regulations and regulatory capacity for enforcement. Assessment will also inform design by including gender analysis of use, control of resources, design appropriateness, and how well gender is integrated into project design, participatory planning processes, and implementation.

- Identify country-, region- or sector-level assessments, strategies and commitments with respect to climate change and their relevance to proposed compact activities.
- Identify climate change impacts (from the project) and risks (to the project), and corresponding mitigation and/or adaptation opportunities, as relevant.

Legal and Regulatory Assessment

In consultation with MCC legal staff, the infrastructure group will assess the proposed power project to ensure that the proposed project does not violate any existing laws of the country or that MCC's assistance of such projects would violate any law or U.S. policy applicable to MCC. The infrastructure group will also review relevant governance practices in the sector, including laws and regulations, and any reforms the country has or proposes to undertake. Finally, the infrastructure group will, in consultation with MCC legal staff, review and comment on any contracts related to the implementation of the proposed infrastructure projects. This assessment may include the following:

- Identify applicable laws, regulations and government policies specifically related to power sector. Identify any international agreements specifically related to the power sector. Identify any issues arising from such laws, regulations, policies, and agreements.
- Identify and analyze the role of each entity that possesses regulatory authority over the power sector, including applicable laws, regulations and policy.
- Identify and analyze the role of the relevant government ministries, agencies, or departments that possess policy making oversight or direction for the power sector, including applicable laws, regulations, and policies.
- Identify and analyze under local law, what power-related and non-power related approvals would be required, and what would the approval process for the construction or refurbishment, operation and maintenance of a power plant entail (including timing) for the type of power project investment under the proposed compact.
- Identify any governmental agencies or other entities whose cooperation and assistance are necessary to the power sector.
- Identify the proposed chain of ownership of that portion of the power sector receiving assistance under the proposed compact, how MCC's grant investment in that entity will be reflected post-compact, and whether any changes in ownership will be needed upon the end of the proposed compact.
- Identify any special arrangements that need to be made with any contractors performing work in the

power sector.

- Identify any military, police, militia, national guard or other quasi-military organization or unit that would benefit from the power sector construction or improvements.
- Confirm that the technologies that are proposed in the project do not require any exemptions from local import regulations.

Sustainability Assessment

- Institutional – Assess the extent to which there is the existing or potential institutional and human capacity (within governments, NGOs, organizations, the private sector, possibly based on inclusion of training and support for capacity building in or prior to the compact) to carry forward the project's work. Provide a detailed description of current arrangements for ownership, management, maintenance and expansion of the power system or project. Include details of legislative framework, administrative framework, funding arrangements and maintenance responsibilities. Identify issues related to quality of service oversight and organizations' capability to meet existing and new customer needs.
- Financial – Assess the extent to which funding to cover the costs of building/creating and maintaining the project and related network components at a meaningful level is available. In particular, revenues (or transparent subsidies as needed) should cover at least the on-going O&M and periodic capital expenditures for financial sustainability of the project. Assess the coordination with central and regional energy authorities for regulatory, tariff, environmental or operational policies and plans including feed-in tariffs, wheeling charges, interconnection standards, tariff structures, performance based regulation standards, etc. Assess the extent to which a grant funded project could provide the wrong price signals and should be accompanied by a proxy capital recovery charge in the ratemaking processes.
- Political – Assess the extent to which a project which depends on continued political support and commitment in order to fulfill its objectives can expect to attract an appropriate level of support across potential changes of government/party or in the face of local/regional/national tensions. Specifically, projects that have outside sponsors or have unpopular conditions (e.g., tiered tariff structures) need political support to be successful.

Risk Management Assessment

- Identify significant risks to the project, in particular construction cost increases, delays, sustainability of the rural electrification systems, local acceptance and take up of benefits, and other factors affecting economic performance and distribution of benefits by disaggregated homogenous groups (gender, income, age, and ethnicity, etc.).
- Identify and assess significant risks relating to durability, and confirm that design criteria adopted shall mitigate these risks within acceptable tolerance levels.
- Assess the ability of the operator to manage the project in its development stage (project management skills) and on an on-going basis. Provide evidence the operator has prior successful experience executing the development and construction of the proposed investments and operating and maintaining the proposed assets (e.g., rural electrification project, a power plant(s) or a T&D network).
- Assess the risk of an independent operator functioning in an existing or new institutional set up; consider strategies to minimize risks of institutional paralysis/vacuum.

- Assess fuel supply or hydrological risk, risk of physical damage to power plants, T&D network, market risk, and credit risk of consumers.
- Prepare a risk management plan to minimize the negative impact of these risks including program management and/or long term management technical assistance.

Implementation Assessment

- Provide a summary of the technical and construction resources available in country (including the resources and specific staff within the proposed implementing entity), and the relevant parties' experience with projects of similar size, nature and type.
- Provide details of implementation options available (include opportunities for collaboration with other donors). Where implementation requires the creation of new institutions or organizations, identify an appropriate model (e.g., operation of a power system might be better through a cooperative model or a public-private operating agreement or a municipal ownership rather than a typical state-owned enterprise utility ownership model).
- Identify local factors that may affect the timely completion of the works, including availability of skilled labor (disaggregated by gender, age, and ethnicity), transport to/from the location for the contractor's equipment or project materials, specialized manufacturing, fuel and other materials, seasonal weather patterns, such as avoiding the wet season.
- Prepare an implementation program (work plan) including contract awards, any approvals and permits needed, construction times, cash flow, government commitments and other hold points as appropriate.
- Recommend the most appropriate procurement procedure and packaging.
- Recommend the most appropriate supervision and management arrangements.

Chapter 20: Vertical Structures

MCC will use the feasibility study of vertical structures as the basis to examine the following and make a determination on what supplemental studies, if any, are required to develop the project sufficiently so that appraisal could commence:

- Information on applicable building codes and requirements and a description of specific hazards that may affect the area such as seismic, fire, security, flood, upstream dams, and wind. Adequacy of applicable codes should be evaluated and alternative requirements should be proposed where necessary.
- Information on specific standards or regulations related to asbestos containing materials (ACM), lead based paint (LBP) and other hazardous substances related to building materials and systems.
- Identification of technical data, including preliminary design reports and drawings.
- Preliminary description of rationale, clear definition of the proposed use/functions of the facility including nature and measure of benefits, and beneficiaries (disaggregated by income, gender, and ethnicity).
- Demonstration supported by appropriate data and meaningful public consultation with potential beneficiaries, which may include income- and gender-based focus groups, that the proposed project is likely to deliver the stated benefits.
- Identification of the need and principal driver(s) for a new structure, structures, add-on expansion and/or renovation. Examples of such drivers: capacity restraint, failure to meet code, failure to meet security standards, existing facility cannot accommodate the change in function, serviced entity has geographically relocated, establishment of new agency, building at end of serviceable life, etc.
- Identification of the range of alternatives – renovating current facility, integrating into existing facility, acquiring space in another facility, including any environmental considerations related to each alternative.
- Demonstration supported by appropriate data, that commercial or private financing is not available for the project, and the reasons for its unavailability.
- Demonstration supported by appropriate data, that privatization – including concession contracts with EPC arrangements – is not possible, and the reasons why.
- Identification of areas which require obtaining more detailed, current or reliable information. If a new construction or demolition/construction is proposed, obtaining approvals from all relevant parties for permits may be a significant and time consuming issue; identify the party responsible for providing approval, and a timeline at commencement of the due diligence phase.
- Analysis of stakeholder(s) representative of potentially impacted parties (by income, gender, age, ethnicity, etc.) including social and women's government ministries and NGOs and potential beneficiaries to establish that the project has been identified as a priority.
- Collection and integration of satellite imagery and topographical maps at the appropriate scale (typically 1:25,000 for urban planning) identifying key elements of existing and proposed infrastructure, rights-of-way, service areas, entire site, and adjacent properties layout. In addition, it may be appropriate for the due diligence process to identify other geo-spatial data – including but not limited to census data, water resources, and geological data – and combine them into a single GIS database.

Once MCC has made the determination to commence appraisal on a project, the infrastructure group will conduct the following assessments and identify key constraints.

Market Assessment

In cooperation with the MCC economist responsible for the assessment, a market assessment will be undertaken, including an analysis of supply, demand, pricing and competition for products/services provided by the project. This assessment should provide baseline information to calculate a provisional financial IRR of the project.

- If applicable to the structure's function, determine the function's potential and growth prospects through thorough market assessment and business forecasts for such goods and services (e.g., airport concessions, real estate mortgaging, etc.). The analysis should be based on comprehensive compilation of all relevant statistical databases.
- Compare the growth prospects and business forecasts against the country's demographic and economic trends, a 10-year market history in the country and the country's relative competitive position to determine conformance.

Technical Assessment: Engineering

- Review all aspects of preliminary technical designs and proposed standards and confirm appropriateness of design criteria, demand requirements and environmental and social factors.
- Identify the functional capacity of the existing facilities, if such exists. Evaluate the condition (and code compliance) of systems including Heating-Ventilation and Air Conditioning (HVAC), potable and waste-water service, fire protection, back-up generation, electrical and telecommunications systems. Evaluate the building's condition to include the roof, weatherproofing, insect infestation and associated damage, obvious settling mis-alignment, exterior walls, etc.
- Evaluate a requirement for renovation including space needs by function, adequate sizing of HVAC systems, potable and waste water service, safety, electrical and telecommunications requirements.
- Itemize and identify requirements for special equipment.
- Ensure supporting infrastructure such as power, water supply, wastewater treatment, solid waste disposal, transport etc., are adequately available in a sustained and environmentally and socially/ culturally acceptable manner.
- Confirm that multi-year operations and maintenance plans as well as the source of funding for such plans are in place for the proposed facility.
- Ensure that all existing facility structural studies are complete and conducted by an acceptable standard (UBC, ICBO or local) to include the joints, members, foundations, footings, etc.
- Conduct an economic analysis to compare the cost of renovation versus new construction.
- Compare the proposed design criteria to the standards to which the existing structure was designed or renovated, informed by meaningful public participation with potential beneficiaries.
- Confirm acceptability of site or site selection standards for new construction. These standards should include, but not be limited to, (a) land free of title dispute, (b) land that conforms to all applicable zoning, regulations and permitting, (c) access easements are permanently available, (d) not at risk to floods, landslides, active earthquake faults or unstable soil (liquefaction,

underlying landfill, toxicity, low bearing strength), (e) permanent utility right-of-way to service water, sewage, electricity, telecommunications, gas and solid waste disposal, and (f) geographically assessable to target customers. Should location or land availability call for modified standards (e.g., large scale seismic zones or development of sheds in coastal areas), mitigation of hazards should be included in the designs.

- Ensure that building site access commensurate with its intended use and that there is adequate area for parking, loading, etc.
- Ensure that soils investigation are complete, including site exploration with test pit explorations (with a rubber-tired backhoe at various locations) and laboratory testings (e.g., compacted CBR test, sieve analysis, Atterberg limit determinations).
- Ensure that layouts meet current and projected sizing for structure's function(s) including that all primary users have reviewed such layouts and their comments have been recorded and addressed.
- Evaluate local conditions, including local material suppliers, sources, and capabilities; and evaluate drainage alternatives.
- Ensure designs accommodate local conditions (e.g., high ambient air moisture, noise mitigation, high groundwater table, seismic issues, etc).
- Evaluate energy and resource saving measures. (e.g., white roofs, oriented for optimal exposure, motion-senor switches, etc).
- Ensure system designs are sized properly for building function, locality, and accommodates users taking into consideration gender and cultural differences of potential users. These may include but are not limited to electrical service (phases, step-down transformers, back-up supply, grounding, cogeneration), lightning protection, HVAC, potable and waste-water service points (restrooms, kitchens, pre/post treatment), safety (fire barriers, fire protection, security), systems unique to the function of the facility.
- Review and evaluate project layout, including verifying master plan dimensions and data.
- Ensure completeness and quality of the preliminary design report, including geotechnical investigation, topographical survey, foundation/structural design and analysis, drainage design analysis.
- Conduct an initial cost analysis and life-cycle cost analysis.
- Strategize bidding procedures to provide a basis for competitive bidding.
- Ensure completeness and quality of design and/or construction drawings including licensed engineer's endorsements.
- Complete estimates of probable construction costs for the recommended alternatives.
- Identify major project risks and quantify, as much as possible, the impact of these risks on project cost, timeline and quality. Develop mitigation measures and estimate the cost of mitigation.
- Develop project cost estimates for the purposes of investment decision, including all associated costs, such as costs relating to environmental mitigation, resettlement compensation, social safeguard measures, construction supervision, project management and technical audits.
- Develop provisions to be included in project cost estimate, such as physical contingency, allowances for specific risks that were identified in Appraisal, price contingencies, and allowance for the effects of foreign exchange rate fluctuations, and determine meaningful rates of inflation – local and foreign – to apply to base costs.

Technical Assessment: Economic and Financial

The MCC economist responsible for the assessment will work to ensure that proposed vertical structure projects comply with MCC Guidelines for Economic and Beneficiary Analysis. The economic rate of return for each project should be sufficiently high to warrant investment and eligible countries should have reviewed relevant governance practices, including laws and regulations, and undertaken reforms, as possible, to enhance the anticipated economic benefits generated by the infrastructure projects. Infrastructure input to this analysis may include the following:

- Identify benefits expected to flow from the projects. Focus on increases in incomes for workers, firms, and households disaggregated by income, gender, age, and ethnicity. Identify the beneficiaries to the best extent possible. Compare projected incomes and other benefits with and without the proposed project.
- Make an assessment of how benefits resulting from increased efficiencies (e.g., improved storage, reduction in wait and queue time) are likely to accrue to the extremely poor, poor, near-poor, and not-poor.
- Summarize the design standards, design life and cost estimates (capital and maintenance) and confirm that these are consistent with the assumed benefits and duration of the benefit stream. Note that the duration of the benefit stream is typically assumed to be twenty years. Assumptions that the duration is longer or shorter than this should be clearly justified.
- Confirm that the costs and project life are consistent with the engineering design.
- Complete a financial analysis.
- Confirm that the technologies that are proposed in the project and the engineering design will allow fulfillment of operational performance, as well as financial and economic objectives.

Technical Assessment: Environment, Social and Gender

MCC environment and social assessment experts will review projects for their compliance with MCC Environmental Guidelines, Gender Policy, and resettlement guidance (www.mcc.gov), which include an expectation of compliance with host-country laws, regulations and standards, as well as requirements by which the host country is bound under international agreements. Particular attention must be paid to issues which generally arise including, but not limited to, increase in both pedestrian and vehicle traffic, waste generation and storage of hazardous materials. Assessment will also inform design by including the impact of the new structure on livelihoods, gender analysis of use, control of resources, design appropriateness, and how well gender is integrated into project design, participatory planning processes, and implementation. Also, assessment related to ACM and/or LBP, and other hazardous substances that may be present in existing buildings and/or buildings sites should be performed.

- Identify country-, region- or sector-level assessments, strategies and commitments with respect to climate change and their relevance to compact activities.
- Identify climate change impacts (from the project) and risks (to the project) and corresponding mitigation and/or adaptation opportunities, as relevant.

Sustainability Assessment

- Review detailed description of current arrangements for ownership, management and maintenance of the structure(s), including details of the administrative framework, funding arrangements and maintenance responsibilities.
- Review compliance with applicable security standards necessary to realized planned benefits.
- Review existing performance with respect to clarity and acceptance of arrangements and responsibilities, and acceptance of reserves for maintenance. Identify causes of inadequate performance including administrative arrangements, resources, technical capability and capacity, and funding.
- Review maintenance programs to ensure that such plans are suitable for the new or improved structure(s), including responsibilities, resources, funding. Identify shortfalls with current arrangements and providing details of a program to strengthen management and maintenance arrangements.
- Review details of alternative maintenance funding options. Include details of income derived from users (disaggregated by gender, age, income, ethnicity, etc.) and potential for increased cost recovery.
- Prepare a summary of actions needed to maintain the structure(s) to an acceptable level, including institutional strengthening, funding (responsibility and funding levels) and additional resources needed.
- Identify the proposed chain of ownership of the structure, and whether any changes in ownership will be needed upon the end of the proposed compact.

Risk Management Assessment

- Identify significant risks to the project, in particular construction cost increases, delays, material and/or labor availability, trade union issues, local acceptance and take-up of benefits by various beneficiary groups disaggregated by socio-economics, gender, age, and ethnicity, and other factors affecting economic performance and distribution of benefits including potential resettlement, HIV/AIDS, human trafficking, or child/forced labor.
- Identify other risks, such as public accessibility, etc.
- Identify and assess significant risks relating to durability, and confirm that design criteria adopted shall mitigate these risks within acceptable tolerance levels.
- Prepare a risk management plan to minimize the negative impact of the risks.

Implementation Assessment

- Provide a summary of the technical and construction resources available in country and previous experience with projects of similar size, nature and type.
- Identify local and regional private sector familiarity with design and construction of similar projects, and evaluate potential market response to related procurements.
- Identify local factors that may affect the timely completion of the works, including transport to/from the location for the contractor's equipment, fuel and other materials, seasonal weather patterns such as avoiding the wet season, or health risks including HIV/AIDS.
- Prepare an implementation program including contract awards, any approvals and permits needed, construction times, cash flow, government commitments and other hold points as appropriate.
- Recommend an appropriate procurement procedure, sequencing, and packaging.

- Recommend suitable supervision and management arrangements.

Chapter 21: Agriculture

Within MCC's general guidelines for proposal assessment, projects in Agriculture areas will be assessed for technical, commercial, financial, economic, institutional, social and environmental suitability as outlined in detail below.

Proposal Readiness for Due Diligence

MCC will initiate its due diligence process when it receives an applicant's proposal that is considered to contain sufficient verifiable information. If insufficient information is made available in a proposal, MCC will consult the applicant and provide specific guidance and options to consider to meet standards of completeness.

In general terms, Agriculture due diligence can begin once the following information is received:

Project justification, including a well-defined national development context (or sector strategy), how the proposed project fits into the sector strategy and clearly defined targets for poverty reduction.

Project description with sufficient detail regarding the purpose, activities and outputs of the project, the geographic areas to be served, the preliminary identification of targeted beneficiaries, the products or services to be delivered, the methods of delivery, intended outcomes and a sustainability plan or exit strategy.

Project costs, including detailed estimates by type of expenditure, distinguishing between local and foreign currency.

Preliminary environmental and social review, including gender analysis (refer to Guidelines for Gender and Social Integration and Assessment).

Institutional arrangement for project implementation and sustainability of project objectives (refer to Fiscal Accountability for guidance).

Preliminary economic and financial analysis (refer to Guidelines for Economic and Beneficiary Analysis for more information).

The Value Chain Approach

Agriculture due diligence focuses heavily on value-chain analysis that assesses the structure, conduct and performance of each segment of the value chain: the market, the value-added processes and agricultural production. A value chain analysis will include a focus on *actors* (who handle the product as it moves through the value chain), *supporters* (who provide essential services) and *regulators* (who create the enabling environment). To ensure that the proposed activities are based on market opportunities, due diligence normally begins with an assessment of market conditions. Market requirements are then a fundamental factor in assessing proposals as due diligence progresses back up stream to value added activities (processing, packaging, handling and storage) and to agricultural production. Analyzing the policy and regulatory framework that affects costs, returns competitiveness

and the pattern of investment throughout the value chain are also important aspects of Agriculture due diligence.

Underlying Principles

In addition to the value-chain approach in assessing potential agriculture projects and investments, due diligence is based on three principles:

To be sustainable, investments should be market-driven and designed to include and/or attract private sector investment;
Behavioral change of project participants and beneficiaries can be expected to occur only if there are strong market incentives and functional value chains. Thus weak or dysfunctional value chains must first be improved before projects begin to focus on behavioral change;
Project design and proposed interventions should be based on international best practices, adapted as required for local use and taking into consideration what has worked and what hasn't in the past, as well as resource constraints to production (e.g. water constraints).

The Principal Elements of Agriculture Due Diligence

The core questions listed in each of the elements below convey the general issues and concerns in all agriculture proposals. However, the design and the context of each proposed project will give rise to additional questions that, together, will address the unique challenges and opportunities of each proposal.

1. Development Approach

- What are the development opportunities that the project is going to exploit? What are the critical constraints to taking advantage of these opportunities? How do they affect actors in the value chain? How will the proposed activities address these constraints or opportunities? Does the project build on lessons learned from previous agriculture or rural economic development projects and the strengths of the rural economy being targeted? If not provided by the project applicant, due diligence should include a comprehensive review of similar projects in the country implemented by other donors, a summary of the reasons for their success/failure, as well as an explanation of how the MCC-funded project is to leverage lessons learned from those other projects. In particular, due diligence needs to clearly address the question of why and how MCC plans to succeed where others have failed
- Does the proposed agricultural project draw on the natural resources base? What resources are used in the production, processing, packaging and marketing? What efforts are proposed in the design to ensure on-going availability of the natural resources needed for the proposed activities? Does the project acknowledge and mitigate risks to the natural resources base that lie beyond the scope/control of the agricultural sector such as demographic pressure and climate change?
- Do the sub-sectors identified for project investment offer the best potential for income generation and job creation, including multiplier effects, and to what degree are they inclusive of the poor?
- What are the demographics of the rural economy, both nationally and in the project region, including age, gender, geographic location, migration trends, education and employment? What are the

characteristics of the rural poor, especially those who will benefit from the proposed activities? Were the proposed targeted participants/beneficiaries consulted in the project development process? Is the project design suitable in light of these characteristics?

- Are proposed arrangements to deliver technical and financial services consistent with international best practices, particularly with respect to market orientation, responding to beneficiary needs (farm management and organizational capacity building), securing beneficiary commitment, sustainability and cost-effectiveness?
- Are there social inequalities (such as gender, ethnicity, religion, class or other socio-economic driver of status within a community or chiefdom) in access and control of productive resources relevant to the proposed project? If so, how will they be addressed?
- Do the institutions supporting actors in the value chain have sufficient capacity to carry out their roles and responsibilities (i.e. producer organizations, water user associations, aggregators, industry associations)?
- Do education levels and/or health status impact participation and/or productivity? If so, how will this be addressed?
- Are the expected outputs realistic within the available time? Are conditions likely to support further outcomes after the compact period?

2. Project Beneficiaries

- Who are the targeted beneficiaries of the intervention? What is their capacity to effectively undertake project activities and engage fully in proposed value- chains? Are the development approach and timeframe appropriate to reach these beneficiaries? Has the full range of beneficiaries been considered (e.g. women, youth, and disadvantaged/underrepresented groups, ethnic or religious minorities)? What evidence exists that these beneficiaries have been consulted?
- How does the proposed production and marketing approaches change current production and marketing arrangements? Are there distinct groups that stand to gain or lose by the proposed changes under this project? Does this change in production and marketing benefit or harm vulnerable groups?
- What are the anticipated benefits of the project for the targeted beneficiaries? What would be their expected situation without the project? (Refer to Guidelines for Economic Analysis , Guidelines for Beneficiary Analysis, and the Gender Policy for more details on conducting gender analysis on project activities and beneficiaries)
- What potential impact can the project have on vulnerable groups, such as women, marginalized ethnic groups, migrants, etc. What are the selection criteria and decision-making mechanisms to identify project beneficiaries? Have appropriate checks and balances been identified? Have special measures been undertaken to identify and engage underrepresented groups, including women, as appropriate?

3. Markets and Marketing

- Building on detailed market analysis and understanding of the current state of the market and market trends, what are the market prospects (local, national, regional and international) for the key products that will be produced by the proposed investment, and what are the key drivers of and constraints to growth in each? What is the nature of shocks that have historically had an impact on these markets/products? What are the risks that these shocks will recur, and how will they be mitigated?

- What are the distribution channels in the country for market information (e.g. supply, demand and price information) and are they effective in getting information to producers, processors, wholesale and retail buyers? If there is a gap in the system, why does it exist and what needs to be done to ensure a timely flow of the requisite information?
- What are the critical factors in assuring access to these markets and how does the project propose to address these factors?
- Are there obstacles to market access (e.g. infrastructure, policy constraints, politically powerful groups, rent-seeking, literacy levels, etc.)? What is the nature of those obstacles and how does the proposed design address those obstacles? What constraints do traders, consolidators and processors face with respect to business efficiency and expansion? How does the project address these constraints?

4. Irrigation Activities

Proposed irrigation projects often come together to form an integrated irrigated agriculture project requiring both Infrastructure and Agriculture due diligence. Chapter 18 provides details on the analysis required for any proposed irrigation investment. In addition, refer to the lessons learned paper available on the MCC website that captures Principles into Practice: MCC's Experience with Irrigated Agriculture Projects.

5. Post-Harvest Activities

- What are the current post-harvest activities occurring in the targeted value-chains? Could these be improved or scaled up in a cost-effective manner?
- Do the proposed post-harvest activities provide a sufficient return to enterprise owners, employees and agricultural suppliers to attract and retain interest in the enterprise? Attention should also be paid to annual cash flow for the enterprises.
- Do the proposed post-harvest activities reduce losses, add value or enhance market access for the target agricultural products? Do they adversely affect market access, range of markets or competitiveness?
- Does storage of target products require additional research or special infrastructure over the life of the project and if so, how will these be undertaken and maintained – in the case of infrastructure - during and post-compact implementation?

6. Agricultural Production Activities

- Is the current pattern of agricultural production in the target area conducive to the adoption of the proposed innovations, and will those changes generate significant sustainable benefits for the target beneficiaries? What is the timeline for generation of the significant sustainable benefits?
- Are there synergies or adverse effects between proposed innovations and other activities that constitute the farm or rural enterprise?
- What are the time and labor requirements evaluated by gender? Does the proposed activities increase or reduce time and labor burdens? How does this impact other economic activities undertaken by gender? (This is particularly important in smallholder operations.)
- Are the proposed innovations appropriate for beneficiaries in terms of risk, technology, culture and farm/enterprise management? Can the innovations be sustained with locally accessible resources (i.e.

parts available)? Are basic skill levels sufficient to enable proficiency and continued innovation? Are the infrastructure and support services in place to facilitate the proposed type and level of activity?

- What are the most likely risks associated with introducing and sustaining the proposed activity? Are mitigation measures available and are the likely risks reasonable for the target participants?
- How will the proposed innovation affect land and resource use? Will it produce an increase in demand for new land through forest clearing? Is there a tradition of land use planning and local land distribution? How will the proposed innovation affect or be affected by the land tenure situation in the country?
- Does sustained production of the target products require applied research, soil analysis, field trial or varietal changes over the life of the project and if so, how will these be undertaken? Will the production depend on introduced varieties? Are those adapted to local conditions? Will it displace local landraces/varieties? Will it increase or decrease risks to stakeholders?
- Will increased utilization of inputs (timber, water, agro-chemicals, etc.) result in adverse environmental impacts? If so, what mitigation and monitoring measures are planned? [Refer to Guidelines on Environment and Social Assessment]
- Has the project considered potential climate risks and vulnerabilities, such as increased floods or droughts, changes in precipitation patterns and temperature, and impacts to water availability, among others? What steps are being taken to reduce vulnerability to climate change, or take advantage of potential opportunities posed by climate change (such as longer growing seasons)

7. Inputs and Supporting Services

Value chain supporters are the providers of inputs and services such as transportation, finance, consumables, capital goods, repair and maintenance and custom services in support of each sub-system.

- Do project participants undertaking the proposed agricultural activity have access on a timely basis to (i) the improved inputs that are required to produce an output that responds to processing and market specifications (e.g.: seed, breeding stock, nursery stock, agro-chemicals, water), (ii) the technical support for their effective use, (iii) the supply and service of capital goods, and(iv) financial services including appropriate savings and credit instruments to obtain these inputs and services and to conduct transactions in an efficient, low risk manner? Are the financial institutions and instruments suited to the needs and skill levels of project beneficiaries?
- Will these inputs be used in a safe and sustainable manner and will their use complement other activities on the farm? What are the potential “downstream” effects on households, communities and the environment of new or increased use of fertilizers and pesticides? What are potential preventive measures for negative impacts (such as community education, basic and/or vocational skills, pest management plans, etc.)?
- As a key point for compact sustainability, will the activity contribute to the development of agricultural production, support services, and supply networks in the project area?
- Do the agricultural inputs and services organizations have sufficient capacity to meet the demands of the project?
- Based on the assessment of the sub-systems of the proposed project, what other critical support facilities and services (public and private) are required to achieve project objectives?

