July 14, 2010

Congressional Committees

Subject: Millennium Challenge Corporation: Summary Fact Sheets for 17 Compacts

The Millennium Challenge Corporation (MCC), now in its seventh year of operations, is to provide aid to developing countries that have demonstrated a commitment to ruling justly, encouraging economic freedom, and investing in people. MCC provides assistance to eligible countries through multiyear compact agreements to fund specific programs targeted at reducing poverty and stimulating economic growth. MCC has received appropriations for fiscal years 2004 through 2010 totaling about $9.5 billion and has set aside about $8.1 billion of this amount for compact assistance. As of June 2010, MCC had signed compacts with 20 countries totaling approximately $7.1 billion; of the 20 compacts, 18 compacts had entered into force, obligating a total of approximately $6.3 billion. The President has requested approximately $1.3 billion in additional funds for MCC for fiscal year 2011, of which MCC plans to use about $1.1 billion for compact assistance to countries currently eligible for compacts.

Enclosed are fact sheets for 17 of the MCC compacts that had entered into force as of December 2009.¹ The fact sheets summarize each country’s

- general country characteristics and location,
- timeline of key compact events as of June 2010,
- per capita income relative to MCC income criteria,
- performance on MCC’s eligibility indicators,
- compact characteristics and structure,
- compact funding and project allocations as of December 2009, and
- planned and actual compact fund disbursements through December 2009.²

¹We have not included a fact sheet on the Madagascar compact because, as the result of an undemocratic transfer of power in Madagascar in March 2009, MCC formally terminated the compact effective August 31, 2009.

²The data within the fact sheets reflect the most recent information available on compact modifications and take into account MCC’s ongoing planning and disbursement processes. As a result, key compact events are reported as of the end of the third quarter of fiscal year 2010 (June 2010); compact project allocations are reported as of the end of the first quarter of fiscal year 2010 (December 2009); planned actual compact fund disbursements are reported through the end of the first quarter of fiscal year 2010 (December 2009).
**Scope and Methodology**

We compiled and summarized data from a number of sources to develop these fact sheets, including our previous reporting on MCC, as follows:

- To provide a general overview of each country’s characteristics, we used information from the World Bank and from the Central Intelligence Agency World Fact Books.

- To develop timelines of key compact events, we analyzed MCC data from its fiscal year 2009 financial report and our previous reporting.

- To depict countries’ income categorization, we compared World Bank data on per capita gross national incomes (GNI) with MCC’s income eligibility thresholds published in its annual candidate country reports.

- To summarize country performance on MCC eligibility indicators, we used data from MCC’s annual candidate country scorecards and eligible country reports.

- To summarize each compact’s characteristics and structure, we reviewed and analyzed MCC’s compacts, compact summaries, and monitoring and evaluation plans at compact signature, and the fiscal year 2011 Congressional Budget Justification. These summaries reflect the compact structure as of December 2009 and expected beneficiaries recalculated as of fiscal year 2009. Expected results are reported as of compact signature, however MCC continues to modify expected results as projects evolve and as new data becomes available.

- To analyze compact allocations, disbursements, and commitments, we compiled public information from MCC’s quarterly reports on compact obligations, disbursements, and commitments published in the *Federal Register* and from MCC’s quarterly country status reports. The planned disbursements we report are based on MCC’s financial plan projections at compact signature and as of December 2009 and on the assumption that compact funds are disbursed evenly throughout the compact term and implementation year. One country, Mongolia, had a major reallocation of funds that MCC approved at the end of 2009; however, the reallocations were not implemented until January 2010. Although the implementation date for these reallocations was outside our scope, we have included information on the reallocations using MCC’s most current financial plan.

To clarify and confirm our understanding of this information, we met with MCC officials.

We determined that World Bank gross national income per capita data were sufficiently reliable to depict countries’ income categorization as compared to MCC’s eligibility cutoffs.

