

Why GAO Did This Study

The Millennium Challenge Corporation (MCC) was established in 2004 to help developing countries reduce poverty and stimulate economic growth through multiyear compact agreements. As of June 2011, MCC had signed compacts with 23 countries totaling approximately \$8.2 billion in assistance. MCC asks countries to develop compacts with a focus on results and effective monitoring and evaluation. MCC sets targets, which may be revised, to measure the compact results. In late 2010, the Cape Verde and Honduras compacts reached the end of the 5-year implementation period. This report, prepared in response to a congressional mandate to review compact results, examines the extent to which MCC has (1) achieved performance targets and sustainability for projects in Cape Verde and Honduras and (2) assessed progress toward the goal of income growth and poverty reduction. GAO analyzed MCC documents and interviewed MCC officials and stakeholders in Washington, D.C., Cape Verde, and Honduras.

What GAO Recommends

GAO recommends that MCC (1) work with countries to make decisions that reduce long-term maintenance needs, (2) ensure updated economic analyses are documented and consistent with monitoring targets, and (3) develop guidance for updating economic analyses following compact completion. MCC agreed with the intent of all three recommendations.

View [GAO-11-728](#) or key components. For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

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MILLENNIUM CHALLENGE CORPORATION

Compacts in Cape Verde and Honduras Achieved Reduced Targets

What GAO Found

In its first two completed compacts, Cape Verde and Honduras, MCC met some key original targets and many final targets, but the sustainability of some activities is uncertain. In Cape Verde, MCC altered the scope of its three projects, meeting some key original targets and many final targets by the compact's end. For example, an activity to upgrade and expand a major port in Cape Verde, which represented almost 50 percent of the \$110.1 million compact at signature, faced inaccurate early planning assumptions and increased costs. As a result, MCC split the port activity into two phases, funding the completion of the first phase—which covered about one-third of total expected costs for the port activity. In Honduras, MCC met a key original target and most final targets by the end of the \$205 million compact. For example, MCC constructed approximately half of the planned highway and all rescope secondary roads. In addition, several compact activities in Cape Verde and Honduras face challenges to long-term sustainability. Although MCC took steps to provide for sustainability, the governments of both Cape Verde and Honduras may have difficulty maintaining the infrastructure projects in the long term due to lack of funding, among other challenges. For example, MCC included privatization of port operations and road maintenance funding as conditions of the Cape Verde compact. However, the government has had difficulty meeting these requirements, calling into question the long-term sustainability of some projects. In Honduras, both uncertain government funding for road maintenance and design decisions on construction projects may jeopardize the sustainability of MCC-funded roads.

MCC impact evaluations for the Cape Verde and Honduras compacts are ongoing but delayed, and updated economic rate of return (ERR) analyses of the largest compact projects have not been well documented or linked to revised targets. MCC has taken steps to modify impact evaluation designs in response to implementation challenges and delays. For example, challenges in implementing the original evaluation design for the farmer training and development activity in Honduras led MCC to enhance the methodology by adding a supplemental design. Furthermore, updated ERR analyses of projects representing over 50 percent of compact funds have not been well documented or supported. For example, MCC updated its ERR analysis for the Honduras transportation project, but documentation for the underlying quantitative analysis supporting the updated ERR is not available. Additionally, ERR analyses updated in response to rescoping compact activities were not consistently linked to revised targets and indicators. For example, MCC updated the ERR analysis for the watershed management and agricultural support project in Cape Verde, but the analysis does not reflect the values and numerical ranges of key revised targets. In addition, although original ERRs are estimated for a 20-year period, MCC has not developed guidance for updating ERRs following compact completion. Re-estimated end-of-compact ERRs will likely be lower than predicted at compact signature.