- In cases of a deficiency, can the needs of the project be met through: changes in project design, addition of a component to strengthen the facility or service in question; coordination or cross-commitment with another development project?
- Are there ways to integrate supporting facilities and services across compact Projects (e.g. land tenure/land use planning and commodity production projects)?

8. Policy and Regulatory Environment

- Are there policy or regulatory issues, whether in terms of content or administration, that appear to limit the potential benefits of the proposed project and, if so, could these constraints be alleviated through: changes in the policy, regulation or procedure concerned, changes in project design, the addition of a project component to fund change or compensatory measures related to the issue in question, or coordination or cross-commitment with another development project?
- Inherent in policy and regulatory change is the challenge of behavioral changes of government entities and producers alike. If policy or regulatory changes are needed, are sufficient funds programmed for policy development, awareness raising and capacity building for enforcement of the policies? Are these policy changes linked to implementation milestones as conditions precedent to disbursement?
- Are their policy, legal, and/or socio-cultural constraints to women and men becoming full beneficiaries of the proposed project?

9. Financial Viability for Beneficiaries
- Are financial benefits to the proposed activity sufficiently positive to attract and maintain beneficiary interest? Do the design and timing of the project respond to project participant limited capacity to absorb risk and current risk avoidance behavior. Do women and men have equal access to the financial benefits of the proposed activity?
- Will the proposed activity require cost sharing from participants? If so, do the targeted participants have the capacity and willingness to pay? If not, what evidence is there that the project is valued by participants?

10. Sustainability

- Does the intervention build on the private sector capacity to implement commercially viable solutions to identified production and market constraints?
- Does the cost of public sector support and delivery activities under the project represent a reasonable share of public fiscal resources in relation to the budget and the stated development plans of the government?
- Are subsidy programs limited and justified as a necessary public intervention? Will they foster the development of market solutions or are they likely to lead to producer/processor dependency? How will these subsidies be phased out?
- What factors promote institutional sustainability and financial self-sufficiency (training, building capacity, support by NGOs, etc.)?
- What factors promote financial sustainability and viability of the project's delivery agent beyond the life of the compact? If none, is there a clear exit strategy upon termination of funding that will preserve the project's benefit stream?

- Does the project establish or contribute to an environment attractive to private investment to foster continued economic growth and the flow of new revenues for target beneficiaries well beyond compact duration? How will the project interact with private actors?
- What provisions are in place for the project or existing institutions to attract additional private investment alongside of project activities?
- What factors promote social sustainability, including the participation and commitment of women and other underrepresented groups? Do the proposed interventions favor some groups over others? How is that favoritism perceived? Can or will it lead to potential conflict at the local, regional or national level?
- What measures are being taken to promote environmentally sustainable practices that help protect land, water, forests, fisheries, or other natural resources important to the long-term success of the project?

11. Project Costs

- What are the costs of project implementation, including activity costs as well as management, procurement, financial control, monitoring and evaluation and technical audits? (Detailed annual budgets to be completed as well as quarterly budgets for Year 1. Costs must be segmented into local and foreign currencies as well as civil works, equipment, technical assistance, project management, and other significant categories of expenditure.)
- What is the country's inflation rate and has this been reflected in project costs? Are there inflation considerations for implementation costs other than national inflation projections (e.g. security risks, regional instability, etc.)?
- What is the cost of the project per beneficiary? (Household, farm and/or enterprise budgets are necessary to establish an economic baseline and to estimate the post-implementation ERR.

12. Implementation Management

- What are the proposed management and supervisory structures that will be utilized to implement and oversee the project? What is the technical and managerial capacity of these entities? Do these local institutions have the capacity to be full implementation partners and capacity to ensure project objectives after the life of the compact?
- If there are capacity issues, is there a plan for capacity strengthening of these entities? Are there position descriptions (with clear roles, responsibilities and reporting requirements) for proposed MCA staff? Is there a results oriented personnel management plan for MCA-staff?
- Does the (integrated) project design balance the trade-off between covering a wide range of activities deemed necessary to achieve poverty-reduction outcomes and the ability to achieve tangible results within limited timeframe? Is there sufficient project management capacity built into the project given the complexity of the project?
- What is the overall timetable for the project (including time necessary to carry out procurement processes)?
- What are the plans for and evidence of stakeholder consultation throughout the project?
- What are the functional linkages of the agriculture project with other projects proposed for MCA funding? How will the appropriate level of coordination be assured during implementation?
- What are the needs for MCC oversight of this project?

13. Monitoring and Evaluation

- What are the quantifiable indicators of output (e.g. number of farmers trained, disaggregated by sex) and outcome (e.g. hectares cultivated with high value added crops) that the project expects?
- Are baseline data available for these indicators? If so, what entity collects the data, is the information statistically sound and what are the baseline values and annual targets for these indicators?
- Are the data available to monitor the project? What, if anything, is needed to strengthen the capacity or expand the scope of entities that will participate in monitoring and evaluation?
- Beyond currently available and future data sources, do additional surveys need to be developed?
- Do monitoring and evaluation plans include provisions to track impacts on specific beneficiary groups such as women and children, where practicable?
- What are the mechanisms to monitor and evaluate project results and incorporate lessons learned into ongoing operations?

Refer to MCC's Monitoring and Evaluation Guidelines, Guidelines for Economic Analysis, and Gender Policy for more details on required information and methodology.

14. Risks

- What are the principal risks inherent in the proposed project in terms of implementation as well as design? (Risks may include technology, adoption rates agro-climatic variations, sensitive timing, conflict, policy and regulatory framework, trade agreements and international relations, local customs, fragmentation of farming operations, gender inequalities, infrastructure and support services and issues of governance and transparency.)
- Are the risks considered reasonable and have mitigating measures? Are these measures adequate?

15. Donor Coordination

- Has the host country adopted a national sector plan or strategy? Is it well understood within the government and donor communities? Are donors supporting the strategy?
- What are other donors doing or what do they plan to do in sectors of potential MCC activity? Describe the nature, size and status of these programs.
- What are the functional linkages with other donors? How will MCA funds leverage, complement or reinforce other donor interventions? (I.e. are there established institutions that could be leveraged for implementation? Are there successful programs that could be scaled up?)
- What are best practices/lessons learned from past donor interventions related to the areas identified in the MCC proposal, and how were they incorporated in the project? How would other donor programs positively or negatively impact the MCA program? How could either be changed to maximize the positive complementarities?

Chapter 22: Land

This document offers guidance for countries that are proposing activities involving land tenure and property rights, land administration, or land policy and legislative reforms.

Introduction

MCC anticipates that proposals will conform, in broad terms, to the following development scenario: By strengthening land and property rights and offering more efficient services of registration, administration, adjudication and mediation, the country will strengthen tenure security and enable both male and female citizens, producers and investors to access land in transactions that are fair, cost-effective and transparent. By giving its landholders enhanced, long term security, the country can expect them to become more productive users of land and more careful protectors of land and natural resources. By removing obstacles and inefficiencies from the systems of land administration, the country can expect to benefit from increased investment and, assuming an otherwise favorable lending environment, availability of credit.

Each country will propose activities taking into account its particular regimes of law, traditions of landholding and patterns of settlement, and contemporary problems of rural and urban development. MCC assistance can be provided for four general categories of activities:

- Specific activities for the improvement of land tenure security, such as the surveying and mapping of land parcels and recording of rights, and the issuance of titles or certificates that provide legal proof of land rights;
- Specific activities intended to increase access to land by individuals and enterprises, such as the allocation or "privatization" of state or collective lands, the technological improvement of registries and land information systems, and the creation of simpler and less expensive procedures for land transactions;
- Comprehensive programs, which combine the categories of tenure security and access to land and may also include activities of land policy, legislative and regulatory reform, such as in the area of helping to clarify women's rights to land ownership and use; and
- Subsidiary activities of land allocation, survey and mapping, or land management that are linked to agricultural, infrastructure or urban development projects.

Country Choice of Activities

The country should make a careful choice of the category that is most suitable for its present needs and its future development goals. For each category a series of questions should be asked to determine its suitability.

Category 1. Activities intended to improve land tenure security are most often sought by countries that are experiencing conflict in land relations as a result of increasing population and density of settlement; over-exploitation of natural resources and diminishing quality or quantity of agricultural land; un-controlled urbanization; or under-investment in productive use of land and infrastructure. Often in such conditions, the country recognizes that its traditional instruments of law, custom or

administration are no longer capable of protecting the rights of land possession and occupancy. Landholders fear arbitrary actions by the state and conflicting claims by neighbors and third parties. In response to these problems, countries choose activities that will "formalize" the rights of landholders, demarcate the boundaries of parcels or tracts and issue to the landholders new documents with stronger legal status – titles, certificates, contracts, or administrative acts of land allocation. These activities may also improve the procedures of registration, mediation and adjudication by reorganizing their administration and introducing advanced technologies of survey, mapping and land data management. At the same time, formalization of landholders' rights may lead to the exclusion of vulnerable groups and women from potential benefits in countries where land ownership is passed along the male line, where women's land use and ownership rights are uncertain or legislation is unevenly enforced. Projects should therefore take special care not to exacerbate any gender inequalities.

In some other countries, where land tenure is relatively secure, landholders and investors may nevertheless seek improved legal documentation and precise measurement of land parcels in order to access credit and carry out transactions more easily. These countries may also undertake the same activities of "formalization" of rights and improved survey, mapping and registration.

The questions that should be asked in formulating a proposal under the category of improvement of land tenure security are the following:

- How will the new instruments of landholding proof and accurate demarcation of parcels, tracts and territorial boundaries resolve the types of conflicts that arise?
- Will the activities involve systematic procedures of "formalization" of rights, carried out village-by-village or block-by-block, or will the new instruments of landholding proof be made available to landholders by individual request?
- Will the methods of recording rights and offering documents of proof encompass all types of rights – superior rights of ownership or proprietorship and subordinate rights of temporary or long term use, occupancy, servitude, and mortgage?
- Will methods of recording rights ensure that there is space for multiple names on land titles and will the certificates ensure the gender of the title holder is recorded?
- How will the methods of recording rights affect existing gender norms around land use and land ownership?
- Are the new instruments of landholding and improved procedures of registration already familiar to the citizens or do they require substantial changes from traditional practice and understanding? If substantial changes are needed, what elements of public education and public participation will be needed to ensure that people will accept the new documents and procedures as legitimate and useful?
- Are the institutions responsible for the recording, registration and protection of landholder documents already functioning? Will they need re-structuring, re-training and capacity building? If new technologies are proposed, will they be appropriate and sustainable in the conditions of rural and urban development in the various regions of the country?

Category 2. Activities intended to improve access to land and facilitate land transactions and credit are sought by countries, which recognize obstacles for investors in the potential growth sectors of the economy, and countries that hope to remedy an imbalance in landholding between the poor or disadvantaged and more powerful groups in society. In these circumstances, countries may undertake activities of four kinds – (i) projects that offer specific lands for occupancy and use by chosen

beneficiaries; (ii) projects that offer lands for settlement and use by the poor and landless; (iii) projects that "privatize" lands under state control and thus increase the total land supply available for producers and households; and (iv) changes in legal and administrative systems that will bring transparency and cost-savings in transactions and will stimulate land markets. The pertinent questions for these activities of improved access to land are the following:

- If the proposed activities will allocate lands to specific beneficiaries or re-distribute land rights to disadvantaged persons, are there clear criteria for eligibility and transparent procedures for the choice of beneficiaries?
- What elements of public notice and public participation will be necessary to ensure that citizens recognize the procedures as fair and effective?
- Are there sufficient supporting institutions and services of land administration and registration to carry out the land transfers and the future management of documents, information and transactions?
- Do the beneficiaries of land access have the capacity and means to put the land to productive use, including access to market information, inputs and financing?
- Which methods of analysis and measurement will be used to identify the elements of procedure or administration that are the key obstacles to transactions and investment?
- Do the proposed activities, which will allocate or re-distribute land to specific beneficiaries, have the effect of reducing or limiting the use of land by others? How will these impacts be measured and is compensation required?

Category 3. Comprehensive reform programs often combine activities of land tenure security, land access and the reform of policy, legislation and regulation, and are usually sought by countries that are undergoing broad social, economic and political change. Countries that are in post-colonial, post-communist and post- conflict stages, as well as other countries that have decided on substantial modification or modernization of their political systems and economies, have sought MCC assistance for comprehensive reform. In formulating a comprehensive program, the following questions should be asked:

- Does the country have in place a coherent and widely-agreed policy, concept or "vision" in which the proposed land reforms have a defined role, or is the reform effort intended to discover, define and gain support for a new policy or vision?
- Will the new land policies, legal principles and institutions involve an abrupt change from the existing regimes of law and administration, an incremental or gradual re-adjustment, or a revival and modernization of historic principles and forms?
- Do the activities of land tenure security and land access being proposed appear to have a clear relationship to the policy goals and legislative changes, and is this relationship clearly explained?
- How will the reform programs address issues of conflicting land rights legislation and potential uneven enforcement of women's land rights (e.g. constitutions that guarantee equality but allow customary norms to trump these, which may discriminate against women)?

Category 4. Land activities as part of other initiatives arise in proposed projects such as agricultural technology investment and farm enterprise re-structuring, installation of irrigation or drainage systems, road and transport investments, urban development, and the expansion of urban and peri-urban infrastructure. The activities of land tenure security are included to fix the rights of the beneficiaries of the investments and ensure their sustainable use and maintenance. Activities of land access may also be

needed to resettle or compensate persons who are displaced or whose rights are affected by the project. The following questions should be asked along with the relevant questions from Categories 1 and 2 above.

- Is there a clear and transparent method for identifying the beneficiaries, or the persons who need resettlement or compensation?
- Do the land tenure or land access activities provide appropriate and equitable sharing of the burdens and benefits among male and female household members?

Necessary Content of all Country Proposals

In formulating its proposal for assistance, the country should include a definition of each problem that is being addressed, an explanation of why each problem is important, a description of the benefits to be realized as a result of carrying out the proposed activities with gender analysis included to clarify impact on male and female beneficiaries, a complete outline of the sequence of steps to address the problems (including reference to other related reform activities), the risks that may be encountered in implementation and the measures that are proposed to mitigate the risks. Material should be included to respond to each of the following questions:

- Have the approach and methods described in the proposal been used in earlier projects or programs in the country or elsewhere? Does the proposal incorporate "lessons learned" from the earlier experiences?
- Is there government and public support for the proposed activities? How has this support been demonstrated? If there is not a record of previous support or commitment, what measures are proposed to solicit and achieve support?
- Do the government agencies and other organizations expected to carry out the proposed activities have sufficient capacity? Will they need additional personnel and resources, new equipment or improved technologies, staff training and up-grading of management skills? What measures and actions are proposed for each of these elements?
- If new technology systems are proposed, what factors explain their suitability and sustainability?
- How will the rights of women and other vulnerable groups be affected by the activities that are proposed? What are the characteristics of the "vulnerable" groups likely to be affected in areas where the project activities will take place?
- Have conflicts over land been reported and analyzed as problems to be addressed by the proposed activities? Are there other potential conflicts that may be anticipated such as those due to a lack of clarity in legislation over land ownership upon separation or divorce and regarding inheritance? What elements of the proposed activities will address these conflicts?
- What are the estimated costs of each element of the proposed activities? What research or measurements have been taken to substantiate these costs?
- Can the proposed activities be designed, initiated and completed in the five year period of an MCC compact?
- What programs are other donors currently funded, or planning to fund?

Chapter 23: Health

This document is intended to provide an overview of the way MCC conducts due diligence on a programs containing health sector activities.

Investing in people, through health services and targeted programs to improve health status, is an important precondition for sustained economic growth. These priorities are reflected in MCC's country selection criteria. Health systems include those services, functions, and resources in a country or geographic area whose primary purpose is to affect the health status[44] of the population. This covers both the public and private health sector, and the availability and access of populations to a full range of health services, including community health, prevention and health promotion, and primary, secondary, and hospital services. It also includes the administrative and financial systems for health, the body of legislation relevant to the health system, and ancillary institutions that affect health services or health status.

MCC expects proposals for MCA funding to emphasize those interventions that support economic growth and enhance labor and productivity, particularly for the poor. These might include, for example, child health programs that reduce mortality and morbidity, and improve physical and mental development and ability to learn; programs that provide reliable and consistent maternal health care thereby reducing complications and maternal and infant mortality; programs aimed at reducing mortality and/or morbidity in adults from communicable and/or non-communicable diseases; and programs that ensure healthy work force entry and promotion of healthy lifestyles among adolescents and young people.

Proposed projects are reviewed for their contribution to poverty reduction and economic growth. Projects must clearly indicate how the activity will impact both short-run (5 – 7 years) and long-term (7 years and beyond) opportunities for economic growth. Evidence from the health sector indicates that this will likely result from improved health status (reduced mortality and disability) and/or cost savings in the health sector (improved cost-effectiveness). In many countries, improving infrastructure for primary and district health services delivery, improving health services quality, improving access to health care facilities and services (especially for women and other vulnerable groups), increasing private sector involvement in various aspects of the health system, and developing human resources for health will be important economic investments. Proposed projects must be in compliance with MCC's Environmental Guidelines and Gender Policy.

Proposed investments will probably fall under one of the following three categories:

1) Interventions to Directly Strengthen Health Outcomes

- Illustrative activities that have clear evidence for generating strong economic contribution outcomes in many countries include:
- Micronutrient and expanded childhood immunization programs
- Antenatal, delivery and health services for mothers and newborns
- HIV/AIDS, tuberculosis, and malaria prevention, treatment, and disease control

[44] Health status is defined as the level of illness or wellness of a population at a particular time, and is measured through life expectancy, mortality, disability and disease prevalence rates

- Primary care and district hospital strengthening
- Disease specific needs – e.g., ancillary infrastructure for a national anti-retroviral treatment program for HIV/AIDS
- Support for communicable and non-communicable disease prevention strategies

2) Interventions to Improve Cost-effectiveness of the Health System
Illustrative activities that increase the effectiveness of resources utilized for health include:
- Improved monitoring and surveillance for program design and evaluation
- Targeting of public expenditures to population subgroups with poorer health status
- Rationalization of hospital infrastructure and health staff
- Drug management and logistics; laboratory and blood bank improvements
- Strengthening public sector management systems hardware, software and training; performance-based outsourcing

3) Interventions Beyond the Health Sector
Optimizing health impacts of interventions beyond those in the health system should also be considered. Illustrative interventions that have large impacts on health status include investments in:
- Sustainable access to good quality water sources
- Urban and rural sanitation
- Girls' primary and secondary education
- Improved cook stoves for reduced indoor pollution
- Urban air pollution clean up
- Interventions to improve food security and nutritional outcomes
- Addressing the causes of and preventing gender based violence
- Proposal Requirements

In general terms, due diligence can begin once all the required components of a Concept Paper have been received.

Hallmarks of a strong proposal include thorough review of epidemiological conditions, assessment of the effectiveness of the current health system in addressing critical issues of mortality and morbidity, assessment of social and gender related health needs and outcomes, review of constraints to accessing health care facilities and services, and emphasis on evidence-based interventions for improving health status.

The proposal will also respond directly to the Constraints Analysis and include:

- Thorough description of the physical (population or geographic region affected), social, gender and economic dimensions of the problem, including how the government has tried to address the problem;
- Indicators, if available, of life expectancy, mortality and morbidity, access to services, or other measures that will provide a dimension that will quantify the magnitude of the problem and serve as measures of the effectiveness of the solution. This data should be analyzed by gender whenever possible. Gender indicators should be included as appropriate.

- Impacts of the proposed activity on financial and human resources for health (including demographic or geographic target populations of beneficiaries and the process for selecting them). If possible, present sex-disaggregated data.
- Regulatory, policy or legislative changes required, including steps necessary to secure these changes
- Likely poverty and gender impacts of the proposed activity
- Country (or comparable) studies or data on economic returns for the specified interventions
- Initial cost-benefit analysis;
- Detailed risk analysis on all proposed investments;
- Criteria and process used to select specific institutions for intervention;
- Performance data on institutions or systems (e.g. health outcomes and other impact evaluation results from past projects);
- Past and potential roles for private stakeholders in improving efficiency, equity, quality and maximizing impacts of public expenditures;
- Potential demand-side and supply-side financing strategies to ensure the project's long-term sustainability; including opportunities for results-based financing; and
- Opportunities to leverage or complement other donor interventions.

Due Diligence Questions

Following acceptance of the Concept Paper, MCC's Human Development Division will begin due diligence on the proposed investments. Below are examples of questions which are pursued during the due diligence phase (as relevant to the sub-sector). As possible, this information would already be incorporated into the Concept Paper:

- Does the project design clearly identify economic and social benefits from the proposed project? How will economic gains be apportioned among project beneficiaries?
- Have stakeholder analysis and adequate consultation been undertaken?
- Will the proposed activity strengthen coverage and access for the poor?
- What is the effectiveness of proposed programs in reducing maternal and infant mortality?
- Have both supply side and demand side constraints to project achievement been assessed?
- What is the evidence on effectiveness of proposed demand-side measures in increasing desired health services utilization?
- What is the evidence for the effectiveness of proposed community based interventions?
- Has the role of the private sector in meeting this objective been assessed? Have opportunities for partnering with/strengthening private sector response been included?
- Have constraints to project effectiveness and sustainability been adequately identified and addressed?
- Are behavioral change objectives appropriately identified and resourced?
- Have human resources for health issues been identified and addressed?
- Have project risks been identified and mitigated in project design?
- Have intergenerational issues been assessed and addressed?
- Have gender issues been considered and have gender concerns been integrated into project objectives and activities?
- To what extent are other donors engaged in related activities? How will coordination be ensured?

- How does this relate to on-going or planned health-related activities by US Government agencies or organizations (e.g., USAID, CDC, NIH, DOD, et alia)?
- To what extent will fiscal, legal or administrative policies constrain project success? Have these constraints been mitigated or will they be changed through project activities?
- How will any proposed pilot projects or impact evaluations relate to or contribute to state of the art knowledge in health?
- Are project governance and implementing structures clearly defined? Have institutional capacities been assessed and constraints mitigated?

Chapter 24: Education

This document is intended to provide an overview of the way MCC conducts due diligence on compact proposals focused on one or more aspects of education.

Investing in people through improving their education is an essential contributor to sustained economic growth. Recognizing this, MCC's country selection criteria include a number of education indicators that reflect a country's commitment to supporting education. MCC expects proposals for MCA funding to emphasize interventions that support economic growth and enhance productivity, particularly for the poor.

Proposals in support of education might focus on enrolment, attendance, and improving outcomes of primary education, secondary education, tertiary education, and / or vocational/technical education, and/or non-formal education. For example, in countries where universal access to primary education has been achieved, a proposal to support quality improvements in primary education and/or quality improvement and expansion of secondary or technical schools might be appropriate. Alternatively, if school-age children, particularly girls, do not have the opportunity to attend school, efforts to build that base of human capital for development might be a higher national priority.

Interventions to improve access should be balanced with efforts to improve quality of facilities or systems, and are preferably focused in domains where MCC can leverage other donors' efforts.

Depending on the specific conditions in the country, elements of an education project might include one or a combination of the following:

- Improving national education systems, to include any or all levels of education, and their links with economic and social priorities
- Curriculum revision (e.g. including focus on work readiness, life skills, gender sensitivity, skills in demand by labor market, entrepreneurial skills, competency-based approaches)
- Linking primary and secondary education to health and nutrition services
- Provision of instructional materials (textbooks, teacher guides, other learning aids)
- Improving teacher training, recruitment and/or deployment
- Improvement or expansion of continuing education and/or non-formal education (e.g. professional education, out-of-school youth, literacy)
- Scholarships or vouchers for disadvantaged
- School supplies/uniforms for disadvantaged
- Raising awareness in communities to improve educational opportunities and outcomes
- Encouragement of girls and boys towards science, math and technology
- Building or renovating schools/libraries/community resource centers to include student-friendly and safe facilities
- Modernization of school laboratories or workshops
- Local transportation systems to increase access
- Expansion or updating of apprenticeship programs
- Certification and examination system development/improvement
- Job placement or counseling programs

- Open/distance learning
- Strengthening institutional capacity (performance management systems, EMIS, supervisory/management training, administration, etc.)
- Twinning relationships
- Study tours to examine practical applications
- Proposal Requirements

In general terms, due diligence can begin once all the required components of a Concept Paper have been received. A strong proposal will respond directly to the Constraints Analysis and include the following elements:

- Thorough description of the physical, social and economic dimensions of the problem, including how the government has tried to address the problem;
- Country (or comparable) studies or data on economic returns for the specified interventions;
- Relevant/available country data on demand and supply side of market for education/skills development (including labor market information, if available);
- Regulatory, policy or legislative changes required, including steps necessary to secure these changes;
- Accordance with MCC's Guidance: Environmental Guidance, Gender Policy, Economic and Beneficiary Analysis
- Potential beneficiaries and selection process used, including sex-disaggregated data
- Benefits and how they will differ across gender and social groups
- As appropriate, growth diagnostics related to supply of skilled human resources;
- Initial cost-benefit analysis;
- Risk analysis on all proposed investments;
- Criteria and process that would be used to select institutions for intervention;
- Performance data on institutions or systems (e.g. learning outcomes, employment tracer study results, impact evaluation results from past projects);
- Past and potential roles for private stakeholders in improving efficiency, equity, quality and maximizing impacts of public expenditure;
- Potential demand-side and supply-side financing strategies to ensure the project's long-term sustainability; including opportunities for results-based financing; and
- Opportunities to leverage or complement other donor interventions to the sector/sub-sector.

Due Diligence Questions

Following acceptance of the Concept Paper, MCC's Human Development Division will begin due diligence on the proposed investments. Below are examples of questions which are pursued during the due diligence phase (as relevant to the sub-sector). A strong Concept Paper will have taken these issues into consideration:

<u>General</u>

- Does the project design clearly identify economic and social benefits from the proposed project? How will economic gains be apportioned among project beneficiaries?
- Have stakeholder analysis and adequate consultation been undertaken?
- Will the proposed activity strengthen coverage and access for the poor?

- Have both supply side and demand side constraints to project achievement been assessed?
- Have gender and other social concerns been integrated into project objectives and activities? (e.g. constraints of access, schedules, needs)
- For programs (excepting primary and secondary education), what is the public funding rationale – i.e., are there market failures that necessitate government intervention and funding?
- How will any proposed pilot projects or impact evaluations relate to or contribute to state of the art knowledge in education/training?

Infrastructure and Equipping of Facilities (for additional information, see chapter on Vertical Structures)

- What is the current facility inventory, and what is the basis for the expansion of existing and the establishment of new facilities?
- What is the labor market justification and/or local demand for investing in this/a new institution?
- How was the site selected? Will it improve access for disadvantaged populations?
- What are historic subscription rates for selected institutions?
- What is the quality of existing and potential staff in the facilities?
- Are facilities child-friendly and safe?
- Do selected institutions have recent capital and operating budgets and annual reports available summarizing sources of financing, resources used, services delivered, results achieved (e.g., learning outcomes, graduate placement), partnerships to support employability and access to enterprise support for graduates?

Curriculum Revision, Assessment/Examination, and Instructional Materials

- In what curriculum areas has the (Syllabus, Qualifications Framework, etc.) been developed? Was it benchmarked against others in the region? How is content review managed (updating of content, exams)?
- What type of labor market studies/analyses have been done, to inform skills development needs? To what degree did the private sector provide input?
- To what degree is work readiness, gender equity, health issues (e.g. HIV/AIDs, nutrition), life skills, occupational safety, etc. already covered in curricula?
- How is development, revision and distribution of instructional materials handled? Is it managed efficiently?
- What inter-ministerial cooperation exists to support skills development?

Teacher/Faculty/Service Provider Training

- Do teachers receive training in both skills/content and pedagogy?
- What are the current teacher qualification requirements?
- Is there a shortage of qualified, skilled teachers in the needed areas? How does the proposal address the shortage if there is one?
- What are retention rates? What type of incentive schemes have been attempted/are in place/are planned or proposed to recruit and retain staff?
- What is impact of HIV/AIDS and other disease on the profession?
- How are unions likely to impact the success of the specific educational activity?
- How is performance monitored? What is its primary focus?
- Once training programs are place, what mechanisms exist for ensuring their relevancy?
- What range of in-service support is provided at the local level?

Improving Access and Non-Formal Education

- What may be potential obstacles to participation? (geographic, social, gender, logistical, etc.) How do these affect delivery strategies?
- What past efforts have been made to enhance access/interest/participation of the target group?
- What routes are available for school leavers and school dropouts to improve their employability?
- Is there mobility between the non-formal and formal system?
- How are skills gained in the non-formal system evaluated and recognized?
- What is the role of various Ministries in non-formal education?

Policy and Legal Frameworks

- To what extent will fiscal, legal or administrative policies constrain project success? Have these constraints been mitigated or will they be changed through project activities?
- How does regulation and enforcement of standards currently operate?
- What is role of private industry in governance (e.g. post-secondary education)?

Institutional and Organizational Arrangement

- Are project governance and implementing structures clearly defined? Have institutional capacities been assessed and constraints mitigated?
- Are there necessary construction and operational resources available in the country or region, or how can they be brought to bear?
- To what extent are other donors engaged in related activities? How will coordination be ensured?
- How does this relate to on-going or planned related activities by US Government agencies or organizations?

Private Sector Engagement

- What is the current role (if any) of the private sector in the system?
- Do the interventions leverage the private sector to implement commercially viable solutions to identified market constraints? (knowledge, assets, co-financing)?
- Does the system have a public-private partnership policy and guidelines? Are there policy/regulatory/legal/other obstacles to private sector participation?

Co-Financing and Financial Sustainability

- How is training financed?
- How will the schools/institutes fund O&M, staff, scholarships, curriculum, etc. beyond the life of MCA funding?
- Will the proposed solution require cost-sharing from users? If so, do the targeted users have the ability to pay? Are there appropriate sources of funding for such cost-sharing requirements?
- Are subsidy programs limited and justified as a necessary public intervention? Does the proposal follow 'best practices' in this regard?
- Are there alternatives (e.g., loan programs) that could have higher impacts or lower costs (or both)?
- What factors assure financial sustainability? If none, is there a clear exit strategy upon termination of funding? Does the project initiate a flow of benefits to be reliably accrued throughout the term used to calculate the ERR?

Chapter 25: Community Development

This document is intended to provide an overview of the way MCC conducts due diligence on community-based or community-driven development programs.

Investing in people is an important condition for sustained economic growth. It is a process of enhancing people's choices by expanding their capacities to lead healthy lives, be knowledgeable, and be able to come together to address common problems. These priorities are reflected in MCC's country selection criteria.

However, investing in people requires more than building human capital in health and education; it requires building social capital within communities as well. Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of communities' social interactions. Evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable.

Community development treats communities as the point of departure for development and poverty reduction rather than as the passive recipients of programs. Communities are empowered to make local decisions and are given the resources necessary to craft local solutions. Decades of experience have shown that given access to information, support to build capacity, and investment resources, poor communities can effectively work together to improve their lives. By focusing on community capacity building as well as building community assets, community development produces community buy-in, empowers communities to drive their own development processes and thus promotes the effectiveness, efficiency, and sustainability of investments.

MCC expects proposals for MCA funding to emphasize those interventions that support economic growth and enhance labor and productivity, particularly for the poor. Projects must clearly indicate how the activity will impact both short-run (5 – 7 years) and long-term (7 years and beyond) opportunities for economic growth. Proposed projects must be in compliance with MCC's Environmental Guidelines and Gender Policy.

As community driven development focuses on process as well as particular outcomes, projects can span a wide-range of sectors and are often multi-sectorial in nature. Current MCC community development projects include competitive community infrastructure grants and block grants for health and nutrition. Other possible community development projects include:

<u>Education</u>
- Building schools, latrines, or teacher housing
- Establishing Community Schools
- Community management/involvement in school management
- Adult/Continuing Education

<u>Health</u>
- Building health centers and ancillary structures
- Block grants to communities contingent on improved community-level behavior

- Community participation in health sector management

Microfinance
- Village savings and loans programs
- Village/local insurance program

Agriculture and Natural Resource Management
- Community forests
- Management of communal land
- Farming cooperatives

Livelihoods
- Income generating livelihood activities
- Training for improve and/ or alternative livelihoods

Proposal Requirements

In general terms, due diligence can begin once all the required components of a Concept Paper have been received. Hallmarks of a strong proposal include thorough review of the targeted sector or sectors, assessment of past efforts to date to address problems in those sectors or in community development, assessment of social and gender related community needs and outcomes, review of constraints to community mobilization, and emphasis on evidence-based community development interventions.

The proposal will also respond directly to the Constraints Analysis and include:

- Thorough description of the physical (population or geographic region affected), social, gender and economic dimensions of the problem, including how the government has tried to address the problem.
- Sector specific indicators, if available, that will provide a dimension that will quantify the magnitude of the problem and serve as measures of the effectiveness of the solution. This data should be analyzed by gender whenever possible. Gender indicators should be included as appropriate.
- Impacts of the proposed activity on financial and human resources in proposed sectors (including demographic or geographic target populations of beneficiaries and the process for selecting them). If possible, present sex-disaggregated data.
- Regulatory, policy or legislative changes required, including steps necessary to secure these changes.
- Likely poverty and gender impacts of the proposed activity.
- Country (or comparable) studies or data on economic returns for the specified interventions.
- Initial cost-benefit analysis.
- Detailed risk analysis on all proposed investments with a particular focus on fiduciary risk.
- Criteria and process used to select specific institutions for intervention.
- Performance data on institutions or systems (e.g. impact evaluation results from past projects).
- Past and potential roles for private stakeholders in improving efficiency, equity, quality and maximizing impacts of public expenditures.

- Potential demand-side and supply-side financing strategies to ensure the project's long-term sustainability; including opportunities for results-based financing.
- Opportunities to leverage or complement other donor interventions.

Due Diligence Questions

Following acceptance of the Concept Paper, MCC's Education, Health, and Community Development Group will begin due diligence on the proposed investments. Below are examples of questions which are pursued during the due diligence phase (as relevant to the sub-sector). As possible, this information would already be incorporated into the Concept Paper:

Institutional Analysis

Community development is a process that involves the interaction and cooperation of central and local government as well as community organizations. Community development envisages devolving power from the center to the local level. This requires an inventory of institutional relations and capacities:

- Is central government accustomed to a coordination rather than implementation role?
- To which extent is local government accountable to its citizens and to community organizations? To what extent is it accountable to the central government?
- Is local government currently capable of administering service delivery? Could it effectively manage increased responsibility?
- Is central government transferring an adequate share of financial resources to local governments?
- What sector (health, education, agricultural extension, etc.) policies would affect (hinder or enhance) a community development project? These could include staffing, budgeting, lines of authority, performance incentives or lack thereof.
- Do local governments have the legal authority, willingness, and capability to levy taxes?
- Is there a culture and history of collective action? What local groups (community-based organizations, non-governmental organizations, faith-based organizations) exist? Which are active? How influential are they?
- Are communities familiar with participatory analysis/decision-making procedures?

Socio-Economic Analysis

- What is the poverty profile of the country?
- How could the program be targeted to those most in need so as to achieve maximum impact? Should the program be targeted regionally? To specific ethnic or minority groups? To girls?

Project Design

- Does the project design clearly identify economic and social benefits from the proposed project? How will economic gains be apportioned among project beneficiaries?
- Have stakeholder analysis and adequate consultation been undertaken?
- Will the proposed activity strengthen coverage and access to key services for the poor?
- Have both supply side and demand side constraints to project achievement been assessed?
- What is the evidence for the effectiveness of proposed community based interventions?
- Has the role of the private sector in meeting this objective been assessed? Have opportunities for partnering with/strengthening private sector response been included?

- Have constraints to project effectiveness and sustainability been adequately identified and addressed?
- Are behavioral change objectives appropriately identified and resourced?
- Have project risks been identified and mitigated in project design?
- Have intergenerational issues been assessed and addressed?
- Have gender issues been considered and have gender concerns been integrated into project objectives and activities?
- To what extent are other donors engaged in related activities? How will coordination be ensured?
- To what extent will fiscal, legal or administrative policies constrain project success? Have these constraints been mitigated or will they be changed through project activities?
- How will any proposed pilot projects or impact evaluations relate to or contribute to state of the art knowledge in community development?
- Are project governance and implementing structures clearly defined? Have institutional capacities been assessed and constraints mitigated?
- What is the plan for mitigating the particularly complicated fiduciary risk involved in community development projects?

Chapter 26: Private Sector Development

This document is intended to provide an overview of the way MCC conducts due diligence on private sector development activities.

Introduction

The due diligence process entails a rigorous analysis of the compact proposal received from an eligible country for the purpose of determining whether that proposal meets MCC criteria for funding. This document describes how that analysis is expected to be executed for Private Sector Development (PSD) components within compact proposals. It also provides best practice guidelines for due diligence of initiatives involving access to credit (specifically, on-lending) and legal and regulatory reform.

The first section (Objective and Approach) provides a brief overview of the objective of due diligence and the approach used by MCC. The second section (Due Diligence Requirements) contains questions which should guide the due diligence process for all PSD proposals. The third section (PSD Best Practice Guidelines) contains: (i) a set of general guidelines which PSD will use in assessing proposals, and (ii) standards and best practices to be used in assessing specific PSD initiatives such as access- to-credit and legal and regulatory reform. The objective of the PSD methodology is to ensure that the final compact proposals incorporating PSD will be as well-designed as possible.

Objective and Approach

The purpose of the due diligence process is to allow MCC to make an informed decision as to whether the proposed initiative is compliant with MCC guidelines, is likely to achieve the intended outcomes, and is designed in a manner which will achieve maximum results.

The PSD group undertakes due diligence through a three step process:

i) Assessing whether the proposed initiative is compliant with MCC requirements.
ii) Assessing the initiative as proposed in regard to the likelihood of its accomplishing the stated developmental challenge.
iii) Assessing whether the initiative is compliant with best practice guidelines.

PSD considers due diligence to be a critical part of the compact development process. Due diligence provides an opportunity for collaboration with core team counterparts to identify and reduce risks, strengthen proposed initiatives, ensure integration and linkages with other compact initiatives, and refine budgets and timelines. Due diligence also provides the basis for establishing any conditions precedent to be included in the legal agreements.

The due diligence process will culminate in a recommendation to either: (i) approve the initiative as-is; (ii) approve the initiative on a conditional basis (assuming certain changes); or (iii) disapprove the initiative.

MCC Due Diligence Requirements

Due diligence will commence when MCC has received a complete proposal from the core team. A complete proposal is one which includes an outline of the development challenge, the proposed

initiatives which address the development challenge, the proposed budget for those initiatives, and an economic rate of return analysis.

Due diligence will be complete when PSD has reached a conclusion as to whether the initiative as finally proposed (following assessment of the proposal as-is and full exploration of how the proposal can be strengthened) is complaint with MCC requirements, is likely to achieve its objectives, and comports with PSD best practice guidelines.

In order to make this determination, PSD will assess the proposal according to the following two sets of questions (which incorporate and expand upon MCC's Due Diligence Checklist).

Does the initiative comply with MCC requirements?

Economic Growth and Poverty Reduction

- Does the initiative show a clear and compelling link between economic growth and poverty alleviation?
- Does the projected economic rate of return meet MCC requirements?
- Is the projected economic rate of return based on logical and defensible logic?

Sustainability

- Will the proposed initiative be sustainable (capable of continuation without third party support) following compact close?
- If not, is there an acceptable rationale which would justify the initiative?
- Does the initiative rely unnecessarily on subsidies or other forms of intervention which are unacceptable to MCC?
- If so, is there an acceptable rationale for undertaking the initiative on that basis?
- Will the initiative result in a market distortion?
- If so, is there an acceptable rationale?

Social and Environmental

- Does the proposed initiative impair gender equality? Does it help strengthen gender equality?
- Does the proposed initiative violate environmental responsibility?
- Is the supply of skilled human resources sufficient to build and sustain the innovation? If not, how should this be addressed?

Fiscal Accountability

- Are the procedures for the flow of funds from MCC to accountable entities to implementing agents and sub-agents clearly documented?
- If funds will not be fully expended by compact maturity, has the disposition of financial assets by the end of the compact period been finalized in accordance with the MCC policy on Financial Intermediation Activities and Instruments Extending Beyond the Compact Termination Date?
- Have all costs, risks and timelines for initiating, running and closing the initiative been properly estimated?

- Have performance indicators been identified which can effectively track progress of the initiative and is the data sex-disaggregated whenever possible?

Consultative Process/Country Ownership

- Does the proposed initiative provide evidence that it is the outcome of a broad collaborative approach among all stakeholders?

Donor Coordination

- Have other donor, NGO and governmental-funded financial sector initiatives been reviewed to ensure proper coordination and non-overlap?
- Is the proposed initiative part of the country's national strategy and/or congruent with the country's Poverty Reduction Strategy Paper (PRSP)?

Will the initiative accomplish the stated developmental challenge?

Project Design

- Does the initiative address a key developmental challenge (a major impediment to economic growth and poverty reduction)?
- Is the initiative likely to resolve or make considerable progress in resolving that developmental challenge?
- Has the developmental challenge been effectively defined?
- Does the proposal provide a full consideration of the alternatives, and does it document why the proposed initiative is the optimal (least cost and most effective) option?
- Are the goals of the initiative clearly stated?
- What are the proposed activities/inputs which will be undertaken through the initiative?
- What are the expected outputs which will result from the proposed activities and how likely is it that they will be achieved?
- What are the expected outcomes which will result from the initiative, and how likely is it that these outcomes will be achieved?
- How likely is it that the proposed outcomes from the project will overcome the identified developmental challenge, and is this manifested in the economic logic (rate of return)?
- Do the proposed interventions support and link to other elements of the compact?
- Is the size of the proposed initiative appropriate to the target set of beneficiaries?
- Have private sector alternatives been explored to ensure no 'crowding-out' of the private sector in the subject area?
- Has a set of measurement indicators been developed which can track progress against expected objectives, with relevant data sex-disaggregated?

Implementation, Oversight and Budget

- Who is the identified implementing agent?
- How likely is it that the implementing agent will be able to effectively execute the initiative?
    - Is the implementing agent genuinely committed to the initiative?
    - Does the implementing agent have the capacity to manage and report effectively?
- If there are sub-agents (for example, banks involved in on-lending programs), how likely is it that the sub-agents can effectively execute?

    - Is there strong interest in participation in the initiative?
    - Do the sub-agents have the capacity to manage and report effectively?
- How likely is it that the accountable entity oversight body entity will be able to effectively oversee the implementing agent?
- Is the proposed budget sufficient to fund the proposed activities?
- Is the proposed timeline (including intermediate results, milestones and deliverables) reasonable?

Legal and Regulatory/Enabling Environment

- Are there legal and regulatory constraints which will impair the effectiveness of the initiative?
- Do any legal/regulatory constraints particularly impact the ability of vulnerable groups such as women and youth to participate and benefit from projects?
- If so, what measures will be taken to ameliorate any relevant legal and regulatory impediments to the success of the initiative?

Supply, Demand and Accessibility

- Is there strong demand for the products or services proposed to be delivered through the initiative?
- Are the proposed products/services to be delivered not otherwise available?
- What is the likelihood that the targeted beneficiary group will be able to access and use the products and services?

Incorporating Best Practices and Lessons Learned

- Does the proposed initiative reflect international best practices and have proposed activities been shaped by lessons learned from past projects?

PSD Best Practice Guidelines

In performing due diligence of PSD initiatives the following guidelines should be applied to ensure that the initiative as finally proposed incorporates PSD lessons learned and best practices. This section includes general requirements which provide a lens through which any and all PSD proposed initiatives should be reviewed. It also provides specific requirements which provide best practices in specific subject areas, such as in the areas of access to credit and legal and regulatory reform.

General Requirements

Economic Growth and Poverty Reduction

The proposed initiative should provide compelling evidence that the identified development challenge is a key constraint to poverty alleviation through economic growth. It should clearly demonstrate how the proposed initiative will overcome that challenge, and how this will result in growth and poverty reduction. It should incorporate an economic rate of return analysis per MCC policy, and should include a clear and justifiable underlying logic for the calculation.

In many cases, proposed PSD initiatives will tie in with and/or augment other MCC investments. If so, clear linkages must be made between the overarching compact objectives and how the PSD initiatives will support them.

Sustainability and Subsidies

The proposal should address whether the proposed initiative will be sustainable following the end of the compact. All PSD initiatives do not necessarily need to be sustainable – some may have a specific purpose and intended life if intended to address a market failure or severe market distortion. If the initiative is not intended to be sustainable, it should identify the rationale as to why this is acceptable.

The proposal should address whether the initiative relies on subsidies, partial guarantees or other forms of intervention in the market. If so, it should discuss the rationale for the subsidy and/or intervention, and should identify and document any deviance from World Bank OP 8.30. Subsidies may be appropriate if they are: (i) economically justified; (ii) transparent, targeted and capped; and (iii) do not create unfair competition.

Social and Environmental

The proposal should address MCC's social and environmental requirements and explain how the initiative will comply with MCC's social and environmental policies.

Fiscal Accountability

The proposal should describe the flow of funds from MCC to accountable entity to implementing agents and sub-agents, and explain how these funds will be monitored and audited. Where possible the flow of funds should be shown in graphic form. The proposal should describe the how disposition of financial assets at the end of a compact period (if any) will comply with MCC policy.

The proposal should address how the costs, risks and timelines for initiating, running and closing down the initiative were estimated.

Consultative Process/Country Ownership

The proposal should describe how the initiative was developed in light of the MCC requirement for a broad, collaborative process. The proposal should address how this process was undertaken, and how it has culminated in the proposed initiative.

Donor Coordination

The proposal should demonstrate a strong understanding of previous and on-going donor PSD initiatives. The proposal should demonstrate that it has been developed in consultation and coordination with other donor, NGO and governmental PSD sector initiatives and should incorporate lessons learned from those initiatives. It should integrate with those activities and present a plan for on-going coordination. As part of due diligence, a synopsis of other donor, NGO and government PSD initiatives should be included.

Project Design

The project design should clearly articulate the development challenge which the initiative is designed to address, why the developmental challenge identified is critical, and what proposed activities will be undertaken through the initiative to meet the development challenge. It should identify the outputs which are expected to result from the inputs and show the linkage between inputs and outputs (how does the former accomplish the latter). It should address the expected outcomes (the end result of the initiative), the likelihood of the expected outcomes being achieved, and the ways in which outcomes will be measured (sales growth, amount of loans outstanding, value of exports, etc.). Finally, it should

demonstrate a clear linkage between the expected outcomes and the developmental challenge – how the proposed outcomes are expected to overcome the identified developmental challenge.
There are three general baskets of PSD assistance instruments: (i) Financial Support (loans, grants, credit guarantees, equity investment); (ii) Advisory Services (technical assistance and training); and (iii) Enabling Environment Strengthening (legal and regulatory, investment climate). Most successful PSD projects provide an integrated package of these three elements, building upon the various initiatives which may already be in place.

Risk need to be identified and, to the extent possible, mitigation strategies should be documented and built into the program design. Risks to be considered include not only the risk that a program has unintended consequences (e.g. a higher loss rate than anticipated) but also the risk that demand for the product is significantly higher or lower than the assumed level of demand.

Due diligence should discuss whether the proposed initiative will duplicate other private sector funded initiatives. Generally, MCC will not support activities which result in 'crowding-out' of the private sector. Given the size of the MCC footprint, however, the proposed PSD initiative may be able to perform an organizing role in harmonizing the many smaller PSD initiatives which are likely to be in place.

Due diligence must show how (to the extent possible) the initiative is coordinated with other initiatives proposed within the compact. The proposal should provide a means of measuring progress, including a baseline (starting measurements) and performance indicators that are sex-disaggregated, to the extent possible, and reported on a periodic basis.

Implementation, Oversight and Budget
The proposal should address how the initiative will be implemented, overseen and funded. It should identify who the implementing agent is proposed to be and in what ways the implementing agent is qualified for that role.

If there are sub-agents (for example, banks involved in on-lending programs) it should address how those sub-agents will be selected. The proposal should address how determination will be made of the effectiveness of the sub-agents to serve as financial intermediaries and to manage and report effectively.
The proposal should address the proposed budget and demonstrate that it is sufficient to fund the proposed activities.

Cost estimates may be difficult to assess because of different cost structures of potential providers. For example, the costs of a technical assistance provider based in Europe may be different than for a US-based provider because of exchange rates, transportation costs, and wage scales. Budgets should generally assume a relatively high-cost provider so as not to under-fund projects.

Legal and Regulatory/Enabling Environment
The proposal should discuss the overarching environment in which the initiative will occur and any factors therein which will have an impact on the success of the initiative. This will include the legal and regulatory environment (e.g., legislation supporting enforcement of property rights, the capacity of the courts to enforce this legislation, ambiguity or inequality in regards to women's rights to own land or access credit) and the overall enabling environment (e.g., employment flexibility, restrictive labor laws

that bar women from working after certain hours or in certain industries, constraints to transfer/export of products).

Supply, Demand and Accessibility

The proposal should address the demand for the products or services which are proposed to be delivered through the initiative. It should address whether the proposed products and services to be delivered are available in the market place, and if not, why not. If the products and services are available, it should address whether the initiative will be duplicative, and if not, what will be different.

It should address the ability of the targeted beneficiary group to access the products and services, and in the case of credit programs, the physical access of beneficiaries to financial institutions.

Incorporating Best Practices and Lessons Learned

Due diligence should address how the proposal incorporates lessons learned and best practices, where possible drawing from the results achieved by similar initiatives.

Specific Requirements: On-Lending Initiatives

Is the identified development challenge a key constraint to poverty reduction through economic growth?

Broadly speaking, private sector enterprises are affected by three factors: (i) demand for their goods and services, (ii) the business environment in which they operate, and (iii) the way in which they respond to market opportunities. The ability of firms to respond to market opportunities is strengthened when they can access credit. But care must be taken to distinguish among differing circumstances in which access to credit might be cited as the problem. Low levels of lending may be attributable to appropriate risk aversion on the part of lenders, market distortion or failure, or to a lack of suitable demand. Efforts should be made to ascertain the specific causes of the problem so that the root causes can be addressed along with the symptoms.

Will improving access to credit provide a credible solution to the developmental challenge?

If access to credit is determined to be a key constraint, assessment should be undertaken as to whether the initiative as proposed will be effective in solving the developmental challenge in light of the framework identified above (demand for good and services, business environment and firm response). In general, financial services in most developing and transitional economies do not adequately serve the needs of small and growing businesses. However this is usually less a function of supply (liquidity) and more of a problem of insufficient intermediation skills, weak enabling environment and inappropriate credit instruments, among other possible factors. As such, program design should take into consideration: (i) the beneficiaries who should benefit from the program; (ii) the enabling environment in which the program will be implemented; (iii) the proposed intermediaries who will implement the access to credit programs; and (iv) the financial instruments to be used.

Beneficiaries and Demand

The perception of a financing gap may mask fundamental problems at the firm level or within the enabling environment. To what extent does demand for credit outstrip supply, and what is the cause? Is it an issue of pricing, extreme risk aversion on the part of lenders, the legal and regulatory environment, lack of acceptable credit proposals, or a combination thereof?

If a financing facility is proposed, documentation should be provided that the size of the facility proposed is appropriate to the target set of beneficiaries and within the capacity of the institutions which would act as financial intermediaries. Where specifically is the unmet demand – which is the specific target audience?

Consideration should be given to developing the capacity of the beneficiaries to act as effective borrowers. Increasing financial literacy may result in stronger proposals, thereby lowering transaction costs and risk premium.

Programs which offer mentoring/advisory services in conjunction with other forms of supply-side support to financial intermediaries seem to have greater success. To what extent are or should business advisory services be available to potential beneficiaries as part of the program?

The most important test of whether an intervention will be successful is whether beneficiaries will exploit it. It is important to assess what obstacles may exist from the perspective of the targeted beneficiaries, e.g. literacy, lack of familiarity/trust with financial intermediaries, cultural attitudes toward debt, etc.

Enabling Environment

A review of the system of contract enforcement and dispute resolution should be done to assess whether attention needs to be extended to reforms that may influence the extension of private credit. The World Bank's "Doing Business" reports generally provide insight as to whether non-credit issues explain access to credit problems.

For example, it is often difficult in emerging markets to perfect a security interest in collateral, and to enforce that security interest in the event of default. Insolvency procedures are often unreliable and subject to judicial discretion. In some cases this can be mitigated through the introduction of secured lending/commercial finance techniques in combination with the introduction of a pledge registry for movable property.

Accurate information is also a universal problem in developing countries. Accounting and auditing practices are often weak, and credit information is often difficult to obtain.

In addition, certain barriers in the legal and regulatory environment may prevent women from accessing credit, such as unequal access to property in a collateral-based banking system. An assessment of such potential barriers should be made, and potential solutions recommended to remove any existing gender barriers.

Intermediaries/Implementers

In most cases, supporting existing financial institutions (on-lending) is preferable to creating stand-alone SME credit programs. However this will depend upon the capacity of the proposed participating financial institutions – in some instances, de novo special purpose institutions have been instrumental in fostering competition and providing lighthouses for other institutions.

Attention should be given to the credit culture of the proposed financial intermediaries. While losses are to be expected, programs should not be supported if it is unlikely that losses cannot be stabilized at an acceptable level before the end of the compact period.
The capability of a small financial institution, e.g. an MFI, to deliver new financial instruments should be carefully questioned. Interviews with such intermediaries are necessary to determine both their willingness to participate, their capacity to underwriting effectively, and whether additional capacity building efforts may be required. Consideration needs to be given to how intermediaries have performed in other donor programs and their ability to file reliable reports in a timely manner.
Criteria need to be in place to determine which financial institutions are eligible to participate.
Interviews with regulators, when available, are important to make sure that financial institutions that are on watch lists are not included as participants unless special controls are added.

If institutional strengthening is proposed, documentation should be provided showing how the provision of technical assistance to financial institutions or regulators will support the creation of a stronger credit culture, increased competition within the financial sector, improve regulation, or otherwise strengthen the financial sector.

Flexibility should be maintained to adjust program terms during the compact period to respond to actual loan or guarantee loss experience. In identifying participating financial institutions, care should be given to ensuring broad geographic coverage and the ability of beneficiaries to physically reach financial institutions and vice versa. If this problem is not addressed, high delivery costs may make a project unrealistic.

Instruments/Initiatives
Consideration should be given to the credit instruments which will be offered. Banks in developing countries will often lend only on the basis of real property (land and buildings) and/or on personal guarantees, which has the effect of excluding poor applicants and female applicants with good ideas but limited collateral.

Tenor is a particular problem in most developing countries – banks are rarely willing to lend on a medium to long term basis (2-5 years). Few investments are likely to have a repayment horizon which can be met on a short-term basis. A common problem for SMEs is a lack of financing for SMEs above the micro-finance level and below the level at which commercial banks generally show interest. Attention should be given to requirements for funding with regard to both size and term.

Inclusion of subordinated or quasi-equity instruments should be considered (e.g., preferred stock, debt with warrants). But such instruments need to be reviewed to determine if they can be easily understood by providers as well as beneficiaries and should require minimal legal documentation.

What are the alternative credit instruments with which the proposed activity would compete? MCC project should not dissuade other private sector entrants, including MFIs, in a meaningful way.

Is the proposed initiative properly structured?
Fiscal accountability concerns are particularly high in on-lending programs because of the potential for corruption and capture. Too often, beneficiaries have seen on-lending programs as grant programs in disguise with resulting low rates of repayment.

Oversight/Accountability
Procedures for the flow of funds from MCC through accountable entity to financial intermediaries must be understood and documented. Proper auditing and monitoring procedures should be established within the proposal.

Estimated budget and timeline
The proposed timeline should demonstrate the ability to accomplish the intended initiative within the compact period (with the ability of access to credit programs to extend beyond compact-end).

Impact measurement and results indicators
The proposal should document the intended impact from the initiative and the intermediate indicators by which results will be measured. In access to credit programs, indicators may include:

- Loan disbursement
- Revenues
- Job creation

Compliance with MCC gender and environmental requirements
The proposal should document that the initiative will comply with MCC guidelines:

- Analyze particular barriers that women may face in accessing credit. This includes examining legislation and regulations that may create special barriers for women, such as collateral requirements, loan co-signatory requirements, discriminatory bank practices, weak or non-existent credit registries that do not capture women's repayment records in microfinance, and women's lack of financial and business management skills that may result in lower ability to comply with bank requirements during the loan application process.
- Design programs that support women's ability to access credit in all forms (geographic, business line, funding). This includes, among others, addressing issues identified in the above analysis by adjusting collateral requirements, reforming discriminatory regulations, and tailoring training activities to women.
- Loan eligibility criteria prohibit loans for banned pesticides and chemicals in accordance with partner country standards and MCC environmental guidelines.

Will the proposed initiative be sustainable?
In general, access to credit programs should be designed to be sustainable; however in some instances (market failure) such programs may be structured on a special purpose basis. Subsidizes can be appropriate so long as the are highly targeted, fill a specific market need, and are not intended to be perpetual.

Sustainability of participating institutions and transfer to skills
Consideration should be given to the credit culture (underwriting and portfolio management skills) of participating institutions. In almost all cases, on-lending programs should include a technical assistance component to transfer credit/risk management skills to participating institutions.
Particular attention should be given to the selection of participating institutions with regard to capital adequacy and the ability to absorb losses.

Use of subsidies

Subsidies can take multiple forms. Interest rate subsidies that are directed at intermediaries as an inducement are more acceptable than subsidies directed at end users (borrowers), but should in any case be tested to determine the extent to which they might dissuade private sector participation in the same activity.

Subsidies may be used as an inducement in selected circumstances to draw financial institutions toward new market segments or regions. Such subsidies might include full or partial reimbursement of operation costs for a short period of time. However, such subsidies are appropriate only when there is a likelihood of sustainability when these inducements cease.

Partial guarantee structures that guarantee intermediary losses in excess of 50% should generally be rejected as carrying too high a degree of moral hazard. Partial guarantee programs may be used when there is judged to be a difference between lenders' perceived risks and actual market risk. However, in such cases, technical assistance will usually be required to upgrade credit analysis and risk management skills so that market activity will persist beyond the end of the guarantee program.

Transition plan

MCA counterparties should be aware of the MCC policy with respect to the disposition of financial assets at the end of a compact period, and (if so intended) the proposal should document how the proceeds from the initiative will be transferred and tracked

Is the proposal coordinated with other Private Sector Development initiatives as well as other elements within the compact?

It is likely that there will be several other micro-finance and/or on-lending programs in place. As such, it is particularly important that the MCC funded program compliment and not compete with other programs. In addition, MCC on-lending initiatives should be developed in harmony with other compact initiatives to as to leverage compact impact.

Coordination with other donor/governmental initiatives

Most developing countries have numerous micro-finance programs and many have SME on-lending facilities. Proposals should ensure that these programs are identified, and that pricing and terms on these programs be roughly comparable.

On-lending proposals should show how the MCC funded program will be uniquely targeted and not simply additive. Due diligence should address consultations held with all the key donors and NGOs and document the outcomes of these meetings.

Coordination with other compact initiatives

Generally on-lending programs will be structured to support other compact components focusing on rural or SME development. Care should be taken to consider areas of overlap with these activities to align the geographic coverage and take into consideration other donor programs operating on the same population or area.

The sequencing of activities should be consistent with the sequencing and timelines for the activities that the financial sector intervention is expected to support.

Specific Requirements: Legal and Regulatory Reform

Is the identified development challenge a key constraint to poverty reduction through economic growth?

The legal and regulatory environment in which businesses must operate is a critical factor in private sector development. That said, more often than not legal and regulatory reform initiatives are likely to be elements within initiatives rather than overt stand-alone initiatives.
In compact initiatives in which legal and regulatory reforms are proposed, the proposal should clearly document the intended benefit of such reforms in terms of economic impact. If legal and regulatory reforms are proposed as a sub-activity within another activity, the proposal should reflect what the impact will be if the reforms are not accomplished.

Is the proposed initiative a credible solution to the developmental challenge?
In order to have the intended impact, legal and regulatory reforms must not only be embodied as changes in law, but embodied in the overall legal, economic and social fabric as well. For example, if the proposed activity is primarily focused on improving the operations of courts, it may also be concerned with upgrading other related components in the legal system (e.g., private bar, law schools, lawyers in government agencies), to avoid uneven progress in the system.

Beneficiaries and Demand
The proposal should document how the intervention will overcome the identified impediment – from the practical perspective of the beneficiary.

Enabling Environment
The proposal should address the overarching enabling environment, particularly related policies, laws, regulations and procedures. This is the water in which the activity swims or drowns. For example, if an initiative aims to build courts to improve access to justice, it must also consider all of those aspects beyond bricks and mortar – issues of capacity building, dissemination of information, and case management to note just a few.

Implementation
Laws and regulations are implemented through the justice system, and the proposal must document how legal and regulatory changes will be implemented and enforced. For example, several developing countries have adopted modern bankruptcy laws; however the judicial system commonly refuses to enforce such laws as a matter of social custom.

Is the proposed initiative properly structured?
The proposal should describe the flow of funds as well as oversight. MCA counterparties should be aware that if governmental entities will be implementing the initiative, there are particular limits to what MCC can support (i.e., goods or outside consultants are permissible, but salaries or other payments to government officials are not). The proposal should provide some sort of starting measurements, whether our goal is to speed the resolution of commercial disputes, or increase the number of labor disputes that are addressed through mediation.

Impact measurement and results indicators

Indicative indicators for legal and regulatory reform achievement might include:

- the speed the resolution of commercial disputes
- The increase the number of labor disputes that are addressed through mediation.

Compliance with MCC gender and environmental requirements

The proposed activity should support women's access to justice, legal services, or other law-related services. The activity should promote broader access to legal services, particularly to disadvantaged groups, and not just expand services to groups (such as business owners) that may already have greater advantages than ordinary citizens.

Geographic issues should be documented in the proposal – the initiative should have significant impact beyond merely the capital or major cities.

Will the proposed initiative be sustainable?

In the case of legal projects particularly, sustainability may largely depend on government budgets, rather than increased revenues, as well as sustained political will.

Sustainability of participating institutions

The proposal should document the commitment of the government to fully fund legal and regulatory reform initiatives, as well as the likelihood that the policies, laws and regulations be made and implemented on a consistent and transparent basis.

Consideration should be given to whether there is a personal or political dynamic that prevents or corrupts change or is not being harnessed to promote change.

Transfer of skills

With initiatives which will require a new set of skills or expertise, the proposal should document how training/skills transfer will be executed. Where skills transfer is proposed, it should identify how the persons responsible for policy and implementation with respect to the activity will gain the knowledge they need to make good decisions and implement them.

Is the proposal coordinated with other Private Sector Development initiatives as well as other elements within the compact?

It is particularly important that proposed legal and regulatory reform initiatives emerge from a true consultative process, and are coordinated with other legal and regulatory/judicial reform initiatives.

Coordination with other donor/NGO/governmental initiatives

The activity should evidence input from all relevant legal groups (government, judiciary, private bar, academia, law-related NGO's, women's legal and advocacy groups) as well as non-groups private business, civil society, and others.

Coordination with other compact initiatives

In virtually all cases, legal and regulatory reforms will coordinate directly with other compact initiatives. The proposal should make a clear linkage between the activities and the intended cause and effect.

Chapter 27: Guidance for Private and Non-Governmental Sector Engagement

Overview

MCC recognizes the key role that the non-governmental sector – including the private sector (international as well as domestic, small- and medium-sized as well as large), foundations, philanthropic and social responsibility funds, non-governmental organizations (NGOs), non-profits generally, and international financial institutions - can play in economic growth and poverty reduction, particularly in regard to the sustainability of investment impact and the efficient mobilization and application of capital.

Although these are very different types of institutions, this guidance refers to them collectively as "the private sector" as a short-hand for non-governmental engagement and because of the importance MCC attributes to encouragement of commercial, for-profit engagement as an engine for economic growth. MCC wants to encourage government partners to reduce dependence on government action to solve problems, and is particularly interested in encouraging partnerships with the private sector in the narrower sense to catalyze and leverage investment. Funding under MCC compacts can go to the private sector, NGOs and other actors where there is a genuine public good which can be achieved through such funding.

MCC is especially interested in supporting partnerships which, directly or indirectly, contribute to making investment in a country or a sector more attractive to private (that is, non-governmental) capital. While this may be foreign inward investment, MCC is very much interested in domestic inward investment as well. MCC considers that in the long run, it is domestic markets and domestic capital that will underpin sustained economic growth. Consideration and, where feasible, inclusion of private sector partners and strategies for private sector development is expected to be a factor in the development and implementation of compact programs, and MCC will be seeking evidence that at a minimum private sector-led or directed strategies have been considered as part of the compact development process.

Alongside encouragement of broad types of partnerships focusing on program design and delivery, MCC is also interested in encouraging a broad range of financing instruments and innovative program content, including the application of new and appropriate technology. Attraction of new partners and promotion of new types of program content often depends on a creative use of the types of financing vehicles available. MCC is interested in encouraging new instruments – guarantees and other risk-sharing instruments, investment facilities, output-based aid, performance contracting, parallel financing, matching grants, first loss facilities, etc. – to the extent that such instruments can be used under MCC and USG policies. These types of instruments can be considered if they follow logically from the identification and analysis of constraints to growth, are part of projects that have promising returns in terms of poverty reduction and economic growth, and have the potential to increase the impact and/or sustainability of MCC funded investments.

Objectives of Private and Non-Governmental Sector Engagement

The private sector is not a blanket solution to all problems. The relevance and effectiveness of private sector engagement depends on a range of factors which need to be considered. For example, delivery of education and health programs may strongly benefit from partnerships among NGOs, public entities, and the private sector. Agricultural projects (including credit facilities, value-chain and market

enhancement, applied technology, etc.) may depend on a creative engagement of the private sector for long term viability. On the other hand, delivery of certain goods and services – such as roads, schools, public clinics, or services like E-Government – is generally carried out by the public sector, sometimes with private sector operating contracts. MCC's basic objective is to ensure that our country partners consider when and how the private sector can be most effectively and productively engaged in order to leverage or otherwise enhance project impact and sustainability. This may at times lead to relatively higher cost solutions, rather than a direct form of government implementation, but may reflect a better overall risk transfer or sustainability profile.

MCC is actively engaged in assisting country counter-parts to have as broad a range of options in regard to private sector participation as possible. Working with our country counter-parts, MCC encourages in particular:

1. Implementing a private sector engagement strategy;
2. Leveraging compact funding;
3. Encouraging trade and investment that builds on compact investments; and
4. Optimizing procurements.

In pursuing private sector engagement, MCC encourages its country partners to develop a private sector engagement strategy or plan. In developing this plan, consideration should be given to such approaches as publishing formal solicitations for partnership proposals; retention of private sector advisory and training services; identification of sectors or regions which look particularly promising for economic growth (ideally as part of a broader analysis of constraints to growth analysis); production of business opportunity memos (highlighting areas identified in the constraints analysis); and recognizing opportunities to broaden competition in procurements in order to maximize potential cost-effectiveness. The discussion below provides further discussion, but is not intended to be exhaustive. MCC is happy to explore possible approaches more fully.

1. Implementing a Private and Non-Governmental Sector Engagement Strategy

As a country develops and evaluates project concepts and proposals, it is important to develop a strategy or plan to obtain specific feedback from potential private sector investors on how proposed projects under a compact can attract additional investment. Even where projects are likely to remain embedded in the public sector, it is often extremely useful to get private sector input on their design and ultimate impact. Involving potential partners as projects are being conceptualized and developed significantly increases the likelihood for leveraging MCC's grant, either through direct private sector participation in MCC projects or in complementary investments alongside MCC projects. International as well as domestic companies and organizations can offer significant insight about their perceptions of constraints to economic growth and investment in compact-eligible countries, and often have valuable experience with successful and unsuccessful approaches to addressing these constraints. MCC can assist countries in the development of such strategies or plans during the constraints analysis and project conceptualization phase.

MCC's compact development guidance requires that partner countries consider conditions for growth in private sector activity in their countries, and actively seek input from the private sector and other

stakeholders. Some additional ways to approach obtaining and acting upon private sector feedback are summarized below, with more information and advice available from MCC upon request.

Private Sector Partner Research and Analysis

As a first step, a country can conduct systematic research to identify potential local and international partners and/or investors that could synergize compact investments with their own resources. For example, if a proposed compact activity includes support for a specific value chain, the country core team should reach out to input suppliers, transporters, finance providers, trade associations, and buyers, among others. The country core team can also conduct research and analysis of best practice private sector partnership models in priority sectors, identifying key factors for success and risks to mitigate. World Bank "Doing Business" indicators can also be used to identify priority investment climate constraints.

Engaging the Private Sector

Where potential for private sector engagement exists, it is important to explore directly the types of cooperation which make sense in a particular context and possible ways to formalize working relationships. These may range from parallel but largely separate activities through formal agreements to full and integrated collaboration. Over and above direct discussion, it is often useful to hold professionally facilitated workshops, roundtables, and targeted discussions with potential collaborators to ensure that all parties understand the concept or proposal and its objectives and to get the benefit of varying perspectives on project design and implementation. Such discussions also help to identify the roles, responsibilities, and resources which potential collaborators can add bring to a project. It may also be useful to publish partnership solicitations that seek feedback from the private sector on specific compact partnership opportunities or potential solutions for particular problems. Examples are available from MCC upon request.

Documenting Agreements between Parties

Where cooperation makes sense, it is important to document what is agreed so that all parties share a common understanding of expectations. As noted above, some forms of collaboration – such as parallel but separate project development – may only require some way of memorializing the understanding about how the projects will interface or relate to one another. Other forms of cooperation may rise to the level of legal, financial, or operational partnerships. In due course, some of these would require formal legal documentation. In both cases, it is important that all parties intending to collaborate develop what might be called "collaboration agreements". While these would not be legally binding in most cases, they are a useful way of recording expectations about the roles and responsibilities, joint and separate activities, timelines, and resources required to move forward together. They should be based on a clear articulation of why a collaborative arrangement fits with the criteria MCC uses to assess the viability of proposed projects. An "action plan" should be the basis for moving from the conceptual to the substantive phase of project development. During that process, country core teams – in consultation with MCC - will need to consider the type of cooperative arrangement suited to the circumstances. Formal partnerships would require structuring and negotiation of terms for collaboration, including financing, as described in the section below.

Use of grant facilities

While MCC funding of the compact is itself in the form of grants, MCC also encourages the use of grant facilities as a method of disbursement on projects within compacts. Such facilities may be particularly

useful as, for example, a mechanism for distributing compact funds in a number of small grants to individuals or firms (e.g., to allow farmers who have been in a training program to buy equipment). MCC is actively exploring the use of grant facilities to promote more innovative approaches to project design and development as well as to delivery of projects in the field. It is important to keep in mind that cooperative arrangements need to pass a number of tests, including an appropriate balance of public versus private goods, proper consideration of whether a procurement or a partnership is the appropriate vehicle for cooperation, effect on risk allocation, avoidance of undue subsidization, etc. For example, there might be a call for proposals from NGOs for ideas about how to address water management issues in a rural agricultural area or a design competition for energy efficient housing. Respondents would be selected to participate in design and development on the basis of such factors as relevant experience in the specified field (e.g., water management), relevant experience in the country, reputation for quality of service/product delivery, location in the target areas, availability of staff, etc. Forms of grant may also be used within the compact to implement certain projects (for example, farmers who have received training and need specific equipment, households who need assistance to purchase energy efficient appliances, NGOs who can deliver an important good or service but who need some form of matching grant to expand their activities even after making in-kind contributions).

Creating a Window for Innovation and Collaboration

MCC is exploring the possibility of creating "space" within the compacts for innovation, especially where it would involve taking advantage of opportunities for collaboration and partnership that arise after compact signing, as well as introduction of new approaches, including new technologies or financial products, as they evolve. Accordingly, country counter-parts are encouraged to consider creating "innovation and partnership facilities" within new compacts, based on a clear outline of the types of new engagements or project content which would be considered most suitable within the overall compact structure and having regard for the economic and investment constraints identified. These proposals should be linked to overall compact objectives and ideally to specific project proposals, but would allow for the possibility that new opportunities might arise during compact implementation. For example, a compact which included activities addressing energy accessibility and affordability issues might create an "innovation facility" for funding new innovations in alternative energy (e.g., solar or wind power) as they became available. Note that such facilities cannot simply be open-ended, and will require a basic structure and rationale which ensures that they meet core MCC policies and principles. "Innovation and partnership facilities" would need to have a clear project logic even where the specific activities and beneficiaries may be unknown, and would be approved based on such considerations as operational structure, proposed evaluation criteria (including minimal economic rates of return), relevance to addressing identified constraints, focus on relevant target populations or regions, etc.

Keeping Everyone Informed

Designing, developing, and ultimately implementing compact programs involves country teams and MCC staff working cooperatively in their respective spheres (for example, country teams on programming and MCC staff on due diligence and oversight). It is important that the parties work closely together, and this means keeping one another well informed about private sector engagement beyond the formal structures outlined in the compact development guidance. Both the country core teams and MCC in Washington are likely to be contacted by the private sector, and while some preliminary independent exploration of possibilities is appropriate, the other party should be informed at an early stage. It is important that proposed forms of collaboration are in compliance with the various policies and procedures which govern use of MCC funding as well as with local laws and regulations. In

particular, the distinctions between what is appropriate for partnership and what is appropriate for procurement are issues which may require case-by-case analysis.

2. Leveraging Compact Funding

A key objective of cooperation on projects with the private sector is to increase leverage of skills, experience, technology, and funding in order to improve performance, impact, and sustainability. Many of the activities which MCC regularly funds can benefit from the additional resources of the private sector. Many NGOs, for example, are already engaged in delivering services (such as health, education and skills training) and goods (such as solar pumps, clean cook stoves, and mosquito nets) and can provide a tested and established basis for outreach and distribution alongside their specific target programs. Because of their existing networks and potentially complementary activities, they may be an efficient and effective delivery mechanism for new programs while bringing significant resources to a cooperative effort, rather than just providing services under a contract.

Private sector entities, including but not limited to social responsibility funds, can sometimes provide matching funding and co-financing for activities as well as at cost equipment, training, and support. The objective in developing a collaborative relationship is to consider: what is the problem we are trying to solve? And then to consider: what is the best way of doing so, given the available resources? In many cases, the answer to the second question will involve bringing in the private sector so that ultimately a "road project" may become a "road corridor project", a "water and sanitation project" may become a "community development project", and engagement of private sector entities may significantly increase the scope, resources, and technology available to a former training project.

In considering the more formal types of private sector engagement in particular, there are a number of resources which are available in the public domain. These include the following donor facilities that award grants for technical assistance, workshops, feasibility studies, and transaction execution. They welcome funding applications for any type of project, but are particularly interested in applications that directly support development or implementation of a compact project. Any core team interested in formally applying for funding from one or more of these three resources should inform MCC, as MCC has existing institutional relationships with each.

<u>Public-Private Infrastructure Advisory Facility (PPIAF)</u>

PPIAF funds consultants to design and implement strategies for private sector participation; stakeholder consultation; policy, regulatory, and institutional reforms; capacity building; and facilitation of pioneering transactions. MCC is an official donor to this trust fund so has direct access to its resources. PPIAF is funding a financial sustainability plan for the Malawi compact's proposed power project and transaction design for the Mozambique compact's water project.

<u>Global Partnership on Output-Based Aid (GPOBA)</u>

GPOBA funds consultants to design output-based aid (OBA) schemes. OBA seeks to increase access by poor communities to basic public services through innovative delivery approaches, such as performance-based connection subsidies. Applicable sectors are energy, transport, water, sanitation, education, and health. GPOBA has funded a study focusing on wastewater connections for the Jordan compact.

<u>International Finance Corporation (IFC) and Private Infrastructure Development Group (PIDG)</u>

IFC manages a trust fund called DevCo, which is formally part of the donor-funded PIDG. DevCo funds transaction execution for most kinds of public-private partnership. Related PIDG funds called InfraCo and AgDevCo partner with governments to develop partnerships in infrastructure and agriculture. IFC has advised the Government of Benin on a concession of the Port of Cotonou's compact-funded South Wharf.

3. Encouraging Trade and Investment that Builds on Compact Investments

Trade and investment, both domestic and cross-border, are widely regarded as critical factors in sustainable economic development. MCC is committed to promoting and supporting investment and trade opportunities in compact proposals and encourages country counter-parts to consider these objectives in developing compact proposals as well as in compact implementation. This interest is an integral part of MCC's broader interest in private sector engagement. Countries are encouraged to identify projects with a demonstrable linkage to improved trade prospects or attraction of direct investment. MCC is particularly interested in encouraging direct domestic investment by local entities. Promotion of foreign or domestic investment may involve legal and regulatory reform and/or development of local capital markets.

Agriculture is one sector likely to be a focal point for promotion of both trade and investment. Projects in this area might, for example, target private businesses involved in business activity which complements MCC investments. Potential opportunities might include value chain inputs, processing, marketing, commercial infrastructure, support services (financial, equipment, IT, quality testing), and technological innovation. These opportunities provide solutions that add value within targeted economic sectors, and can build on existing compact investments, growth strategies, and in-country institutions like trade promotion agencies. One source of support for exploration of trade and investment promotion is set out below, but many countries have their own internal trade promotion institutions, and many regional development banks also provide support in this area.

U.S. Trade and Development Agency (USTDA)
USTDA, a U.S. Government agency, funds consultants to define public-private investment opportunities, and to advise officials on trade, technology, standards, and regulations in a variety of sectors. USTDA funded feasibility studies supporting private trade and investment around the Morocco compact's agriculture project, the El Salvador compact's road project, and the Ghana compact's agriculture project. USTDA funds "reverse trade missions," through which compact country officials learn about U.S. technology and can identify prospective counter-parts.

4. Optimizing Procurements – A Particular Type of Engagement

Increasing the effectiveness of procurements in both the compact development and compact implementation phases is a particular type of engagement with the private sector aimed at getting best value for money. Since most projects within compacts are ultimately delivered through contracted agents, effective and competitive procurement provides the foundation for successful compact implementation. MCC's Program Procurement Guidelines specify the rules for managing procurements. MCC has determined that making extra efforts up-front to attract a wide range of quality candidates for procurements and therefore going beyond minimum requirements in order to increase awareness about

procurement opportunities associated with compact programs can significantly improve the quality of the contractors, the competitiveness of the pricing, and the speed and quality of implementation.

MCC can provide the benefit of experience in many countries and sectors in regard to procurement. A few useful suggestions include:

- Bundle procurements into sizeable contracts / packages suitable for regional and international firms;
- Utilize "multipliers," such as embassies and trade associations, that can disseminate opportunities to their business contacts and memberships;
- Visit and present opportunities in countries regionally and internationally that share the partner country's language and may have interested bidders;
- Make presentations and distribute brochures outlining procurement opportunities at relevant conferences and other events;
- Advertise high-profile opportunities in international publications, such as The Economist and Engineering News-Record; and
- Incorporate, especially in the case of goods and large works, life cycle cost analysis in the determination of specifications, to consider the value of alternative technologies over the project's useful life (i.e., impact on ongoing operations and maintenance costs) rather than focus solely on up-front cost.

MCC is able to supplement to a limited extent country-led outreach by making presentations at public events and conferences; organizing sector roundtables; meeting one-on-one with potential bidders; and aggregating award and planned procurement data for analysis and public dissemination.

5. MCC's Role in Private Sector Engagement

Increasing private sector engagement has been identified as one of MCC's core priorities. In accordance with that objective, MCC has created an Investment and Risk management (IRM) office within the Office of the Chief Executive and a Private Sector Development (PSD) team within the Department of Compact Operations (DCO). Both of these units will be working closely with MCC transaction teams during both compact development and implementation and stand ready to provide advice and support in the evolution of engagement strategies. Each MCC transaction team will designate a staff member to coordinate and support private sector engagement with country counter-parts. This staff member will serve as the point of contact for core team and accountable entity staff seeking advice and support from MCC on ways to engage, possible collaboration arrangements, and project structuring around such engagement.

The Department of Policy and Evaluation (DPE) manages the constraints analysis process, provides assessments of the economic viability of proposed investments, and will play a critical role in policy reform. It is therefore an important source of guidance for country counter-parts as the private sector engagement strategy is developed and applied, and DPE representatives will be assigned to MCC country teams as needed. To promote transparency and sharing of information, MCC will seek agreement from its partner countries to post constraints analyses, concept papers, and other relevant documents as soon as possible after each stage of drafting. This is one of the foundational steps in starting dialog with potential private sector partners.

MCC holds regular outreach meetings with the private sector, NGOs, and other donors concerning compact programs, upcoming procurement opportunities, and possible collaboration across multiple countries or the entire portfolio. MCC intends to publish Program Statements and/or Requests for Applications for potential partnerships, some of which will be developed in cooperation with country counter-parts and will be focused on specific compact opportunities.

Examples of Private Sector Engagement around Signed Compacts

Benin Compact, Access to Markets Project: The Benin compact's $169.5 million Access to Markets project aims to expand capacity, reduce costs, and improve the performance of the Port of Cotonou.

- Compact-funded infrastructure improvements include doubling the length of the port's sand-stopping barrier; improving internal transport and security infrastructure; and building a new South Wharf. The South Wharf is expected to generate up to $32 million in new revenues annually and $250 million in complementary investments provided by the new, competitively selected, private-sector South Wharf operator, Groupement Bolloré-SMTC. The International Finance Corporation (IFC), hired by the Government of Benin, managed the competition for the award of the South Wharf concession, which was signed on September 10, 2009.

- The Groupement Bolloré-SMTC proposal included commitments to: (1) pay fees of $200 million over the first eight years of operations – with a $15 million entry fee; (2) invest $256 million in operating equipment and civil works over the 25-year life of the concession; (3) increase container traffic from 350,000 to more than 720,000 twenty-foot equivalent units (TEUs) during the first eight years of operations; and (4) create 500 jobs. Based on IFC's analysis, the concession will generate a positive fiscal effect exceeding $1.5 billion for the country over 25 years. MCC-funded construction will end in 2011. Bolloré expects to complete the first phase of its own construction investments in order to start South Wharf operations in January 2013.

- Millions of consumers of imported products as well as exporters of Beninese products will benefit directly or indirectly from improvements at the Port.

El Salvador Compact, Human Development Project: FOMILENIO, the MCA accountable entity in charge of implementing El Salvador's compact, has successfully attracted private sector financing and investment to complement its compact grant.

- In May 2009, the FOMILENIO Board of Directors approved a $33 million contract with Arlington, Virginia-based AES Corporation involving private co-financing, construction, and operation. The project supports 1,300 kilometers of new rural electrification lines, connections, and extensions of existing lines throughout the Northern Zone in El Salvador. MCC and the Government of El Salvador are funding up to 85 percent of the projected investment in the electrification efforts, with contributions from the executing entity, AES Electrical Distribution Company, comprising the balance of 15 percent of capital investment, and 100% of operations and maintenance costs.

Mali Compact, Airport Improvement Project: The Government of the Republic of Mali is launching procurement of a private concessionaire for Mali's main airport at Bamako-Sénou.

- The concession will build on MCC's $179 million compact investment in "airside" infrastructure, including a runway extension; "landside" infrastructure, including a new terminal; and institutional capacity. The airport concession will leverage MCC compact funding through private co-financing of complementary assets, rehabilitation, and added capacity. It will enhance the sustainability of compact funding through private operation of the airport on a performance basis for a term of thirty years.

- Bamako-Sénou Airport is positioned geographically to become a major air travel hub for West Africa. Already, seventeen regional and international carriers service Bamako from or to 28 different destinations. The compound annual growth rate for passenger traffic from 2003 to 2008 was 8.2 percent, with 628,000 passengers in 2008.

Ghana and Morocco Compacts, Agribusiness Development Initiative: This initiative is designed to identify and secure investments complementary to existing MCC-funded agricultural development compact activities. The initiative, being piloted in Ghana and Morocco, aims to enhance the sustainability of the MCC compact investment through increased viability and profitability of targeted sectors.

- MiDA (the MCA accountable entity responsible for implementing the MCC compact in Ghana) is beginning to leverage compact funding with commitments from the private sector. For example, MiDA is developing a partnership with Vegpro, a Kenyan company seeking to produce vegetables for export to Europe. Vegpro's intention in Ghana is to locate its farm adjacent to one of the 10 irrigation systems that MiDA may rehabilitate. The irrigation rehabilitation work is currently in the feasibility/design phase. Vegpro has already received approval from community and traditional leaders to obtain the land in question, and it expects the official land registration to be completed by November 2010. The company then intends to start cultivating in early 2011 in a demonstration area of 244 ha. They will test production protocols in Ghana and train smallholder farmers for two years. Once the irrigation rehabilitation is completed in 2012, Vegpro will be working with up to 2,500 MiDA-trained smallholder farmers.

- MiDA, the Alliance for a Green Revolution in Africa (AGRA), and Standard Bank (known as Stanbic in Ghana) are collaborating on a guarantee facility to extend financing to value-chain operations – input suppliers, millers, and processors – that will benefit smallholder farmers.

Mozambique Compact, Water and Sanitation Project: During its compact development process, the Government of Mozambique (GOM) submitted to MCC a request to fund an ambitious conceptual proposal comprised of an extensive program of urban and rural water/sanitation, roads, and private sector development in four northern provinces of Mozambique. This proposal sought to consolidate and advance the GOM's water sector strategy, which is based on private sector participation in service delivery.

- To assist the GOM in advancing the necessary program preparation work, MCC provided some initial pre-compact grant funding to the GOM to help it conduct pre-feasibility studies and to carry

out other crucial institutional and financial analyses. In so doing, MCC worked closely with the GOM to build off of its pioneering World Bank-funded work begun in the mid-1990s to put in place the essential sectoral institutions and regulatory frameworks to attract private-sector involvement in construction, operations, and maintenance of systems.

Chapter 28: Environmental and Social Assessment

MCC recognizes that the pursuit of sustainable economic growth and a healthy environment are necessarily related. MCC also recognizes that gender inequality can be a significant constraint to economic growth and poverty reduction and that development projects can have unintended negative impacts on people when not well designed. MCC has two specific policy documents that address these issues more fully: the Environmental Guidelines and Gender Policy.

The purpose of the Environmental Guidelines is to establish a process for the review of potential environmental and social impacts (such as involuntary resettlement and health and safety risks) to ensure that projects undertaken in a compact are environmentally sound, are designed to operate in compliance with applicable regulatory requirements, and, as required by the legislation establishing MCC, are not likely to cause a significant environmental, health, or safety hazard. MCC also encourages partner countries to follow good international practice in compact development and implementation activities, such as the International Finance Corporation's Performance Standards on Social and Environmental Sustainability.

MCC's Gender Policy and Gender Integration Guidelines provide overall guidance for the integration of gender in all stages of compact development and implementation. Additional gender-specific guidance is also incorporated into other guidance materials including the Guidance on Consultative Process and Guidelines for Monitoring and Evaluation Plans. Countries should review this guidance as they plan their consultative process and review the Environmental Guidelines as they start to identify potential priorities and should integrate relevant organizations and government ministries or agencies in the compact development process.

As indicated in the guidance on Building a Core Team, MCC requires that the Core Team include an Environmental and Social Impact Director (ESID) who understands the country's environmental, resettlement, health and safety regulations and requirements, has experience conducting or reviewing environmental and social impact assessments (ESIAs) and Resettlement Action Plans (RAPs), and is capable of working with the country Core Team to ensure that environmental and social considerations are appropriately factored into the feasibility, design, timing and cost estimates of the compact proposal. MCC also requires that the core team include a social scientist with gender expertise who will work with the ESID.

MCC's Environment and Social Assessment (ESA) and Social and Gender Assessment (SGA) staff work together to promote sound environmental and social performance of compact activities. Both ESA and SGA staff also engage a number of additional and technical experts and consultants to assist with review of project concepts, feasibility studies, and designs, for their environmental and social impacts and support efforts to proactively integrate environmental sustainability and gender equality. While the completion of the requisite environmental and social analyses (e.g. environmental and social impact assessments, resettlement action plans, health and safety plans, gender assessments and integration plans, and resettlement action plans) is the responsibility of the eligible country, MCC's ESA and SGA experts will advise and consult on these requirements and work closely with the country Core Team to manage environmental and social risks and impacts and to enhance project opportunities and outcomes.

Chapter 29: Monitoring and Evaluation

Following acceptance of the Concept Paper, MCC's Monitoring and Evaluation Division will begin due diligence on the proposed investments. Below are examples of questions which are pursued during the due diligence phase. The list of specific questions may be edited if appropriate:

MONITORING

Goals and Objectives

Are the goals and objectives measurable and clearly articulated?
Are beneficiaries quantified and demographic characteristics described?
Is Program design logically related to the Goals?

Indicators to measure progress towards Program Goals (poverty reduction measure)

Are the indicators consistent with economic analysis?
Are the indicators credibly linked to Goals and Objectives?
Are the indicators easy to understand?
Are the indicators consistent with those used by other actors involved (if relevant)?

Indicators to measure progress towards intermediate objectives and outputs identified

Do the intermediate indicators track progress at compact objective and individual activity levels?
Can the intermediate indicators be reliably measured and can data be cost-effectively collected (relative to information value)?
Are the intermediate indicators limited in number so as to include only the most crucial indicators?
Are the intermediate indicators consistent with economic analysis?
Are the intermediate indicators credibly linked to poverty reduction indicators described above?
Are there some indicators can be used to condition disbursements?
Are the intermediate indicators consistent with those used by other actors involved?

Data Source

Does the M&E plan use existing data sources?
If new data collection is required, is there a broader use beyond MCA program monitoring?
Is baseline data available? If not is there an agreement on the plan to collect baseline?
Which data collection agency will be responsible for tracking each indicator? What is the measurement unit, method, and frequency of data collection?
Can data be disaggregated by gender, income, and age?

Targets for all indicators or plan to establish targets

Are targets consistent with the economic growth analysis (as applicable)?

Are there annual and final targets?
Do targets take into consideration natural rate of growth (as applicable)?

Reporting Schedule

Is the reporting schedule consistent with planned disbursements?
Is there a plan for public dissemination of program performance?

EVALUATION

Methodology for impact evaluation(s) covering all possible projects

What was the most rigorous evaluation standard that will be feasible (include justification of the methodology chosen)?
Potential ratings to be applied is assessing level of rigor:
Treatment and control groups, random assignment to treatment group
Treatment and control groups, assignment by observed variable to treatment group
Treatment and control groups. Does not deal with selection bias but plausible reason selection bias does not affect the results
Treatment and control groups, no dealing with selection bias
Treatment group, post-project identification of control group (plus data collection)
Treatment group, but only post project measurement of results (no baseline data).

Plan for implementing impact evaluation

Will the independent evaluator be contracted by country or directly by MCC?
Is there a timeline for evaluation planning, including when final evaluation should be conducted?
Is there a local capacity building component and research areas (where relevant)?

Data Requirements

What data will be used for evaluation (include source, frequency of collection, and party responsible for managing the evaluation)?

OTHER COMPONENTS

Data Quality Reviews

Are there procedures for assuring data quality?
Are data quality reviews timed to address capacity issues early in compact term with regular reviews throughout compact term?
Have the terms of reference been completed?

Assumptions and Risks

Do assumptions include factors that influence the projected benefits of the program, but are not directly addressed by the program?
Are assumptions and risks consistent with economic growth analysis?
Is there a plan to mitigate risks where feasible?

Multi-year M&E budget

Does the M&E costs estimate include funding in compact and any direct MCC M&E funding to be used?
Do line items take into account all costs?

Staffing Plan

Are there descriptions of the roles and responsibilities of the M&E director and other staff?
Is there a staffing plan that describes the role of in-house staff, outside consultants, independent evaluators?

Quarterly/Annual report format

Are M&E reports integrated into a larger Program review process?

Plans for making M&E reports and evaluations publicly available

What are the plans for making M&E reports available on the country website?
Is there a need for other methods of dissemination?
How will civil society, advisory groups, and/or beneficiary groups be involved?

M&E DUE DILIGENCE

Country capacity to implement the M&E Plan

Is there capacity in country to implement M&E Plan?
Has this been confirmed by other donors or qualified entity?
Are there plans and budget for providing technical assistance to address current or future weaknesses in implementing the M&E Plan (as needed)?

Country counterpart responsible for development of the M&E Plan

Is there a country counterpart for economic analysis and M&E?
Does the counterpart have a strong Economics/Statistics background?

Discussion of MCC impact evaluation policy

Was impact evaluation discussed early in the due diligence process to ease the incorporation of evaluation design in implementation plans?

Working Sessions

Do Country team and MCC team agree on the economic and program logic (links between the program components and poverty reduction objectives)?
Was there broad participation in the economic analysis and the M&E Plan (especially by potential implementers and technical specialists)?
Is there a plan for stakeholders or beneficiaries consultation?

Other donors involved in statistical capacity building and data collection

Where relevant, is performance measurement coordinated and/or consistent with that of other actors?
Are MCC funded activities are consistent with national plan for statistics?
Are capacity-building efforts are coordinated or consistent with other actors?

Chapter 30: Donor Coordination

MCC compact assistance should be coordinated with other donors to the extent possible to help ensure the most effective use of MCC resources.

Importance of Donor Coordination
Consulting with other donors provides feedback on country proposals; reduces the cost of programs by avoiding duplication, creating synergies, and avoiding approaches that have been unsuccessful in the past; facilitates co-financing, common or supportive programs, and use of joint structures; and informs other donors of MCC approaches and methods of operation.

Core Team Responsibility
Donor coordination is the responsibility of the Core Team. Countries should pick their priorities and design their programs taking into account other donor and government efforts. Countries should include donors in the consultative process, and keep donors informed by briefing the donor community on their proposals and their development on a regular basis. Countries should include an assessment of related donor and government efforts in project concept notes and concept papers. Countries are responsible for maintaining active donor coordination throughout compact implementation.

PHASE IV: COMPACT NEGOTIATION AND SIGNING

Once MCC has completed project appraisal and MCC's senior management has approved a compact program, MCC will notify the U.S. Congress of its intent to negotiate a compact agreement. After the 15 day notification period has expired, MCC may enter into negotiations with the country on the compact agreement. The finalized compact agreement will be presented to the MCC Board for approval. After Board approval, MCC will send a Congressional Notification to inform the U.S. Congress of MCC's intent to sign a compact. Following the expiration of the 15 day notification period, the compact can be signed by MCC and the country.

PHASE V: PRE-ENTRY INTO FORCE ACTIVITIES

Once MCC and its partner country have signed a compact agreement, the funds will be committed and MCC will work with the partner country to establish the institutional framework required to execute the compact, including the establishment of the accountable entity (if not already established), selection of fiscal and procurement agents, selection of implementing entities, establishment of a dedicated bank account, and other actions. During this period, a country may draw down on some of its compact funding to support these activities as it prepares for the entry into force of the compact, when the five year clock on MCC's funding begins to count down.

Chapter 31: Guidelines for Accountable Entities and Implementation Structures

1.0 Introduction

In connection with entering into a Compact, the government of a Millennium Challenge Account eligible country ("***Government***") must identify a legal entity that will be accountable for the projects funded by the Millennium Challenge Corporation ("***MCC***"). MCC will fund these projects under a grant agreement, referred to as the Millennium Challenge Compact, between MCC and the Government, using financial assistance from the Millennium Challenge Account ("***Compact***"). This Accountable Entity will have the authority and responsibility to oversee the MCC funded projects and their various components and activities ("***Program***"), allocate resources, oversee and implement a financial plan, approve expenditures and procurements, continue the consultative process, and be accountable for the Program's results. The Accountable Entity serves as the single point of contact on behalf of the Government during implementation of the Program for MCC, other donors, contractors and consultants, as well as the general citizenry. Regardless of the entities selected to implement the Program (private sector, non-governmental organization, Government Affiliate or other organization), the Government through the Accountable Entity remains responsible for its commitments under the Compact. Thus, determining the appropriate Accountable Entity and its supporting structure is a key Government decision.

1.1 Scope

A. This policy document sets forth MCC's guidance with respect to the Accountable Entity, the legal entity designated under the Compact between MCC and the Government of the MCC eligible country to implement the projects specified in the Compact.

B. These guidelines also address the rights and responsibilities of the Accountable Entity in relation to the other entities designated either to assist in the implementation of the Compact, specifically the fiscal agent, the procurement agent and the implementing entities, or to provide advice to the Accountable Entity, such as a Stakeholders Committee or Advisory Council.

1.2 Definitions. The following compendium of capitalized terms that are used in these guidelines is provided for the convenience of the reader.

A. "***Accountable Entity***" means the legal entity designated by the Government to implement the Program on behalf of the Government during the Compact term.

B. "***Accountable Entity Action Plan***" means a plan to prevent fraud and corruption within the Accountable Entity and by its contractors.

C. "***Advisory Council***" means the council or committee that provides formal guidance and recommendations to the Accountable Entity's designated final authority if such final authority is an individual. For example, if the Accountable

Entity is an existing ministry or other Government Affiliate, an Advisory Council can be established to advise the minister responsible for the Accountable Entity.

D. "***Board***" means the body having the final authority for the actions of the Accountable Entity. Other names utilized by MCC countries include board of directors, supervisory board, supervisory council, steering committee and governing council.

E. "***Compact***" has the meaning given this term in Section 1.0.

F. "***CPS***" means Common Payment System which utilizes both the International Treasury Services (ITS) and/or Secure Payment System (SPS) by MCC to process payments in US dollars or foreign currency directly to vendors for goods, works or other services received.

G. "***Disbursement Agreement***" means the agreement between MCC, the Government and the Accountable Entity, which provides the terms and conditions for disbursements of MCC Funding. Beginning in May 2007, a Program Implementation Agreement, rather than a Disbursement Agreement, will be executed in connection with Compact implementation.

H. "***Executive Committee***" means a committee, comprised of selected Board members, authorized to take certain limited actions.

I. "***Fiscal Accountability Plan***" means a manual setting forth the principle mechanisms and procedures that the Accountable Entity will use to ensure appropriate fiscal accountability for the use of MCC Funding.

J. "***Fiscal Agent***" means the entity selected and engaged through an international competitive process, the Ministry of Finance, or another governmental entity, as agreed between the Government and MCC, responsible for performing certain financial management activities on behalf of the Accountable Entity.

K. "***Government***" has the meaning given this term in Section 1.0.

L. "***Government Accountability Office***" or "***GAO***" means the U.S. Government Accountability Office.

M. "***Government Affiliate***" means an affiliate, ministry, bureau, department, agency, government, corporation or any other entity chartered or established by the Government.

N. "***Governing Documents***" means the charter, decree, agreement, bylaws, articles of incorporation, governance agreement and other documents evidencing the formation, establishment and governance of the Accountable Entity.

O. "***Implementation Documents***" means certain documents related to Compact implementation, including the M&E Plan, the detailed financial plan, the procurement plan and the work plans developed by the Accountable Entity and, as applicable, approved by MCC.

P. "***Implementing Entity***" means any Government Affiliate engaged by the Accountable Entity to implement and carry out any project, project activity (or a component thereof) or any other activities to be carried out in furtherance of the Compact.

Q. "***Inspector General***" means the Inspector General of the United States Agency for International Development.

R. "***Key Staff***" means the following positions in the Management Unit or as otherwise defined in specific Compact documents: (1) chief executive officer (sometimes referred to as the director general, national coordinator or managing director), (2) deputy chief executive office (sometimes referred to as the chief operating officer), (3) chief financial officer, (4) legal advisor, (5) director of procurement, (6) director of environmental and social assessment, (7) director of monitoring and evaluation, and (8) project directors for each major project under the Compact.

S. "***Management Unit***" means the employees of the Accountable Entity responsible for the day-to-day activities and assisting the Board or other relevant final authority with the implementation of the Program.

T. "***MCC***" has the meaning given this term in Section 1.0.

U. "***MCC Disbursement Request***" means the written requests for periodic disbursements of MCC Funding submitted to MCC by the Accountable Entity.

V. "***MCC Funding***" means the financial assistance provided by MCC to the Government under the Compact.

W. "***M&E Plan***" means the plan for monitoring and evaluating the Program that is developed and adopted by the Accountable Entity (as approved by MCC).

X. "***Observer***" means a nonvoting member of a Board who is an employee or representative of MCC.

Y. "***Officer***" has the same meaning as Key Staff.

Z. "***Permitted Account***" means any bank account established pursuant to the requirements of the Compact and maintained for the purpose of receiving and re-disbursing MCC Funding.

AA. "***Procurement Agent***" means the entity selected and engaged through an international competitive process or a Government ministry or agency, as agreed between the Government and MCC, that will assist the Accountable Entity with carrying out procurement related activities to procure goods, works and services on behalf of the Program.

BB. "***Procurement Guidelines***" has the meaning given this term in Section 3.6(D)(11).

CC. "***Program***" has the meaning given this term in Section 1.0.

DD. "***Program Assets***" means the assets and property purchased or funded in whole or in part with MCC Funding.

EE. "***Program Implementation Agreement***" means the program implementation agreement between MCC, the Government and the Accountable Entity that specifies certain terms for Compact implementation. Beginning in May 2007, a Program Implementation Agreement, rather than a Disbursement Agreement, will be executed in connection with Compact implementation.

FF. "***Stakeholders Committee***" means a body of representatives of the private sector, civil society and local and regional governments that has been formally established to provide advice and input to the Accountable Entity regarding the implementation of the Program.

GG. "***Substantive Agreements***" has the meaning given this term in Section 3.2E(iii).

2.0 Minimum Requirements for the Accountable Entity

2.1 Legal Requirements

A. The Accountable Entity must have the legal capacity to enter into agreements with MCC and other Government Affiliates; to enter into employment agreements with employees; to enter into contracts with contractors and consultants; and to comply with the legal requirements of the Compact, including the limitations on the use of MCC Funding and certain other U.S. law requirements.

B. The Accountable Entity should be legally entitled to hold a bank account. However, if the local law prohibits the Accountable Entity from holding a bank account, the Government and MCC can mutually agree on an alternative arrangement.

C. The Accountable Entity can take many legal forms, including administrative units within existing ministries, foundations, government-owned corporations, and newly established ministries. As long as the proposed structure of the Accountable Entity satisfies the legal requirements and requirements of

independence and transparency set forth in these guidelines, the Government can propose a new structure for the Accountable Entity or adapt structures similar to those utilized by other MCC countries.

2.2 Accountability, Independence and Transparency

A. MCC requires the Government to utilize an Accountable Entity for the Program to ensure that there is a central point of accountability with respect to the Program. The Accountable Entity structure can build off of existing Government systems and structures or establish a new Government Affiliate or other type of entity that best suits the needs of the Government and the Program; however, the Accountable Entity must establish a central point of contact for MCC, other donors, contractors, consultants and the general citizenry with respect to the Program. This type of accountability will promote good governance practices within the Program and the Government and support the successful completion of the Program within the term of the Compact.

B. The Government should ensure that the Accountable Entity has the necessary operational independence and decision-making authority to effectively and efficiently implement the Compact and to fulfill all relevant Compact-related requirements. While ensuring an appropriate level of independence is helpful in preventing undue politicization of decisions, ensuring the preservation of Government accountability for the results of the Program is also important.

C. The nature and objectives of the Compact should dictate the required level of independence and the optimal structure of the Accountable Entity. For example, MCC countries have utilized the following structures with varying levels of independence from the Government:

(1) Georgia. The prime minister served as the initial chairman of the Board of the Accountable Entity, which is a public corporation established by the Government. However, each subsequent chairman has been and will be chosen by a majority vote of the Board members.

(2) Vanuatu. The Accountable Entity was established as a unit within the Ministry of Finance and Economic Management; however, the Board members are represented by director general level government officials and representatives of the NGO community and civil society. The chairman of the Board is the director general of the Office of the Prime Minister. The Minister of Finance and Economic Management does not serve on the Board of the Accountable Entity and has waived his authority over the Accountable Entity, meaning the Board members are able to a make decisions on behalf of the Accountable Entity that are not subject to review by the Minister of Finance and Economic Management.

(3) Nicaragua. The Accountable Entity was established as a foundation. The initial chairman of the Board was the Secretary of the Technical Secretariat of the Presidency. Each subsequent chairman has been and will be appointed by mutual agreement of the Government of Nicaragua and MCC.

(4) Ghana. The Accountable Entity was established as a new Government authority established by Parliamentary decree to oversee Compact implementation, as well as manage other donor programs. The initial chairman of the Board was the incumbent minister of the Ministry of Public Sector Reform..

For brief descriptions of each of the Accountable Entities established by Governments that have entered into Compacts with MCC, please see Annex 1 to these guidelines.

D. The Accountable Entity will be transparent with respect to its decision-making by (i) including civil society in the decision-making process of the Accountable Entity and the Program and (ii) complying with the requirements to post on the Accountable Entity's website or make otherwise publicly available decisions of the Accountable Entity, Advisory Council and Stakeholders Committee and certain other information. For further discussion of the requirements for transparent decision-making, see Section 3 of these guidelines.

E. Civil Society and Private Sector Participation. The participation of civil society and the private sector in the decision-making of the Accountable Entity and Program implementation can take several forms, both formal and informal. First, civil society and private sector participation should be institutionalized in the decision-making process by having civil society and private sector representation on (i) the Board and/or (ii) an Advisory Council that will make recommendations to the Accountable Entity final authority(s). Second, it is important to ensure ongoing consultation with civil society and the private sector throughout implementation of the Program. Most MCC countries have established a Stakeholders Committee that provides an opportunity for civil society and the private sector to receive regular Program updates from the Accountable Entity and to provide feedback and oversight for the implementation process. While the Stakeholders Committees often do not have formal decision-making authority, such committees are often established to serve as a mechanism for ongoing consultations between the Government and the public throughout Program implementation, and in some cases have a voice in selecting civil society and private sector representatives on the Board or the Advisory Council.

F. Information Publicly Available. The Accountable Entity will make the following documents, agreements, and information publicly available in English and the local language, as applicable, by posting such information on the Accountable Entity's website or through other appropriate means:

1. The Compact and all reports required by the Compact;

2. All minutes of the meetings of the Board of the Accountable Entity or decisions of the relevant designated final authority acting on behalf of the Accountable Entity (such as the minister or senior most official of the Government Affiliate acting as the Accountable Entity);*

3. All minutes of the meetings of the Advisory Council and Stakeholders Committee;*

4. The M&E Plan, along with periodic reports on Program performance;

5. All project environmental and social impact assessments and supporting documents;

6. All audit reports by an auditor and any periodic reports or evaluations by a reviewer (each as defined in the Compact or MCC's audit guidelines, as applicable);

7. Disbursement Agreement or Program Implementation Agreement, as applicable, and a summary of all requests for disbursements of MCC[45];

8. All procurement policies and procedures (including standard documents, procurement plans, contracts awarded, and bid challenge procedures);

9. A copy of any legislation and other documents related to the formation, organization and governance of the Accountable Entity, including the Governing Documents, and any amendments thereto; and

10. Such other information, documents, reports and agreements as MCC may require after notifying the Accountable Entity.

G. The documents marked with an asterisk* do not need to be translated into English if they are written in Spanish, French or Portuguese.

H. Notwithstanding the foregoing requirements regarding making certain information public, information relating to procurements prior to the award of a contract and confidential information relating to the Accountable Entity's agreements with employees, contractors and consultants must be excluded from the information and documents made publicly available. Determinations as to what information can be excluded should be agreed with MCC.

2.3 Utilization of Existing Implementation Structures

[45] The summary should include the amount of funds requested for each quarter.

A. Existing implementation structures established by other donors in the country, such as program implementation units or administrative structures, can be utilized as the Accountable Entity for the Program or as a model for the Accountable Entity to the extent such structures are consistent with MCC requirements and will be efficient for implementing the Program.

B. Existing Government systems and structures can be utilized to the extent such structures are consistent with MCC requirements and will be efficient for implementing the Program. For example, an existing Government Affiliate can be used as the Accountable Entity and the Ministry of Finance can be used as the Fiscal Agent.

2.4 Timing of Establishment of the Accountable Entity

A. The Government should include a proposed structure for the Accountable Entity in its proposal for MCC Funding.

B. The Accountable Entity should be established by the Government as early as possible to accelerate Compact implementation. As soon as the Government and MCC reach agreement on the composition and legal structure, the Government can proceed with establishing the Accountable Entity, including prior to Compact signing.

3.0 Structural Components of the Accountable Entity

3.1 Overview. The Accountable Entity will include the following structural components:

A. a body or person that will be accountable for the implementation of the Program (that is, a Board or the minister or senior most official in charge of the entity acting as the Accountable Entity) and be the final authority for all actions of the Accountable Entity;

B. if the Accountable Entity has one final authority, such as a minister in charge of a particular ministry, an Advisory Council, which will encourage transparency and incorporate civil society and private sector participation into the decision-making for Program implementation;

C. a Stakeholders Committee, representing beneficiaries and local constituencies; and

D. a Management Unit, which will be responsible for implementing the Program, including overseeing the day to day management of the Program, and for carrying out the directions of the designated final authority.

3.2 Board Structure, Composition and Duties

A. Role of the Board. While it is not an MCC requirement, the Accountable Entity may include a Board, composed of a small group of members, since it is an efficient mechanism to ensure civil society participation and transparency in the decision-making process for the Program. MCC will support implementation structures that do not include a Board, if such structures can capture the same level of independence, transparency and efficiency that a Board structure provides.

The Board, if established, will be responsible for exercising oversight and taking major decisions on behalf of the Accountable Entity. Members of the Board must discharge their responsibilities by (i) staying informed and providing appropriate oversight to the Management Unit regarding the progress of Compact implementation, and (ii) holding regular meetings to take actions and grant approvals on behalf of the Accountable Entity as required under the Governing Documents and the other relevant supplemental agreements. Board members must adhere to the following standards, which should be reflected in the Accountable Entity's Governing Documents:

(1) Governing Documents. The Board members have a duty to follow the Accountable Entity's Governing Documents, to carry out the Accountable Entity's mission to implement the Compact and to ensure that MCC Funding is used only for permitted purposes.

(2) Active Participation. Board members must (i) have the authority to make the decisions at the Board meeting necessary to implement the Compact, and (ii) actively participate in overseeing the management of the organization, including attending meetings of the Board, providing strategic direction to the Accountable Entity, evaluating reports, reading Board meeting minutes, reviewing the performance and compensation of the Management Unit, and communicating relevant outcomes of each Board meeting to his/her constituents.

(3) Board Actions. A Board member who is present at a meeting when an action is approved by the entire Board is presumed to have agreed to the action unless (i) the Board member objects to the meeting because the meeting was not lawfully called or convened, (ii) the Board member voted against the action, or (iii) the Board member is prohibited from voting on the action because of a conflict of interest.

(4) Minutes of Meetings. Written minutes will be taken at every Board meeting, the form and substance of which is outlined in Section 3.2(G)(1) below.

(5) Books and Records. Board members will have general knowledge of the books and records of the Accountable Entity, as well as its general operations. The Accountable Entity's Governing Documents, accounting records, and Board meeting minutes will be made available to Board members who wish to inspect them.

(6) Accurate Record Keeping. Board members will not only be familiar with the content of the books and records, but should also ensure that the organization's records and accounts are accurate and complete. The Compact requires the Government to take steps to obtain regular audits by independent auditors and to permit MCC, the Inspector General of the United States Agency for International Development (OIG, USAID), and the General Accountability Office to review the books and records of the Accountable Entity. The Board members will be aware of what the financial records disclose and take appropriate action to ensure there are proper internal controls, as specified in the fiscal accountability plan.

(7) Program Assets. Board members have the duty to protect, preserve, and manage the Program Assets and to do so consistent with the Compact and applicable law. Board members may delegate such responsibility to members of the Management Unit; however, the Board should require an annual accounting for all Program Assets.

(8) Investigations. Board members have a duty to investigate warnings or reports of Management Unit, employee, or contractor theft or mismanagement. In some situations, a Board member may have to report misconduct to MCC and the appropriate local authorities (for example, if Program Assets are missing or MCC funds are unaccounted for).

B. Composition; Role of the Observer.

(1) Composition. The composition of the Board should be dictated by the needs of the Program and should incorporate relevant Government ministries and departments, non-governmental organizations (NGOs), and civil society and private sector representation. The Government should be represented by senior level officials who have the authority to act on behalf of the relevant ministry or department, as well as the capability to make the time commitment required of Board members. Representatives from NGOs, civil society, and the private sector should be chosen or elected for their representation of interest groups relating to the projects involved in the Program as well as their availability to make the required time commitment. Representatives from NGOs, civil society, and the private sector should not be selected by the Government, but rather selected through a transparent process established by the Stakeholders Committee or relevant NGOs, civil society organizations, and private sector organizations, as agreed with MCC.

(2) Role of the Observer. The Board will contain a nonvoting member who is an employee or representative of MCC. The Observer is a nonvoting member of the Board. The Observer represents MCC's interests, not the Accountable Entity's interests, with respect to the implementation of and compliance with the Compact. The Observer role can be served by the resident country director or any MCC employee/contractor. The Observer will participate in all meetings of the Board either in person or by conference telephone and will be provided with the agenda and related documentation for each meeting of the Board. The Observer has the obligation to share documentation relating to the meetings of the Board with MCC and to participate in the discussions arising during the meetings of the Board.

The Observer also serves a vital role in identifying implementation issues and encouraging transparency in the Board decision-making process. Implementation issues should be referred to MCC and addressed in accordance with MCC policy and internal review requirements. Transparency is most effectively advanced by the Observer encouraging open discussion of agenda items and ensuring participation of the non-Government members of the Board.

C. Size. The Board should generally be large enough to include a multitude of interests within the country but small enough to operate efficiently (for example, ideally, the Board should be at the lower end of a range of 5 to 11 members). The number of voting members should be odd to prevent deadlock, unless otherwise agreed with MCC. Each voting member should designate a deputy with clear decision-making authority who can attend Board meetings when the voting member cannot attend. Nonvoting members will include the Observer and such other nonvoting members as are appropriate for the Program and agreed with MCC. Nonvoting members will have the same rights of access to information relating to the Accountable Entity as voting members of the Board.

D. Chair. The activities of the Board should be managed by the chair of the Board. The chair should either be appointed by the Government as a permanent position or selected by a majority of the voting members of the Board to serve a specified term, such as two years. All documents and reports submitted to MCC by the Board in accordance with the Compact should be certified by the chair as (1) having been approved by the Board, and (2) being true, accurate and complete.

E. Review and Approval Requirements.

(1) In addition to the documents and reports referenced in Section 3.2(D) above, the Board will also be responsible for reviewing and approving the following documents, agreements and actions on behalf of the

Accountable Entity, which cannot be delegated to the Executive Committee or Management Unit:

i. Procurement plans, Fiscal Accountability Plans, M&E Plans, and Accountable Entity Action Plans and any material amendments or supplements thereto;

ii. Agreements between the Accountable Entity and MCC, and any material amendment, suspension or termination of such agreements;

iii. Substantive agreements between the Accountable Entity and third-parties, and any material amendment, suspension or termination of such agreements, which include (1) agreements for the appointing, hiring or otherwise engaging an auditor or reviewer, a Fiscal Agent, a Procurement Agent, a financial institution approved to hold any Permitted Account, or an Implementing Entity, (2) agreements with a value greater than 1% of the relevant Compact and (3) agreements that may give rise to significant financial, technical, or reputational harm to the Accountable Entity if such agreement fails (agreements listed in subsections (1)-(3) above are "***Substantive Agreements***");

iv. The employment agreement of the general director or chief executive officer and forms of the employment agreements to be used for the other Key Staff, all of which must include the final compensation amounts;

v. Audit findings and reports of the results of audits received from the audit committee;

vi. Any agreement that is (a) with a party related to the Accountable Entity or any party that controls, is controlled by, or is under common control with the Accountable Entity or (b) not at arm's length (that is, the parties are not dealing from equal bargaining positions, one party is subject to the other's control or dominant influence, or the transaction is not treated with fairness, integrity and legality);

vii. Any pledge of Program Assets when the aggregate value of all pledged Program Assets is greater than $1,000;

viii. Any material amendments or supplements to the Governing Documents;

ix. Any decision to dispose of, liquidate, dissolve, wind up, or reorganize the Board or Management Unit;

x. Any formation or acquisition of a subsidiary or other related entity of the Accountable Entity;

xi. Any material changes to the components or structure of the Accountable Entity, including adding or removing Board members and the following members of the Key Staff, regardless of actual title: chief executive officer, deputy chief executive officer, chief financial officer, legal advisor;

xii. Any decision to engage, to accept or to manage any funds from any donor agencies or donor organizations in addition to MCC Funding during the Compact term; and

xiii. Any other action that requires non-delegable Board approval pursuant to the Compact, Program Implementation Agreement, Procurement Guidelines, any Governing Document or other supplemental agreement.

(2) Either the Board, or, if so designated in the bylaws or by a resolution of the Board, the Executive Committee or the chief executive officer (or equivalent) of the Management Unit may be responsible for reviewing and approving the following documents, agreements and actions on behalf of the Accountable Entity; *provided that*, if the Executive Committee or chief executive officer (or equivalent) approves such documents, the Executive Committee or chief executive officer (or equivalent) shall provide a complete, written copy of each of the following approved documents to the Board within 7 calendar days after such approval:

i. Implementation Documents, other than the procurement plans, Fiscal Accountability Plans and M&E Plans, and any material amendments or supplements thereto;

ii. MCC Disbursement Requests;

iii. Audit plans submitted to MCC; and

iv. Reports (quarterly and annual) delivered to MCC.

F. Meetings. Each meeting of the Board must satisfy certain minimum standards in order to be considered a valid meeting at which actions taken by the Board are valid and effective.

(1) Frequency of Meetings. The Board will hold as many meetings as are necessary to discharge its duties and to ensure the effective implementation of the Compact. The Board should meet (i) at least quarterly on a regular schedule determined as far in advance as possible, and (ii) perhaps monthly in the initial stages of implementation of the Compact.

(2) Notice and Agenda. Adequate notice must be provided to all members of the Board (voting and nonvoting) setting forth the date, time and location of the meeting, as well as, an agenda of issues and documents for consideration. The specific time period for adequate notice should be set forth in the governance agreement or bylaws. Prior to the effective date of the governance agreement or bylaws, adequate notice should be determined by local law applicable to the Accountable Entity or special rules may be approved by consensus/unanimous decision of the Board members to apply until the governance agreement or bylaws become effective.

The notice will specify whether the meeting is special or regular. Regular meetings of the Board should occur quarterly or monthly in accordance with the requirements of the Compact and the governance agreement or bylaws, as appropriate. Special meetings are usually called on an ad hoc short notice basis by the designated chairman or secretary of the Board. Notice for regular meetings usually requires 7 to 10 days prior notice, while notice for special meetings can require as little as 24 hours prior notice.

(3) Attendance and Quorum. Attendance at Board meetings is very important. Members can attend meetings (i) in person, (ii) by sending a deputy (subject to certain limitations specified in the Compact or Governing Documents), or (iii) by telephone or video-conference (if permitted under local law, by special rule adopted by the Board or as specified in the governance agreement or bylaws).

Quorum is the number of voting members required to be in attendance at a meeting to permit the Board to make decisions that will be binding on the Accountable Entity. The governance principle behind establishing a quorum is that there should be a determinable number that is sufficient to reflect the will of the Board and the Accountable Entity itself. Quorum should be specified in the governance agreement or bylaws and require the presence in person, by deputy or by teleconference/videoconference of (i) all voting members, (ii) majority of the voting members, or (iii) a specific number of voting members (such as 2/3 or 3/4 of all voting members).

Prior to the effective date of the governance agreement or bylaws, quorum should be determined by local law applicable to the Accountable Entity or special rules approved by consensus/unanimous decision of the Board members to apply until the governance agreement or bylaws become effective.

(4) Deliberation and Actions of the Board. All issues and documents for consideration by the Board will be presented and discussed by the Board.

It is appropriate for one member of the Board, either a voting or nonvoting member, to provide a summary of the issue or document for consideration.

The decision-making process can be accomplished by reaching consensus among the voting members of the Board or by taking a vote. A specific number of votes in favor of an action by the Board should be specified in the governance agreement or bylaws for such action to be binding on the Accountable Entity. Prior to the effective date of the governance agreement or bylaws, voting requirements should be determined by local law applicable to the Accountable Entity or special rules approved by consensus/unanimous decision of the Board members to apply until the governance agreement or bylaws become effective.

(5) Standard of Review. It is appropriate and efficient for the Board members to review summaries of the documents, agreements and reports being presented to it for consideration or approval. However, Board members should be made aware that reliance on such summaries does not relieve or excuse such members' responsibility for approving and taking action on the actual content of such document, agreement or report. Although efficiency in the administrative processes of the Accountable Entity is desirable, it should not be sought to the detriment of the accountability of the Board. The Board remains responsible for making decisions on behalf of the Accountable Entity and the Program.

G. Transparency of Board Decisions. The Board is charged with operating in a transparent manner. The most efficient way for the Board to achieve transparency is to record its decisions and discussions in the written form of meeting minutes. MCC requires that the Board evidence the discharge of its duties, including publishing the minutes of the Board meetings on the Accountable Entity's website or through other appropriate means within two weeks, and providing evidence of certain approvals as conditions precedent for MCC disbursements.

(1) Content. The meeting minutes should be prepared by the person acting as secretary or record-keeper of the meeting and include, at a minimum, the following information: (i) the agenda and information regarding when notice was delivered to the Board, (ii) the list of attendees and absentees (for purposes of evidencing quorum), and (iii) summaries of the discussion of agenda items and the actions taken by the Board.

The amount of detail to be included in the minutes with respect to the discussion of agenda items should be dictated by the Board in consultation with MCC, but should be sufficient to reflect that a valid meeting of the Board occurred and to evidence that the Board took valid actions consistent with the requirements of the Compact, the Governing Documents and any other relevant supplemental agreement. It may be appropriate to exclude references to specific statements made by members

of the Board, unless such member requests statements to be attributed to them (for example, to evidence dissent with respect to a particular decision). It may also be appropriate to list the voting results, but exclude the names of the voting members deciding in favor or disapproving an action of the Board.

(2) Publication. MCC requires that the Accountable Entity publish the Board meeting minutes on the Accountable Entity's website or through other appropriate means. This publication requirement is intended to promote transparency and good governance. It may be appropriate, however, to exclude any confidential information relating to negotiations of contracts or procurement activities from the version of the minutes that is published. The minutes can be drafted and certified by the chairman of the Board in the local language; however, if the minutes are taken in a language other than Spanish, French or Portuguese, the minutes are required to be translated into English and published in the local language and English.

H. Action by Written Consent. The Board may take actions by written consent in lieu of holding a meeting if permitted by the governance agreement or bylaws of the Accountable Entity (or, if the governance agreement or bylaws are not yet effective, if permitted by the local law applicable to the Accountable Entity).

Good governance and best practices regarding the proper discharge of responsibilities by a Board suggest that a Board should deliberate collectively prior to taking actions in order to ensure that Board members have the opportunity for open discussion. Therefore, written consents should generally be used only when the Board has previously deliberated over an issue and is waiting for additional information to take action on such issue.

Actions by written consent also may require a higher standard of approval by the voting members than Board actions taken by meetings. For example, the Board could require unanimous approval by all voting members to be taken by written consent. The higher standard, while not required, is usually incorporated to take into account the lack of open discussion before the Board takes a decision and to ensure that Board members are not excluded from the written consent process.

I. Confidentiality. MCC encourages transparency with respect to Program implementation as part of the Compact requirements and the requirements of these guidelines; however, certain documents, reports, data and other information relating to the Program should be treated by the Board as confidential information and handled in a reasonable and appropriate manner to avoid public disclosure. Confidential information includes information, documents and data relating to Accountable Entity personnel matters, conflicts of interest, procurement matters prior to final contract award, contract administration and such other data, documentation or information specified by the Accountable Entity and agreed with MCC. The Board should ensure that only those with a need to know and

under similar obligations of confidentiality should have access to any and all of such confidential information, documents, data and other information provided to such party or otherwise generated in connection with the Program. The Board will ensure that each member of the Board, Stakeholders Committee, and Management Unit complies with the confidentiality obligations set forth in this Section 3.2(I). One method of ensuring this compliance may be to have each member of the Board, Stakeholders Committee, and Management Unit sign a confidentiality agreement along the lines of the form attached in Annex II. Notwithstanding the foregoing requirements on confidentiality, all such confidential documents, reports, data and other information may be provided to MCC, the Inspector General, the Government Accountability Office, or other independent auditors and investigatory bodies that may be designated by MCC.

J. Conflicts of Interest. The Board will ensure that no Board member, employee, agent, member of the Stakeholders Committee, member of the Management Unit, or representative of the Accountable Entity shall participate in the selection, award, or administration of a contract, grant or other benefit or transaction financed in whole or in part by MCC Funding in which (1) such person, members of such person's immediate family or household or his or her business partners, or organizations controlled by or substantially involving such affiliate, has or have a financial or other interest, or (2) such person is negotiating or has any arrangement concerning prospective employment. In either case, the conflict of interest should first be disclosed in writing to the Accountable Entity and MCC and, following such disclosure, the Accountable Entity and MCC should agree in writing to proceed notwithstanding such conflict. The Board will also ensure that no Board member, employee, agent, member of the Stakeholders Committee, member of the Management Unit, or representative of the Accountable Entity solicits, accepts from, or offers to a third party or is promised directly or indirectly for himself or for another person or entity, any gift, gratuity, favor or benefit, other than items of *de minimis* value and otherwise consistent with such guidance as MCC may provide from time to time, or engages in any activity which is, or gives the appearance of being, a conflict of interest. As above, one method of ensuring compliance with this requirement may be to have each Board member, employee, agent, member of the Stakeholders Committee, member of the Management Unit, and representative of the Accountable Entity sign a conflicts of interest agreement along the lines of the form attached in Annex III.

K. Committees. The Board may establish one or more committees to assist with the review and analysis of reports, documents and agreements requiring their review under the Compact and Section 3.2(E) of these guidelines. Committees may make recommendations to the Board and may be composed of voting and nonvoting members of the Board and such other persons that may have particular expertise necessary for the committee. For example, the Board may establish an audit committee to review audit findings and to make recommendations to the Board. It would be appropriate for such audit committee to be composed of Board members and non-Board members that have expertise in audits or financial

matters. The Board may rely on information, opinions or reports produced by such committees; however, the members of the Board remain responsible for actually taking decisions based on the recommendations of the committees.

L. Executive Committee. The Board should consider establishing an Executive Committee to take the actions authorized under the Compact or Governing Documents. All Board members will be entitled to receive the documents provided to the Executive Committee and to participate as observers in the meetings of the Executive Committee upon request. The Board must review the actions of the Executive Committee for consistency with the Compact, the Governing Documents and overall Program implementation during regular meetings of the Board. The Executive Committee should be responsible for reviewing and approving agreements, documents and reports as are appropriate for the Program and agreed with MCC.

(1) Composition. A majority of the Executive Committee will be voting members of the Board. The Executive Committee should include: (i) at least one non-Government voting member and (ii) the chief executive officer of the Management Unit.

(2) Size. The Executive Committee should generally be a small number to facilitate efficient meetings.

3.3 Existing or New Government Affiliate as Accountable Entity with a Single Final authority

A. Ministry as Accountable Entity. To the extent that the Government and MCC agree to utilize an existing or newly formed Government Affiliate as the Accountable Entity and a Board (as described in Section 3.2 of these guidelines) is not included in the governance structure, then the final authority for the Accountable Entity will rest with the relevant minister or senior most official responsible for the Government Affiliate. MCC will support such alternative implementation structures, if such structures can capture the same level of independence, transparency and efficiency contemplated by these guidelines.

B. Review and Approval Requirements; Standard of Review.

(1) The designated final authority will be responsible for reviewing and approving the documents and agreements set forth above in Section 3.2(E).

(2) Standard of Review. It is appropriate and efficient for the designated final authority to review summaries of the documents, agreements and reports being presented to him or her for consideration or approval. However, the designated final authority should be made aware that reliance on such summaries does not relieve or excuse such final authority's responsibility

for approving and taking action on the actual content of such document, agreement or report. Although efficiency in the administrative processes of the Accountable Entity is desirable, it should not be sought to the detriment of the accountability of the designated final authority. As provided in the Compact, the designated final authority remains responsible for the actions of the Accountable Entity and the Program.

C. Transparency of Decisions. The designated final authority is charged with operating in a transparent manner. The most efficient way for the designated final authority to achieve transparency is to record its decisions and discussions in the written form of meeting minutes or resolutions. MCC requires that the designated final authority evidence the discharge of his or her duties, including periodically publishing the decisions of the designated final authority on the Accountable Entity's website, and providing evidence of certain approvals as conditions precedent for MCC disbursements.

D. Confidentiality; Conflict of Interest. The designated final authority will abide by the confidentiality and conflict of interest rules set forth in Section 3.2(I) and (J) of these guidelines.

3.4 Advisory Council Structure, Composition and Duties

A. Role of the Advisory Council. To the extent the Government and MCC agree to utilize a Government Affiliate as the Accountable Entity and the relevant minister or senior most official of such Government Affiliate and legal, political or other considerations prohibit such minister or relevant senior most official from waiving or delegating his or her constitutional decision-making authority to a Board established in accordance with Section 3.2 of these guidelines, MCC recommends that an Advisory Council be established to advise the relevant Government Affiliate acting as the Accountable Entity. In general, the Advisory Council should incorporate the principles of accountability and transparency otherwise required of the Board under these guidelines and should follow the standards set forth for a Board in Section 3.2.

The Advisory Council should actively participate in the governance and decision-making of the Accountable Entity by providing advice and making recommendations to the designated final authority acting on behalf of the Accountable Entity. Members of the Advisory Council should discharge their responsibilities by (i) staying informed and providing appropriate oversight to the Management Unit regarding the progress of Compact implementation, and (ii) holding regular meetings to take actions and approvals on behalf of the Accountable Entity as required under the Compact, the Governing Documents and the other relevant supplemental agreements.

B. Composition. The composition of the Advisory Council should be dictated by the needs of the Program and should attempt to incorporate relevant Government

ministries and departments, non-governmental organizations, the private sector and relevant civic actors. The Government should be represented by senior level officials who have the authority to act on behalf of the relevant ministry or department, as well as the capability to make the time commitment required of Advisory Council members. Representatives from NGOs, civil society, and the private sector should be chosen or elected for their representation of interest groups relating to the projects involved in the Program, as well as their availability to make the required time commitment. Representatives from NGOs, civil society, and the private sector should not be selected by the Government, but rather selected through a transparent process established by the Stakeholders Committee or relevant NGOs, civil society organizations, and private sector organizations, as agreed with MCC.

C. Size. The Advisory Council should generally be no larger than eleven voting members and the number of voting members should be odd to prevent deadlock, unless otherwise agreed with MCC. Nonvoting members should include the MCC observer (having the same rights and responsibilities as outlined above with respect to the Observer to a Board) and such other nonvoting members as are appropriate for the Program. Nonvoting members should have the same rights of access to information relating to the Accountable Entity as voting members of the Advisory Council.

D. Review of Agreements, Documents and Reports. The Advisory Council should be responsible for reviewing and providing recommendations to the designated minister or senior-most official making decisions on behalf of the Accountable Entity with respect to the documents, agreements, reports and actions reserved for the Board in Section 3.2 of these guidelines. The Advisory Council is responsible for making recommendations and providing general advice on implementation to the designated final authority acting on behalf of the Accountable Entity.

E. Transparency of Advisory Council Meetings and Recommendations. In compliance with the requirements of the Compact and the Governing Documents, the Advisory Council is charged with operating in a transparent manner. The most efficient way for the Advisory Council to achieve transparency is to record its recommendations for decision by the designated final authority acting on behalf of the Accountable Entity and discussions in the written form of meeting minutes. The Advisory Council should document summaries of its meetings, including but not limited to the following information for each meeting: names of all attendees at the meeting, agenda items discussed during the meeting and recommendations made by the Advisory Council at the meeting. MCC requires that the Advisory Board evidence the discharge of its duties, including publishing the minutes in English and the applicable local language of the Advisory Council meetings, either on the Accountable Entity's website or through other appropriate means, within two weeks, and providing evidence of certain approvals as conditions precedent for disbursement of MCC Funding.

F. Confidentiality; Conflict of Interest. The Advisory Council will abide by the confidentiality and conflict of interest rules set forth in Section 3.2(I) and (J) of these guidelines.

3.5 Stakeholders Committee Structure, Composition and Duties

A. Role of Stakeholders Committee. The Government should establish a Stakeholders Committee to continue the consultative process throughout Compact implementation. The stakeholders committee should be used as a mechanism for representatives of the private sector, civil society and local and regional governments to provide advice and input to the Accountable Entity regarding the implementation of the Program. If such a mechanism already exists, the Government may propose to use an existing structure to function as a Stakeholders Committee. Unlike the role of the Advisory Council described above in Section 3.4 of these guidelines, the Stakeholders Committee is intended to be used as a mechanism to inform the stakeholders regarding Program implementation, rather than to provide an opportunity for direct participation in the governance and decision-making of the Accountable Entity which is incorporated into the roles of the Board or Advisory Council.

B. Size and Composition. The size and composition of the Stakeholders Committee should be dictated by the project areas of the Program and may be larger than the Board or Advisory Council; however, the membership of the Stakeholders Committee should at least reflect the NGOs, private sector, civil society, and local and regional governments that were consulted by the Government in developing its proposal for the Compact. Representatives from NGOs, civil society, and the private sector should be chosen or elected for their representation of interest groups relating to the projects involved in the Program as well as their availability to make the required time commitment. Representatives from NGOs, civil society, and the private sector should not be selected by the Government, but rather selected through a transparent process established by the Stakeholders Committee or relevant NGOs, civil society organizations, and private sector organizations, as agreed with MCC.

C. Review of Agreements, Documents and Reports. At the request of the Board or Advisory Council, the Stakeholders Committee should be responsible for reviewing certain reports, agreements and documents, including the Implementation Documents, and providing recommendations to the Board or Advisory Council regarding the implementation of the Program. The Board or Advisory Council may exercise discretion in choosing which documents, agreements and reports to disclose to the Stakeholders Committee for its review, but should generally include all documents, agreements and reports except for those which may impede execution of the Program or violate confidentiality.

D. Transparency of Stakeholders Committee Meetings and Recommendations. In compliance with the requirements of the Compact and the Governing Documents,

the Stakeholders Committee should document summaries of its meetings, including but not limited to the following information for each meeting: names of all attendees at the meeting, agenda items discussed during the meeting and recommendations made by the Stakeholders Committee at the meeting.

E. Confidentiality; Conflict of Interest. The Stakeholders Committee will abide by the confidentiality and conflict of interest rules set forth in Section 3.2(I) and (J) of these guidelines.

3.6 Management Unit Structure, Composition and Duties

A. Role of the Management Unit. The Management Unit will assist the designated final authority acting on behalf of the Accountable Entity (that is, the Board or minister or senior most official designated to act on behalf of the Accountable Entity) in overseeing the implementation of the Program and should have the principal responsibility (subject to the direction and oversight of the Board or other designated final authority, and subject to MCC's rights of approval as set forth in the Compact and the related supplemental agreements) for the day-to-day management of the Program. The Management Unit members have a duty to follow the Accountable Entity's Governing Documents, to carry out the Accountable Entity's mission to implement the Compact and to ensure that MCC Funding is used only for permitted purposes.

B. Size and Composition. The size and composition of the Management Unit should be dictated by the project areas of the Program; however, the Management Unit should be composed of qualified experts from the public or private sectors, including such officers and staff as may be necessary to carry out effectively its responsibilities including the Key Staff.

C. Appointment. The Key Staff will be selected after an open and competitive recruitment and selection process, and appointed in accordance with the Governing Documents of the Accountable Entity. The appointment of Key Staff is subject to MCC approval. The process for selecting the Key Staff should commence as soon as possible and should be completed prior to entry into force of the Compact.

D. Review and Approval Requirements. The Management Unit will assist the final authority in overseeing the implementation of the Program and should have the principal responsibility (subject to the direction and oversight of the decision-making body, and subject to MCC's rights of approval as set forth in the Compact and in any relevant supplemental agreement) for the overall management of the implementation of the Program, including:

(1) Development and administration of (i) all components of the Implementation Documents, (ii) the audit plans and any response to any

finding in any audit, (iii) staffing plans, and (iv) any amendments, modifications or supplements to any of the items in (i) - (iii);

(2) Oversight of the implementation of the projects, including preparation and submission of the requests for disbursement of MCC Funding;

(3) Coordination of the overall Program, each project, and the other activities contemplated under the Compact and any supplemental agreements;

(4) Management, implementation and coordination of the monitoring and evaluation of the Program and the projects (including collection and analysis of data);

(5) Development, oversight, management, coordination and implementation of such policies and procedures as may be necessary to facilitate the effective implementation of the Compact and such other policies, procedures, or activities as may be required or requested by the decision-making body in furtherance of the Compact;

(6) Preparation and review of reports regarding the finances and accounting (including management reporting, accounts receivable, accounts payable, monthly, quarterly and annual financial statements, cash flow statements and projected cash flow requirements), performance, monitoring and evaluation, procurements, budgets, and audit reports of the Program (including each project and the other activities contemplated under, or carried out in furtherance of, the Compact) and any other reports requested by the decision-making body;

(7) Preparation and submission of all reports required by applicable local law;

(8) Maintenance of accounting records for the Program, including for each project;

(9) Acquisition and maintenance of a management information system to allow the systematic tracking of programmatic and financial implementation of and performance under the Compact, including each project;

(10) Commission and supervision of baseline and ex-post studies for each Project as may be required by the M&E Plan; establishment of data collection, analysis, and reporting systems for the overall Program and for each project;

(11) Conduct and oversight of procurements, and other procurement actions (including approvals thereof) as required under the Compact and the

relevant supplemental agreement and the standards set forth in the Procurement Guidelines;

(12) Administration of the Accountable Entity website to post current information about Compact-related activities, M&E Plan reporting, financial reporting, and Compact-related procurements;

(13) Provision of advice and written recommendations to the decision-making body on matters constituting decision-making body actions and in connection therewith, the Management Unit should prepare and submit to the final authority the relevant agreements, documents or actions to be approved, along with a written recommendation to the decision-making body on how to proceed on such agreement, document or action and any other documents needed to support such recommendation;

(14) Preparation of and submission to the decision-making body of any report required by MCC or any other report, document, agreement or action as may be designated or requested by the decision-making body from time to time, along with a written recommendation to the decision-making body on how to proceed;

(15) Provision of periodic reports to the decision-making body which should include a report on the Stakeholders Committee meeting that occurred during the period covered by such report, and how recommendations of the Stakeholders Committee have informed the activities of the Accountable Entity;

(16) Preparation and submission of documentation necessary to ensure the tax exemption of MCC Funding related to the Program; and

(17) Any other responsibilities within the scope of its Program implementation management role that may be required or requested from time to time by the decision-making body.

E. Reporting. The chief executive officer, with the assistance of the Management Unit, will promptly deliver and certify any reports, documents or other submissions requested by or required to be delivered to the decision-making body or MCC. Any documents delivered to the final authority should be copied to MCC.

F. Confidentiality; Conflict of Interest. The Management Unit will abide by the confidentiality and conflict of interest rules set forth in Section 3.2(I) and (J) of these guidelines.

3.7 Remuneration

A. Overview. Compensation will be consistent with the detailed financial plan, as defined in the Compact or Program Implementation Agreement, as applicable.

B. Remuneration of the Board or Advisory Council.

(1) The Accountable Entity is prohibited from paying remuneration to Board or Advisory Council members with MCC Funding, except for reasonable expenses arising from their attendance at regular or special meetings so long as such reimbursements are consistent with the Compact, the Program Implementation Agreement (if applicable), MCC's cost principles governing the Accountable Entity, the fiscal accountability plan and the detailed budget for the Program.

(2) The Accountable Entity and the Government are prohibited from paying remuneration to Government members of the Board or Advisory Council from Government sources of funding.

(3) The Accountable Entity is permitted to pay remuneration from Government sources of funding to non-Government members of the Board or Advisory Council in connection with the performance of their duties. Such remuneration for actual services rendered as members of the Board or Advisory Council will not exceed the highest daily rate of salary and benefits of a Government minister or the equivalent of 90 days pay in any annual period of the Accountable Entity based on the relevant rate. MCC reserves the right to review the level of remuneration to be paid to non-Government members of the Board or Advisory Council. Any remuneration paid from Government sources of funding must be disclosed in the detailed budget as part of the Government contribution to the Program.

C. Remuneration of the Stakeholders Committee. Members of the Stakeholders Committee will not receive any remuneration in connection with the performance of their duties. The Accountable Entity may reimburse members of the Stakeholders Committee for reasonable expenses arising from their attendance at regular or special meetings so long as such reimbursements are consistent with the Compact, the Program Implementation Agreement (if applicable) and the detailed budget for the Program.

D. Remuneration of the Management Unit.

(1) Remuneration includes, but is not limited to, salaries, benefits (pensions, health, disability, unemployment, severance, etc.), holidays and leave, transportation or food allowances (in cash or in kind), bonuses (e.g. annual, Christmas, 13th month, etc.) and overtime.

(2) An Accountable Entity that is an existing unit or department within the Government generally should pay members of the Management Unit in accordance with the compensation level and benefits paid to Government employees of comparable rank, in accordance with the existing established Government law, regulations or policy. MCC Funding may only be used to compensate the additional or new staff positions or additional time of current Government staff positions needed to accomplish the purposes of the Program. MCC Funding may not be used to fund existing Government staff positions already funded through Government appropriations prior to the Compact.

(3) If the Accountable Entity is established as a new unit or department within the Government structure with special rights or a new Government Affiliate outside the existing Government structure, the Accountable Entity generally should pay members of the Management Unit at compensation levels and benefits comparable to those paid by other donor organizations or the private sector to individuals of comparable rank and qualifications doing comparable work. Comparability will be established by the use of salary surveys conducted within the country by the private sector or other donors.

4.0 Insurance

A. Overview. The Accountable Entity should insure or cause to be insured all Program Assets to the extent such insurance is appropriate for the Program and commercially available, unless otherwise agreed with MCC. The Accountable Entity should obtain or cause to be obtained such other appropriate insurance and other protections to cover against risks or liabilities associated with the operations of the Program, including by requiring implementing entities and contractors that receive a substantial amount of MCC Funding to obtain adequate insurance and post adequate performance bonds or other guarantees.

B. Use of insurance proceeds. The Government and the Accountable Entity should ensure that any proceeds from claims paid under such insurance or any other form of guarantee will be used to replace or repair any loss of Program Assets or to pursue the procurement of the covered goods, services, works, or as otherwise instructed by MCC.

5.0 Implementation Structural Components

A. Relationship with the Fiscal Agent. The Accountable Entity should engage a Fiscal Agent through an international competitive process, engage the Ministry of Finance, or engage another governmental entity as agreed with MCC, to perform certain financial management activities on behalf of the Accountable Entity. The Accountable Entity should enter into an agreement with the Fiscal Agent, setting

forth the roles and responsibilities of such Fiscal Agent and other appropriate terms and conditions (including the payment of the Fiscal Agent, if any). The Fiscal Agent is responsible for the following activities, among other things:

(1) Assisting in preparing the fiscal accountability plan, which specifies the fiscal management and procurement related controls to be followed by the Accountable Entity in utilizing MCC Funding;

(2) Ensuring and certifying that payments of MCC Funding are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement or the Program Implementation Agreement, the fiscal agent agreement, fiscal accountability plan and other relevant supplemental agreements;

(3) Release of payments of MCC Funding from any Permitted Accounts;

(4) Cash management and account reconciliation of any Permitted Accounts, including reconciling each Permitted Account to the Accountable Entity's automated accounting system and reconciling such automated accounting system to the CPS accounting records and MCC's accounting records;

(5) Providing applicable certifications for requests for disbursements of MCC Funding;

(6) Maintaining and retaining proper accounting, records and document disaster recovery system of all MCC-funded financial transactions and certain other accounting functions;

(7) Producing reports on disbursements of MCC Funding and re-disbursements thereof in accordance with established procedures set forth in the Disbursement Agreement, the Program Implementation Agreement, the fiscal agent agreement, the fiscal accountability plan, or any other supplemental agreements;

(8) Assisting in the preparation of budget development procedures; and

(9) Internal management of the Fiscal Agent operations.

B. Relationship with the Procurement Agent(s). The Accountable Entity should engage a Procurement Agent(s) through an international competitive process or utilize the procurement functions of existing Government ministries or agencies, as agreed with MCC, to carry out and certify specified procurement activities in furtherance of the Compact on behalf of the Accountable Entity. Any procurement agent engaged by the Accountable Entity will be responsible for adhering to the procurement standards set forth in the Compact, the Disbursement Agreement, the Program Implementation Agreement, and the Procurement

Guidelines and ensure procurements are consistent with the procurement plan adopted by the Accountable Entity. The Accountable Entity should enter into an agreement with each Procurement Agent, setting forth the roles and responsibilities of such Procurement Agent and other appropriate terms and conditions (including the payment of the Procurement Agent, if any).

C. Relationship with Implementing Entities. Subject to the terms and conditions of the Compact and the Program Implementation Agreement (if applicable), the Accountable Entity may engage one or more Government Affiliates to implement and carry out any project, project activity (or a component thereof) or any other activities to be carried out in furtherance of the Compact. The Accountable Entity should enter into an agreement with each Implementing Entity, setting forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions (including the payment of the Implementing Entity, if any).

6.0 Amendment. These guidelines may be modified or amended from time to time at the discretion of MCC and supersede any previous guidelines on this subject matter. The original version of these guidelines became effective on March 2, 2007. This version shall replace such original version in its entirety.

7.0 Effectiveness. These guidelines are effective on the date indicated below.

_____	_____
Vice President for Compact Development	Vice President for Compact Implementation

Effective Date:

ANNEX I
TO
MCC GUIDELINES FOR ACCOUNTABLE ENTITIES
AND IMPLEMENTATION STRUCTURES

The following charts describe the implementation structures (including the Accountable Entity, Fiscal Agent and Procurement Agent, if any) for each MCC country with which MCC has signed a Compact.

Armenia
Millennium Challenge Account- Armenia (MCA-Armenia)
Proposal Date: March 25, 2005
Compact Signed: March 27, 2006
Entry into Force: September 29, 2006

Armenia	
Legal Structure	Millennium Challenge Armenia State Non-Commercial Organization **(**MCA-Armenia**)** was established as a state non-commercial organization by the Government of the Republic of Armenia, acting through the Prime Minister's office.
Board Composition	**Governing Council** ▪ **Twelve (12) Voting Members** (i) Prime Minister (ii) Chief Economic Advisor to the President (iii) Minister of Finance (iv) Minister of Economy (v) Minister of Transport and Communication (vi) Minister of Agriculture (vii) Minister of Territorial Administration (viii) Five (5) civil society members ▪ **Two (2) Non-Voting Observers:** (i) MCC Observer (ii) Environmentally-oriented NGOP appointed by the Stakeholder's Committee (not applicable if one of the chosen five civil society members is already an Environmentally-oriented NGOP) ▪ **Chair of Governing Council:** The Prime Minister shall initially fill the seat of Chair. The initial Chairman and each subsequent Chairman so chosen shall serve for a term of one year. The Minister of Economy is the Principal Representative under the Compact. ▪ **Terms of Voting Members:** No terms for Government Members. Voting Members shall be appointed by the Prime Minister and may be replaced by another Government official of comparable rank from a ministry or other Government body relevant to the Program activities subject to approval by the Government and MCC. ▪ Each civil society member shall be appointed by the Stakeholder's Committee for one year term but may be reappointed for one or more additional one year terms.
Management Unit	(i) Chief Executive Officer (ii) Chief Financial Officer (iii) Monitoring and Evaluation Officer (iv) Environment and Social Impact Officer (v) Rural Roads Project Officer (vi) Irrigation Project Officer (vii) Water-To-Market Project Officer (viii) Procurement Officer (ix) General Counsel/Deputy CEO

Armenia	
Stakeholders Committee	**Fifteen (15) members** The Stakeholders Committee was established through a participatory process overseen by the Government of Armenia. NGOs, water user associations, farmer groups and representatives from the private sector took part in forums which resulted in the election of members to the committee. The current members represent a broad spectrum of the Program stakeholders.
Fiscal Agent	**GFA**
Procurement Agent	▪ No external procurement agent ▪ MCA-Armenia has an in-house procurement officer who works with procurement officers/specialists in the following entities: (i) Rural Road Network Project: Armenian Roads Directorate (ARD) (ii) Irrigated Agriculture Project: World Bank Irrigation Project Implementation Unit (iii) Water-to-Market Sub-Activity of the Irrigated Agriculture Project- to be contracted out to a private firm or NGO

Benin
Accountable Entity: MCA-Benin
Proposed: September 5, 2005
Signed: February 22, 2006
Entry into Force: October 6, 2006

Benin	
Legal Structure	▪ MCA Benin was established on August 8, 2007 pursuant to Decree N°2007-376.
Board Composition	**Board of Directors** ▪ **Fourteen (14) Voting Members:** (i) Chief of Staff of the Office of the Presidency of the Republic of Benin (ii) Chief of Staff of the Ministry of Economy (iii) Chief of Staff of the Ministry of Finance (iv) Chief of Staff of the Ministry of Agriculture (v) Chief of Staff of the Ministry of Public Works and Transportation (vi) Chief of Staff of the Ministry of Justice (vii) Chief of Staff of the Ministry of Environment, Housing, and Urban Planning (viii) Chief of Staff of the Ministry of Land Reform (ix) Chief of Staff of the Ministry of Microfinance (x) Representative from Civil Society (selected following an assembly of nongovernmental organizations) (xi) President of the Chamber of Commerce and Industry (xii) The Chairman of the Chamber of Agriculture (xiii) Representative from the Mayors' Council (which shall be the public official holding the relevant office as such office is held after a national assembly of all the mayors in Benin) (xiv) A member of the Board of the National Assembly as designated by the National Assembly. ▪ **Non-Voting Observers:** (i) MCC Observer (ii) A representative from the Advisory council (iii) Representatives-elect for Civil Members (defined below), who will be non-voting observers for a one-year period ▪ **Terms of Voting Members:** No terms. Each Government Member position shall be filled by the individual, during the Compact Term, holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity, in the event that such individual is unable to participate in a meeting of the Board such member's principal deputy may participate in the member's stead. ▪ **Terms of Civil Members:** Each civil member position shall be filled by the individual, during the Compact Term, holding the office or position identified in, or selected pursuant to, Section 3(d)(ii)(2)(A)(viii) – (xi) and such individuals shall serve in their capacity as the incumbent in such office or position and not in their personal capacity. o The civil member identified in section 3(d)(ii)(2)(A)(vii) shall service in their personal capacity. o The term of each Civil member's appointment to the board shall be 30 months; other than the Civil member identified in Section 3(d)(2)(ii)(A)(viii) and (ix) which position shall be filled by the individual holding such position during the Compact

Benin	
	Term ▪ **Chair:** Chief of Staff of the Office of the Presidency shall initially fill the seat of the Chair.
Management Unit	(i) National Coordinator who reports directly to Board (shall be selected by the Board and hired after open and competitive recruitment and selection process, initially appointed by MCA-Benin for not longer than six months) (ii) Administration and Finance Director (iii) Monitoring and Evaluation Director (iv) Land Project Director, Financial Services Project Director, Justice project Director and markets Project Director (each a, "Project Director") (v) Financial Services Project Division (vi) Environmental and Social Assessment Director (vii) Legal Counsel (viii) Procurement Director
Stakeholders Committee	**Advisory Council** **Eight (8) Members:** (i) A representative from the Ministry of Foreign Affairs and African Integration (ii) A representative from the Ministry of Industry and Commerce (iii) A representative from the Ministry of Interior, Security and Decentralization (iv) A representative from the Ministry of Justice (v) A representative from the Private Sector (selected following a national assembly of the private sector) (vi) A representative from the labor unions (selected following a national assembly of the labor unions) (vii) A representative from the regional organizations (selected following a national assembly of the regional organizations) (viii) A representative from the National Artisan Federation (selected following a national assembly of the National Artisan Federation) ▪ **Terms of Advisory Council:** No terms. Each position shall be filled by the individual during the Compact Term holding the office identified and such individuals shall serve in their capacity as the applicable Government official, not in their personal capacity.
Fiscal Agent	The Louis Berger Group, Inc.
Procurement Agent	The Louis Berger Group, Inc.

Cape Verde	
Legal Structure	MCA- Cape Verde was established as an independent administrative structure within the Ministry of Finance pursuant to Decree No. 24/2005 of July 4, 2005 of the General Secretariat of the Government.
Board Composition	**Steering Committee** ▪ **Nine (9) to 11 Voting Members:** (i) Minister of Finance and Public Administration (ii) Minister of State Infrastructure, Transport and Sea (iii) Minister of Economy, Growth, and Competitiveness (iv) Minister of Environment and Agriculture (v) Chief Advisor to the Prime Minister (vi) The President of the National Municipalities Association (vii) The President of the Sotavento Chamber of Commerce (viii) The President of the Barlavento Chamber of Commerce and Agriculture (ix) The President of the Non-Governmental Organization Association (x) General Director of International Cooperation ▪ **Five (5) Non-Voting Observers:** (i) MCC Observer (ii) Four (4) civil society representatives ▪ **Chair of Steering Committee:** Minister of Finance and Public Administration shall initially fill the seat of Chair, "President." ▪ **Terms of Voting Members:** No Terms. Each Government Member shall serve in his or her capacity as a Government official. If a person serving as a Government Steering Committee Member resigns or is removed from such Government office, that person's position on the Steering Committee will be taken by such person's successor in such Government capacity.
Management Unit	(i) Managing Director (ii) Administration and Finance Director (iii) Senior Economist (iv) Monitoring and Evaluation Analyst, and Monitoring and Evaluation Assistant (v) Watershed Management and Agricultural Support Manager, Roads Manager, Port Manager, and a Private Sector Development Manager (vi) Environmental and Social Assessment Manager (vii) Procurement Manager (viii) Procurement Specialist, Procurement Assistant, Procurement Secretary, Translator, Executive Secretary, Receptionist , and an Administrative and Financial Assistant

Cape Verde	
Stakeholders Committee	• **At least eight (** and no more than 12) members, comprised of the following individuals: (i) Director of the Office of Studies of the Ministry of Finance and Planning (ii) One (1) representative nominated by the Regional Stakeholders Committees (iii) Two (2) representatives from micro-credit non-governmental organizations (iv) Two (2) representatives from the private sector (one from the tourism sector and one from the transportation sector), selected by trade associations from those sectors (v) Two (2) prominent businesspersons appointed by the Prime Minister from a list of individuals recommended by the private sector, including the Chambers of Commerce
Fiscal Agent	The Ministry of Finance and Public Administration of the Republic of Cape Verde (Department of Treasury)
Procurement Agent	Procurement Agent: None. Procurement and contract management by MCA-Cape Verde will be conducted under the broad oversight and authority of the Steering Committee, through the Procurement Review Commission (PRC) which will supervise procurement operations of the Management Unit, as set forth in the Procurement Agreement and the PRC Charter.

El Salvador
Millennium Challenge Account-El Salvador (Fondo del Milenio, or FOMILENIO)
Proposal Date: December 2005
Compact Signed: November 29, 2006
Entry into Force: September 20, 2007

El Salvador	
Legal Structure	▪ MCA-El Salvador, named FONDO DEL MILENIO ("FOMILENIO), was established as an autonomous public entity pursuant to Legislative Decree 189 dated January 4, 2007.
Board Composition	**Board of Directors** **Seven (7) to eleven (11) Voting Members:** (i) Technical Secretary of the Presidency of the Republic of El Salvador (ii) Minister of Finance (iii) The Minister of Foreign Affairs. (iv) The Minister of Agriculture (v) One (1) member of the private sector. (vi) Two (2) members representatives of NGOs. ▪ **Two (2) Non-Voting Observers:** (i) One (1) MCC Observer (ii) The Minister of Environmental and Natural resources ▪ **Chairman of the Board:** Appointed from one of the four government members as provided in applicable regulations, initially filled by Technical Secretary of the Presidency. ▪ **Terms of Voting Members:** No term for Government Members. Each Government Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity. Civil Members serve terms of 2 years.

El Salvador	
Management Unit	(i) Executive Director (ii) Deputy Executive Director (iii) Internal Auditor (iv) Legal Council (v) Administrative Director (vi) Director of Technology and Information (vii) Director of Program Implementation (viii) Coordinator of Human Development Component (ix) Coordinator of Productive Development Component (x) Coordinator of Connectivity Development Component (xi) Director of the Procurement Program (xii) Director of Monitoring and Evaluation (xiii) Financial and Administrative Director (xiv) Director of Environment and Social Impact (xv) Director of Communications.
Advisory Council	The Advisory Council by the following members: 5 representatives of CND 3 members of the Northern Zone mayoral council 1 representative of Northern Zone civil society The composition of the Advisory Council may be adjusted by agreement of the Parties from time to time to ensure an adequate representation of the intended beneficiaries of the Program.
Fiscal Agent	FOMILENIO´s Financial Management Units (“UFI”)
Procurement Agent	Procurement Agent is Charles Kendall & Partners LTD.

Georgia	
Legal Structure	Millennium Challenge Georgia Fund was established as a public legal entity under Georgian law, established pursuant to Presidential Decree No. 561, dated December 3, 2004 (**"**MCA-Georgia")
Board Composition	**Supervisory Board** ▪ **Eleven (11) Voting Members:** (i) Three (3) members of the executive branch of Government representing Ministries of the Government (one of whom shall be the Prime Minister); (ii) One (1) member who shall be the head of the President's administration (together with the three members listed in (i) above, the "Government Board Members"); (iii) Two (2) members of Parliament ("Parliament Board Member"); (iv) One (1) representative of a civil society organization; and (v) One (1) representative from the business sector. ▪ **Two (2) Non-Voting Observers:** (i) MCC Observer (ii) One (1) representative of civil society nominated by the Stakeholders' Committee (the "Civil Observer"). The CEO of MCA-Georgia shall serve as an ex-officio member of the Supervisory Board. ▪ **Chair of Supervisory Board:** The Prime Minister shall serve as the initial Chairman. Each subsequent Chairman shall be a Voting Member chosen by the Voting Members, and shall be subject to the prior written approval of MCC. The initial Chairman and each subsequent Chairman so chosen shall serve for a term of two years. ▪ **Terms of Voting Members:** Parliament Board Members and Government Board Members shall serve a two year term that can be renewed. Voting Members shall be appointed by the Cabinet of Ministers of the Government, acting upon the nomination of the Prime Minister, and may be replaced by another Government official of comparable rank from a ministry or other Government body relevant to the Program activities subject to approval by the Government and MCC.
Management Unit	(i) Chief Executive Officer (ii) Deputy CEO (iii) Chief Financial Officer (iv) Monitoring and Evaluation Program Director (v) Environment and Social Program Director (vi) Procurement Director (vii) Public Outreach Program Director (viii) General Counsel (ix) Five (5) Project Directors

Georgia	
Stakeholders Committee	**At least eight members:** (i) *Three (3) representatives of civil society (one of whom shall come from an organization in the Samtske-Javakheti region, and one of whom shall come from an environmental organization), each identified through the selection process described in Section 3.1(c);* (ii) *The head of the Agrarian Committee of the Parliament of Georgia;* (iii) *The head of the Road Department of the Ministry of Economic Development of Georgia;* (iv) *The First Deputy Minister of the Ministry of the Environment of Georgia; and* (v) Two (2) senior representatives of the business community, one of whom shall have experience in agribusiness and one of whom shall have experience in the financial sector.
Fiscal Agent	GFA
Procurement Agent	MCA-Georgia Internal procurement agent

Ghana
Accountable Entity: MiDA
Proposed: October 28, 2005
Signed: August 01, 2006
Entry into Force: February 16, 2007

Ghana	
Legal Structure	▪ Millennium Development Authority (MiDA) was established as a public entity pursuant to the Millennium Development Authority Act, 2006: enacted by the President and Parliament: Act 702
Board Composition	**Board of Directors** ▪ **Nine (9) Voting Members:** (i) Mr. Edward Boateng, Global Media Alliance, chair (ii) The Minister, or any other government official of the rank of director or higher from the Ministry of Food and Agriculture, initially to be the Minister of Food and Agriculture (iii) The Minister , or any other official of the rank of director or higher, from the Ministry of Trade, Industry, Private Sector and Presidential Special Initiatives, initially to be the Minister of Trade , Industry, Private Sector and Presidential Special Initiatives (iv) The Minister or any other official of the rank of director or higher, from the Ministry of Local Government, Rural Development and Environment, initially to be the Minister of Local Government, Rural Development and Environment. (v) The Minister, or any other official of the rank of director or higher, from the Ministry of Finance and Economic planning, initially to be the Minister of Finance and Economic Planning (vi) The Minister, or any other official of the rank of director or higher, from the Ministry of Transportation, initially to be the Minister of Transportation (vii) The CEO (viii) Two (2) representatives, each selected by the Private Enterprise Foundation and (ix) A representative, selected by the Ghana Association of Private Voluntary Organizations in Development ▪ **Four (4) Non-Voting Observers** (i) MCC Observer (ii) Three (3) representatives, each elected by lot by the district assemblies within each Intervention Zone. ▪ **Chairman of the Board:** appointed, Mr. Edward Boateng, Global Media Alliance ▪ **Terms of Voting Members:** No terms. Each Government member may be replaced by another government official, subject to approval by the Government and MCC; each Government Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity. ▪ **Other Information:** Board shall invite a representative selected by the registered NGOs representing the environmental community (the "eNGO Invitee") to all meetings of the Board

Ghana	
Management Unit	(i) CEO (ii) Internal Auditor (iii) Legal Counsel (iv) Director of the Agricultural Transformation Program (v) Director of Procurement (vi) Director of Monitoring and Evaluation (vii) Director of Finance and Administration (viii) Director of Environmental and Social Impact (ix) Director of Community and Public Outreach (x) Commercialization of Agriculture Project Manager (xi) Community Services Project Manager (xii) Transportation and Agricultural Infrastructure Project Manager (xiii) Land Administration Project Manager (each of whom shall report to the Director of Agricultural Transformation Program) (xiv) Agricultural Financial Services and Bank Capacity Building Manager (who shall report to the Commercialization of Agriculture Project Manager)
Stakeholders Committee	▪ **Three (3) Zonal Advisory Committees (ZAC):** purpose of ZAC is to provide representatives of private sector, civil society and local and regional government the opportunity to provide input to MiDA regarding implementation of Compact. (i) Northern Intervention Zone (ii) Afram Basin Intervention Zone (iii) Southern Intervention Zone ▪ **Composition of ZAC:** (i) A district planning officer from each district within the applicable Intervention Zone (ii) A district director of agriculture from each district within the applicable Intervention Zone (iii) A district chief executive from each district within the applicable Intervention Zone (iv) An elected representative from each district assembly from the applicable Intervention Zone (v) A regional environmental officer from each region within the applicable Intervention Zone **Term:** Each Government member position shall be filled by the individual, during the Compact Term, holding the office identified and such individual shall serve in this capacity as the applicable Government official and not in his personal capacity.
Fiscal Agent	Charles Kendall & Partners Limited
Procurement Agent	Charles Kendall & Partners Limited

Honduras
Accountable Entity: MCA-Honduras
Proposed: August 20, 2004
Signed: June 13, 2006
Entry into Force: September 29, 2005

Honduras	
Legal Structure	▪ MCA-Honduras has been established as an independent statutory corporation pursuant to Legislative Decree 233-2005, after Compact ratification and enactment of legislation creating MCA-Honduras.
Board Composition	**Board of Directors** **Five (5) Voting Members:** (i) Secretary of State of the Office of the Presidency of Honduras (ii) Secretary of State of the Office of Finances of Honduras (iii) The Secretary of State of the Office of Industry and Commerce (iv) Two (2) Civil Observers (each a "Civil Board Member"). ▪ **Nine (9) Non-Voting Observers:** (i) One (1) MCC Observer (ii) One (1) representative (each a "Government Observer") appointed by each of the following Ministries: o The Secretary of State (SoS) of the Office of Agriculture and Livestock ("SAG") o The SoS of the Office of Public Works, Transportation and Housing ("SOPTRAVI") o Minister of the Honduran Social Investment Fund ("FHIS") and o SoS of the Office of Natural Resources and Environment (iii) One (1) representative (each a "Civil Observer") appointed by each of the following Honduran civil society organizations: o National Anticorruption Council (Consejo Nacional Anticorrupción – CAN); o National Convergence Forum (Foro Nacional de Convergencia – FNC) o Poverty Reduction Strategy Consultative Council (Consejo Consultivo de la Estrategia de la Reducción de Pobreza – CCERP); o Honduran Council for Private Enterprise (Consejo Hondurano de la Emprasa Privada – COHEP) and o Such other organizations to which the parties mutually agree ▪ **Chairman of the Board:** appointed from one of five voting members as provided in applicable law and Governance regulations, initially filled by Secretary of State of the Office of the Presidency ▪ **Terms of Voting Members:** No term for Government Members. Each Government Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity. Civil Members serve terms of 15 months.

Honduras	
Management Unit	(i) General Director (ii) Administration and Finance Director (iii) Monitoring and Evaluation Director (iv) Environmental and Social Impact Director (v) Rural Development Project Director (vi) Transportation Project Director (vii) General Counsel (viii) Procurement Director
Stakeholders Committee	N/A
Fiscal Agent	Ministry of Finance of the Republic of Honduras ("SEFIN")
Procurement Agent	Procurement Agent for the Transport Project is Louis Berger MCA-Honduras manages all other procurements under the supervision and oversight of Crown Agents Consultancy

Madagascar	
Legal Structure	MCA-Madagascar has been established as an independent administrative structure within the office of the Presidency, pursuant to Decree No. 2005.
Board Composition	**Steering Committee** ▪ **Seven (7) Voting Members:** (i) The Minister of Land Reform, State Property and City Development (ii) The Minister of Finance and Budget (iii) The Minister of Economy, Commerce and Industry (iv) The Minister of Agriculture, Livestock and Fisheries (v) Three representatives of the Advisory Council (nominated to serve two year terms by the Advisory Council and any vacancy to be filled by nomination by the Advisory Council. ▪ **Three (3) Non-Voting Observers:** (i) MCC Observer (ii) Two Advisory Council representatives-elect who will be non-voting observers during the one-year period prior to the beginning of their respective terms. ▪ Each Government Voting Member position shall be filled by the individual then holding the office identified, who shall serve as long as he/she remains in such office. ▪ The Steering Committee shall elect a Chairman from among its Voting Members to serve a two-year renewable term. ▪ Advisory Council members shall serve for a term of two years, renewable by majority vote of the Advisory Council.
Management Unit	(i) Managing director (ii) Deputy managing director (iii) Manager of monitoring and evaluation (iv) Manager of procurement (v) Manager of administration and finance (vi) Manager of Land Tenure Project, a manager of Finance Project, and a manager of Agricultural Business Investment Project
Stakeholders Committee	**Advisory Council** ▪ No more than 12 members, unless otherwise agreed by the Parties, and comprised of: (i) One or more representatives of the private sector (e. association of banks, micro finance association farmers ' association) (ii) One or more representatives of civil society (e. women's association chambers of commerce, anti-corruption association, environmental organization) (iii) One or more representatives of mayors within the Zones (iv) One or more representatives of regional governments of the Zones.
Fiscal Agent	GFA Consulting Group and Charles Kendall & Partners
Procurement Agent	GFA Consulting Group and Charles Kendall & Partners

Mali	
Legal Structure	The Accountable Entity, MCA-Mali, is a *service rattaché* attached to the Presidency of the Republic of Mali.
Board Composition	**Board of Directors** ▪ **Eleven (11) Voting Members:** (i) Representative from the President's Office, appointed as the chair ("Chair") as provided in the Governing Documents; (ii) Representative from the Ministry responsible for transportation; (iii) Representative from the Ministry responsible for finance; (iv) Representative from the Ministry responsible for Economy; (v) Representative from the Ministry responsible for agriculture; (vi) Representative from the Ministry responsible for territorial administration; (vii) Representative from the National Committee for Business Owners; (viii) Representative from the Chamber of Commerce and Industry; (ix) Representative from the Chamber of Agriculture; (x) Representative from civil society organizations representing youth, selected by the relevant national NGOs and civil society organizations and based on selection criteria agreed upon by the Parties; and (xi) Representative from civil society organizations representing women, selected by the relevant national NGOs and civil society organizations and based on selection criteria agreed upon by the Parties. • **Non-Voting Observers:** (i) A representative designated by MCC (the "MCC Representative"); and (ii) A representative of environmental NGOs, selected by the relevant national NGOs and civil society organizations and based on selection criteria agreed upon by the Parties. • **Terms of Voting Members:** Each Government Member position (other than the Chair) shall be filled by the individual, during the Compact Term, holding the office identified and all Government Members (including the Chair) shall serve in their capacity as the applicable Government officials and not in their personal capacity. ▪ **Terms of Civil Members:** Each Civil Member shall serve for the Compact term.
Management Unit	(i) Director General; (ii) Director of Finance and Administration; (iii) Legal Adviser; (iv) Director of Procurement; (v) Director of Environmental and Social Assessment; (vi) Director of Monitoring and Evaluation; (vii) Director of Airport Improvement Project; (viii) Director of Alatona Irrigation Project.

Mali	
Stakeholders Committee	**Advisory Council** (1) an advisory council to the Board representing the beneficiaries of the Airport Improvement Project ("Airport Project Advisory Council"); and (2) an advisory council to the Board representing the beneficiaries of the Alatona Irrigation Project (the "Alatona Zone Advisory Council," and, together with the Airport Project Advisory Council, the "Advisory Councils" and each an "Advisory Council"), which Advisory Councils shall be independent of MCA-Mali and shall be established to the satisfaction of MCC. Each Advisory Council shall consist of no more than fifteen (15)voting members and shall be composed of representatives of relevant banking organizations, microfinance institutions, farmer associations, women's associations, chambers of commerce, local government, anti-corruption associations and environmental and social organizations ("Civil Society Stakeholders").
Fiscal Agent	Emerging Markets Group, Ltd.
Procurement Agent	The Louis Berger Group, Ltd.

Mongolia	
Legal Structure	MCA-Mongolia has been established under the Compact as a corporation under an international agreement after Compact ratification.
Board Composition	**Board of Directors** ▪ **Nine (9) Voting Members:** (i) Prime Minister, as Chairman of the Board; (ii) Minister of Finance; (iii) Minister of Roads, Transportation and Tourism; (iv) Minister of Education, Culture and Science; (v) Minister of Health; (vi) Minister of Construction and Urban Development; (vii) one representative selected by the private sector; and (viii) two representatives selected by civil society. ▪ **Nine (9) Non-Voting Observers:** (i) MCC Observer (ii) MCA-Mongolia Chief Executive Officer; (iii) MCA-Mongolia General Counsel, as Secretary of the Board; (iv) State Secretary from Ministry of Social Welfare & Labour; (v) State Secretary from Ministry of Food and Agriculture; (vi) one representative selected from the private sector who will be, after his/her term as non-voting member, the voting member from the private sector; and (vii) three representatives selected from civil society, of which, one will be an environmental observer and two will become, after their terms as non-voting members, voting members. ▪ Each Government Voting Member position shall be filled by the individual then holding the office identified, who shall serve as long as he/she remains in such office.
Technical Secretariat	**(i)** Chief Executive Officer **(ii)** Chief Operating Officer **(iii)** Chief Financial Officer **(iv)** General Counsel **(v)** Procurement Officer **(vi)** Environmental and Social Impact Officer **(vii)** Monitoring and Evaluation Officer **(viii)** Rail Project Director **(ix)** Peri-Urban Rangeland Director **(x)** Urban Property Rights Director, **(xi)** Technical and Vocational Education Project Director **(xii)** Health Project Director
Stakeholders Committee	▪ Comprised of: (i) Representatives of the private sector (ii) One or more representatives of civil society Private sector members of the Stakeholders' Committee will be selected initially by private sector members of the National Council, and civil society members will be selected initially by the civil society members of the National Council.
Fiscal Agent	GFA & Charles Kendall & Partners Limited
Procurement Agent	Crown Agents

Nicaragua	
Legal Structure	Fundación Reto del Milenio-Nicaragua (MCA-Nicaragua) was established pursuant to Nicaraguan law through *Decreto Legislativo* No. 4452, as a not-for-profit foundation.
Board Composition	**Board** ▪ **Seven (7) Voting Members:** (i) Four (4) ministers or secretary-level representatives of the government (ii) Two (2) representatives rotated periodically from among the Civil Observers (as described below) (iii) One (1) mayor rotated periodically from among the Mayor Observers (as described below) ▪ **Non-Voting Observers:** (i) MCC Observer (ii) A representative appointed by each of the following government ministries: the Ministry of Agriculture and Forestry, the Ministry of Transportation and Infrastructure, and the Ministry of the Environment and Natural Resources of Nicaragua (iii) **Civil Observers**: A representative appointed by each of the following civil society organizations ("Civil Observers"): León Local Development Council, Chinandega Local Development Council, two other civil society organizations, the selection of which shall be subject to MCC approval, and such other organization(s) to which the parties mutually agree (iv) **Mayoral Observers**: Two (2) Mayor Representatives from León and Chinandega Departments ▪ **Chair of the Board:** The chairman shall be a government director chosen by mutual agreement of the government and MCC. Each chairman so chosen shall serve for a term of 2½ years. ▪ **Term of Voting Members:** No terms for Government Members. Each Government member may be replaced by another government official, subject to approval by the Government and MCC; each Government Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity. The Civil Observers shall serve as voting members of the Board for two non-consecutive terms of 15 months. The Mayor Observer shall serve as a voting member of the Board for two non-consecutive terms of 15 months.

Nicaragua	
Management Unit	(i) General Director (ii) Deputy General Director (iii) Administration and Finance Director (iv) Monitoring and Evaluation Director (v) Environmental and Social Impact Specialist (vi) Management Information Systems Director (vii) Communications Director (viii) Procurement Director (ix) General Counsel (x) Infrastructure Specialist (xi) Rural Business Specialist
Stakeholders Committee	None.
Fiscal Agent	The Louis Berger Group, Inc.
Procurement Agent	The Louis Berger Group, Inc.

Vanuatu
Accountable Entity: MCA-Vanuatu
Proposed: March 31, 2005
Compact Signed: March 02, 2006
Entry into Force: April 28, 2006

Vanuatu	
Legal Structure	▪ MCA-Vanuatu has been established by the Government of Vanuatu as an independent unit within the Ministry of Finance and Economic Management pursuant to a Council of Ministers Resolution and by Charter, signed by the Minister of Finance
Board Composition	**Steering Committee** ▪ **Thirteen (13) Voting Members:** (i) Director-General (DG) of the Office of the Prime Minister (ii) DG of the Ministry of Finance and Economic Management (iii) DG of the Ministry of Foreign Affairs and External Trade (iv) DG of the Ministry of Infrastructure & Public Utilities (v) DG of the Ministry of Lands (vi) Director of the Public Works Department (vii) Director of Finance (viii) Director of the Department of Economics and Social Development (ix) Director of the Department of Strategic Management; (x) Head of Development Cooperation, Ministry of Foreign Affairs (xi) General Manger of the Chamber of Commerce (xii) Secretary-General, Vanuatu Non-Governmental Organizations (xiii) Chief Statistician ▪ **Three (3) Non-Voting Observers:** (i) MCC Observer (ii) Director of Environment Unit, Ministry of Lands (iii) General Manager, Vanuatu Tourism Office ▪ **Ex Oficio Member of Steering Committee:** Director of the Program Management Unit ▪ **Chair of Steering Committee:** Director-General of the Office of Prime Minister ▪ **Terms of Voting Members:** No Terms. Each Government member may be replaced by another government official, subject to approval by the Government and MCC; each Government Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity.
Management Unit	(i) One (1) Director (ii) One (1) Economist (iii) One (1) Engineer/Procurement Director (iv) One (1) Administrative and Support Personnel (v) One (1) Environmental Social Impact Officer
Stakeholders Committee	N/A
Fiscal Agent	Ministry of Finance and Economic Management, Department of Finance
Procurement Agent	GRM

ANNEX II
TO
MCC GUIDELINES FOR ACCOUNTABLE ENTITIES
AND IMPLEMENTATION STRUCTURES

FORM OF CONFIDENTIALITY AGREEMENT

MCA-XXX CONFIDENTIAL INFORMATION POLICY

I. General Purpose

MCA-XXX encourages transparency with respect to Program implementation as part of the requirements of the Compact and the MCC Accountable Entity Guidelines. However, certain proprietary or sensitive information of MCA-XXX should be treated as confidential and shall not be disclosed, in order to avoid harm to MCA-XXX and the Objectives of the Program. The general purpose of the following policy (the "***Confidential Information Policy***") is to protect privileged and confidential information of MCA-XXX and to provide guidance to board members, officers and staff of MCA-XXX in the handling and treatment of confidential information.[46]

II. Definitions

Capitalized terms used but not defined herein shall have the meanings given to such terms in the Compact or the Disbursement Agreement, as the case may be. In addition, in this Confidential Information Policy, the following terms shall have the meanings given to them below:

"***Compact***" means the Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation ("***MCC***"), and the Government of XXX (the "***Government***"), executed on [_____];

"***Confidential Information***" means any information obtained or received by a Covered Person in the course of performing his or her duties or responsibilities for MCA-XXX, or as a result of his or her relationship with MCA-XXX, that is not otherwise publicly available from sources other than a disclosure in violation of this Confidential Information Policy. "***Confidential Information***" shall include, but is not limited to (a) documents, reports, cost estimates, technical data and information concerning MCA-XXX or the Program; (b) MCA-XXX personnel matters, including, without limitation, compensation data; (c) matters relating to actual, potential or apparent conflicts of interest, (d) procurement matters prior to final contract award, (e) contract

[46] Authority for this Confidential Information Policy may be found in Section 3.2(I) of the MCC Accountable Entity Guidelines, Section 5.18 of the Disbursement Agreement, and Sections 2.11(b), 3.8(b) and 5.3 of the Bylaws of MCA-XXX.

administration matters; and (f) any information specifically designated by MCA-XXX or its Board of Directors or by MCC as being confidential or proprietary information;

"***Covered Person***" means (i) each Voting Member and each Observer of the Board of Directors of MCA-XXX; (ii) each officer, employee, staff, consultant, contractor, agent, representative or volunteer engaged by or providing services to MCA-XXX, including, but not limited to, each member of the Management; and (iii) each member of a Stakeholders Committee of MCA-XXX, *provided* that MCC and its employees, including the MCC Representative, shall not constitute Covered Persons;

"***Disbursement Agreement***" means the Disbursement Agreement among the Government, MCA-XXX and MCC, dated as of [_____]; and

"***MCC Accountable Entity Guidelines***" means the "Guidelines for Accountable Entities and Implementation Structures" furnished to MCA-XXX by MCC, which may be found on the MCC Website, as amended from time to time.

III. Policies

A. Each Covered Person shall maintain the strict confidentiality of all Confidential Information, and shall take all reasonably possible steps (and, at a minimum, shall comply with any applicable professional standards, if any) to prevent the use or disclosure of such Confidential Information, except as explicitly authorized by MCA-XXX with the prior written approval of MCC.

B. Except as otherwise provided in this Confidential Information Policy, the disclosure, distribution, electronic transmission or copying of Confidential Information is prohibited.

C. A Covered Person who discloses Confidential Information in violation of this Confidential Information Policy will be subject to disciplinary action (including possible termination or separation), even if he or she does not actually benefit from the disclosure. This Confidential Information Policy shall be binding upon each Covered Person both during, and after the termination (for any reason) of, such person's employment or association with MCA-XXX.

D. A Covered Person may disclose Confidential Information to another Covered Person only on a "need to know" basis and *provided* that such other Covered Person has agreed to be bound by this Confidential Information Policy.

E. A Covered Person shall not use Confidential Information for his or her personal benefit or for the benefit of any of his or her family members or associates.

F. Upon the cessation or termination of a Covered Person's employment, engagement or association with MCA-XXX, such Covered Person shall promptly return all Confidential Information and other documents or materials that such person has obtained in the course of his or her association with MCA-XXX. A Covered Person is not permitted to retain

copies of any such Confidential Information or documents or materials upon the cessation or termination of his or her relationship with MCA-XXX.

G. The Board of Directors may from time to time authorize the Management to make publicly available certain information as required under the Compact, the Disbursement Agreement and the other Compact Documents. However, no individual Covered Person shall take it upon himself or herself to disclose Confidential Information for purposes of complying with the publicity requirements of the Compact, the Disbursement Agreement or the other Compact Documents unless explicitly authorized to do so by the Board of Directors.

H. Notwithstanding the restrictions on disclosure contained in this Confidential Information Policy, a Covered Person may, and upon request of MCC shall, provide any information (including Confidential Information) to MCC, the Inspector General of MCC, the United States Government Accountability Office or other independent auditors and investigatory bodies that may be designated by MCC.

I. If, at any time, any Covered Person has a question as to whether a particular item or matter may be disclosed, he or she shall, and shall be entitled to, request the guidance of the Legal Adviser of MCA-XXX prior to disclosure.

J. A copy of this Confidential Information Policy shall be given to each Covered Person upon commencement of such person's relationship with MCA-XXX or upon the official adoption of this policy. Each Covered Person shall be required to sign an acknowledgement in the form attached as Appendix 1 to this Confidential Information Policy as a condition of his or her appointment or engagement by or with MCA-XXX.

Date of approval by the Board of Directors of MCA-XXX: _____

Appendix 1

Confidential Information Policy
Acknowledgement and Annual Disclosure Form

This Confidential Information Policy Acknowledgement (this "***Acknowledgement***") must be filed by each Covered Person, as defined in the MCA-XXX Confidential Information Policy (ratified by the Board of Directors of MCA-XXX on [●], 20[●]) (the "***Confidential Information Policy***"). Capitalized terms used in this Acknowledgement have the meanings given to them in the Confidential Information Policy.

I have received and carefully reviewed the Confidential Information Policy of MCA-XXX and have considered not only the literal expression of the policy, but also its intent. By signing this Acknowledgement, I hereby confirm that I understand the contents of, and my obligations under, the Confidential Information Policy and affirm that I agree to comply with the Confidential Information Policy, both during and after the cessation or termination (for any reason) of my relationship with MCA-XXX.

Signature

Printed Name

Date

ANNEX III
TO
MCC GUIDELINES FOR ACCOUNTABLE ENTITIES
AND IMPLEMENTATION STRUCTURES

FORM OF CONFLICT OF INTEREST AGREEMENT

MCA-XXX CONFLICTS OF INTEREST POLICY

I. General Purpose

The general purpose of the following policy and procedures (the "***Conflicts of Interest Policy***") is to protect and preserve the integrity of the internal decision-making processes of MCA-XXX, to prevent the personal interest of board members, officers, staff and other agents, associates or representatives of MCA-XXX from interfering with the performance of their duties to MCA-XXX and to ensure that board members, officers, staff and other agents, associates or representatives of MCA-XXX do not obtain personal financial, professional or political gain at the expense of MCA-XXX, its stakeholders or MCC.[47]

II. Definitions

Capitalized terms used but not defined herein shall have the meanings given to such terms in the Compact or the Disbursement Agreement, as the case may be. In addition, in this Conflicts of Interest Policy, the following terms shall have the meanings given to them below:

"***Compact***" means the Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation ("***MCC***"), and the Government of XXX (the "***Government***"), executed on [_____];

"***Conflict of Interest***" means an actual, potential or apparent conflict between the responsibilities and duties of a Covered Person, on the one hand, and the private interests of a Covered Person, his or her Immediate Family, his or her business partners, organizations controlled by or substantially involving any of the foregoing persons (for example, any other organization for whom such Covered Person is or acts as a shareholder, director, officer or employee), organizations in which any of the foregoing persons have a financial interest, or any person or organization with whom such Covered Person is negotiating or has any arrangement concerning prospective employment, on the other hand. A "***Conflict of Interest***" includes, but is not limited to, any one or more of the following:

(1) A Covered Person is related to another Covered Person by blood, marriage or domestic partnership;

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[47] Authority for this Conflicts of Interest Policy may be found in Section 3.2(b) and Annex I, Part 3(d)(ii)(2)(G) of the Compact, Section 3.2(J) of the MCC Accountable Entity Guidelines, and Sections 2.11, 3.8 and 4.7 of the Bylaws of MCA-XXX.

(2) A Covered Person or a member of his or her Immediate Family, or any organization with whom any such person is affiliated, seeks to participate in a transaction with MCA-XXX or another Covered Person, or directly or indirectly stands to benefit (or may potentially benefit) from MCC Funding, an MCA-XXX transaction or a transaction with another Covered Person;

(3) A Covered Person or a member of his or her Immediate Family, or any organization with whom any such person is affiliated, receives a payment, Gift or offer of employment from MCA-XXX or from any other source from any other person who directly or indirectly stands to benefit (or may potentially benefit) from MCC Funding, an MCA-XXX transaction or a transaction with another Covered Person;

(4) A Covered Person or a member of his or her Immediate Family (or any close friend) has an interest - whether economic or otherwise, and whether as an owner, investor, partner, director, trustee, officer, employee or consultant - in any person, firm, corporation, or other organization or enterprise, that supplies or receives funds, goods, services, or required approvals to or from MCA-XXX, or is seeking to do so in the future;

(5) A Covered Person assists a third party in their dealings with MCA-XXX, where such assistance could result in favorable or preferential treatment being granted to the third party by MCA-XXX;

(6) A Covered Person learns of an opportunity for profit which may be valuable to him or her personally, to any member of his or her Immediate Family, to any other organization with whom such Covered Person is affiliated, or to any other person known to such Covered Person;

(7) A Covered Person or a member of his or her Immediate Family, or any organization with whom any such person is affiliated, is gratuitously provided use of the facilities, property or services of MCA-XXX; or

(8) A Covered Person is motivated by any consideration other than the best interests of MCA-XXX.

"***Covered Person***" means (i) each Voting Member and each Observer of the Board of Directors of MCA-XXX; (ii) each officer, employee, staff, consultant, contractor, agent, representative or volunteer engaged by or providing services to MCA-XXX, including, but not limited to, each member of the Management; and (iii) each member of an Stakeholders Committee of MCA-XXX, *provided* that MCC and its employees, including the MCC Representative, shall not constitute Covered Persons;

"***Gift***" means any type of gratuity, favor, service, discount, loan, fee or property, and anything else of value;

"***Disbursement Agreement***" means the Disbursement Agreement among the Government, MCA-XXX and MCC, dated as of [_____];

"***Immediate Family***" means, with respect to any person, a spouse, children, siblings, parents, grandparents, grandchildren, domestic partners, in-laws and the respective spouses of each of the foregoing; and

"***MCC Accountable Entity Guidelines***" means the "Guidelines *for Accountable Entities and Implementation Structures*" furnished to MCA-XXX by MCC, which may be found on the MCC Website, as amended from time to time.

III. Policies and Procedures

A. Duties of Covered Persons

Each Covered Person, when acting in his or her capacity as a Board or Stakeholders Committee member or observer, officer, employee, staff, consultant, contractor, agent, representative or volunteer of MCA-XXX, as the case may be, shall:

(1) Comply with the terms of the Compact, the Disbursement Agreement, the MCC Accountable Entity Guidelines, any other applicable agreement executed in connection with the Compact, and with the terms of any agreement between the Covered Person and MCA-XXX, and with the other laws, rules and regulations applicable to the MCA-XXX;

(2) Perform his/her duties in a diligent and timely manner, exercising his/her best judgment and reasonable care, and applying the sound financial, technical and management practices required to meet the Objectives of the Compact and the Program;

(3) Act with a duty of undivided loyalty to MCA-XXX and exercise his or her duties solely in accordance with the best interests of MCA-XXX, the Program, the Compact Goal and the Objectives, placing the interests of MCA-XXX above his or her personal interests or the interests of any other person or any other organization with which the Covered Person is associated;

(4) Not undertake any action that is contrary to the interests of MCA-XXX or which would or could reasonably be expected to result in direct or indirect personal gain or a Conflict of Interest; and

(5) As promptly as possible, disclose in writing to the Chair of the Board of Directors or the Secretary of the Board of Directors of MCA-XXX any actual, potential or apparent Conflict of Interest.

B. Policies with respect to Conflicts of Interest

(1) No Covered Person shall participate in the selection, award, administration or oversight of a contract, grant or other benefit or transaction funded or entered into, or to be funded or entered into, by MCA-XXX or with MCC Funding, in relation to which the Covered Person has a Conflict of Interest, unless such Covered Person has first disclosed the Conflict of Interest to the Chair or the Secretary of the Board of Directors of MCA-XXX in accordance with this Conflicts of Interest Policy and, following such disclosure, a majority of the Board of Directors (without counting the vote of any Covered Person that has a Conflict of Interest with respect to such transaction) has approved such participation and MCC has consented in writing to the participation of such Covered Person notwithstanding the Conflict of Interest.

(2) No Covered Person involved in the selection, award, administration, oversight or implementation of any contract, grant or other benefit or transaction funded or entered into, or to be funded or entered into, by MCA-XXX or with MCC Funding, shall solicit or accept from or offer to a third party or seek or be promised (directly or indirectly) for itself or for another person or entity any payment, Gift, or other benefit of any kind or nature, other than items which are of *de minimis* value and are otherwise consistent with such guidance as MCC may provide from time to time. Any payment, Gift or other benefit that cannot be courteously returned shall be delivered to the Chair of the Board of Directors for charitable disposition or such other disposition as the Board of Directors believes appropriate in its sole discretion.

C. Disclosure of Conflicts of Interest

(1) Each Covered Person shall make prompt and full disclosure in writing to the Chair or the Secretary of the Board of Directors of MCA-XXX of any and all Conflicts of Interest.

(2) Following full disclosure of each Conflict of Interest, the Board of Directors shall determine whether a Conflict of Interest exists and, if so, the Board shall vote to authorize or reject the transaction or take any other action deemed necessary to address the conflict and protect MCA-XXX's best interests. Both votes shall be by a majority vote of the Voting Members of the Board of Directors without counting the vote of any Covered Person who has such Conflict of Interest, even if the disinterested Voting Members are less than a quorum, *provided* that at least one consenting Voting Member is disinterested.

(3) A Covered Person that has a Conflict of Interest shall not participate in any discussion, deliberation or debate of the Board of Directors, Stakeholders Committee, any committee or subcommittee thereof, or the Management, in which the subject of discussion is a contract, transaction, or situation with respect to which such Covered Person has or may have a Conflict of Interest. However, such Covered Person may be present to provide clarifying information in such a discussion, deliberation or debate if requested by a majority of the disinterested

members of the Board, Stakeholders Committee, committee or Management, as applicable.

(4) Any member of the Board of Directors or any Stakeholders Committee who is considering employment with MCA-XXX must take a temporary leave of absence until the position is filled. Such a leave will be taken within the Board or Stakeholders Committee member's elected term, which term will not be extended because of the leave. A Board or Stakeholders Committee member who is formally considering employment with MCA-XXX must submit a written request for a temporary leave of absence to the Secretary of the Board of Directors of MCA-XXX, indicating the time period of the leave. The Secretary of the Board of Directors of MCA-XXX will inform the Chair of the Board of Directors of such a request. The Chair will bring the request to the Board of Directors for action. The request and any action taken shall be reflected in the official minutes of the Board of Directors.

(5) A copy of this Conflicts of Interest Policy shall be given to each Covered Person upon commencement of such person's relationship with MCA-XXX or upon the official adoption of this policy. Each Covered Person shall sign and date an acknowledgement and disclosure form in the form of Appendix 1 to this Conflicts of Interest Policy at the beginning of her or his term of service or employment and each year thereafter and deliver such form to the Chair of the Board of Directors. This annual certification requirement does not relieve any Covered Person of its obligation to promptly disclose any matter as required under this Conflicts of Interest Policy. Failure to sign or file such acknowledgement does not nullify the Conflicts of Interest Policy.

Date of approval by the Board of Directors of MCA-XXX: _____

Appendix 1

Conflicts of Interest Policy
Acknowledgement and Annual Disclosure Form

This acknowledgement and disclosure form (this "***Acknowledgement***") must be filed annually by each Covered Person, as defined in the MCA-XXX Conflicts of Interest Policy (ratified by the Board of Directors of MCA-XXX on [●], 20[●]) (the "***Conflicts of Interest Policy***"). Capitalized terms used in this Acknowledgement have the meanings given to them in the Conflicts of Interest Policy.

I have received and carefully reviewed the Conflicts of Interest Policy of MCA-XXX and have considered not only the literal expression of the policy, but also its intent. By signing this Acknowledgement, I hereby confirm that I understand the contents of, and my responsibilities under, the Conflicts of Interest Policy and affirm that I agree to comply with the Conflicts of Interest Policy.

If any situation should arise in the future that I think may involve a Conflict of Interest, I will promptly and fully disclose the circumstances thereof in writing to the Chair or the Secretary of the Board of Directors of MCA-XXX. As of the date of this Acknowledgement:

_____ I have no Conflict of Interest to report.

_____ I have the following Conflict(s) of Interest to report (please specify):

_____

_____

_____

_____

_____

Signature

Printed Name

Date