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*MCC compact funds are committed up front when compacts are signed with the partner country and obligated after a compact enters into force. MCC defines allocations as compact funds assigned to a specific compact project, which may be reallocated among projects during compact implementation. Disbursements are payments from MCC compact funds, usually directly to a vendor. These funds are authorized for expenditure on a quarterly basis for costs associated with program implementation. The agency defines contract commitments as the forecasted value of any contract (or recurring expense outside of a contract such as salaries or utilities), and on the project level, these forecasts are often listed as “commitments.”*
We further determined that MCC financial data were sufficiently reliable for our purposes based on our review of U.S. Agency for International Development Inspector General Audits of MCC’s internal controls and financial statements. We did not independently assess the reliability of MCC’s projections of all countries’ compact results in this review and have noted this accordingly on each fact sheet. We conducted our work from January 2010 to July 2010 in accordance with sections of GAO’s Quality Assurance Framework relevant to our objectives. This framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and discuss any limitation in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

Agency Comments and Our Evaluation

We provided a draft of the fact sheets to MCC for review. MCC provided written comments about the draft, which we have reproduced in enclosure I. Regarding the rate of funds disbursement, MCC stated that the pace is, in some cases, slower than projected when the compacts were signed. MCC notes that the disbursement lags can be attributed to a number of factors, which MCC and the partner countries are addressing. Regarding projected compact beneficiaries and results, MCC noted that, as a part of its monitoring and evaluation, MCC periodically reviews and revises compacts’ results and beneficiaries in light of evolving project designs or additional data.

We also received and incorporated as appropriate a number of technical comments from MCC.

We are sending copies of this report to interested congressional committees. We will also make copies available to others on request. In addition, the report will be available at no charge on GAO’s Web site at http://www.gao.gov. If you or your staff have any questions or wish to discuss this material further, please contact me at (202) 512-3149 or gootnickd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Emil Friberg, Jr. (Assistant Director), Miriam Carroll Fenton, and Suneeti Shah Vakharia made significant contributions to this report. Jena Sinkfield, Etana Finkler, Ernie Jackson, Reid Lowe, and Amanda Miller provided technical assistance.

David B. Gootnick
Director, International Affairs and Trade

List of Committees

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The Honorable Richard Lugar
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United States Senate

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The Honorable Kay Granger
Ranking Member
Subcommittee on State, Foreign Operations,
and Related Programs
Committee on Appropriations
House of Representatives
June 28, 2010

Mr. David B. Gootnick
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Gootnick:

Thank you for the opportunity to provide comments on the GAO report entitled “Millennium Challenge Corporation: Summary Fact Sheets for 17 Compacts Entered into Force.” MCC appreciates GAO’s summaries of our compacts that reduce global poverty through the promotion of sustainable economic growth, and wishes to clarify certain points regarding the pace of our disbursements as well as the dynamic nature of our project evaluation process.

Compact Disbursement Rates

MCC acknowledges that the pace of its disbursements, in some cases, is slower than projected by the general financial plans developed when individual compacts were signed. These lags are attributed to a number of factors being addressed by MCC and our partner countries.

First, as a result of more project feasibility work being conducted during the compact development process, MCC has greater certainty on project costs and is therefore able to develop more complete financial plans at the time of compact signing. Second, implementing units, known as MCAs, are now established and mobilized earlier, allowing procurements to begin sooner after compact signature, which in turn allows for earlier disbursements. Third, during implementation, MCC requires MCAs to update their detailed financial plans on a quarterly basis. This process provides MCC with revised quarterly projections for the remainder of the compact term; these projections form the basis of our annual corporate disbursement and commitment targets. MCC makes these targets public and reviews them with various stakeholders.

These changes have significantly improved MCC’s disbursement performance against the corporate targets over the past two years without compromising its oversight model. Increases in the pace of MCC’s disbursements has resulted in an increase in the on-the-ground work completed which has allowed MCC to begin showing the related output and outcome results of its investments.
Dynamic Evaluation of Expected Beneficiaries & Results

As noted in the GAO report, MCC undertook a major effort in December 2009 to ensure that consistent definitions of beneficiaries are used across compacts. This has resulted in updates to a number of the project beneficiary estimates.

MCC periodically reviews compacts' benefits and beneficiaries. MCC project designs may evolve or be refined during program implementation, and additional data impacting assumptions in the economic model may become available. Consequently, projections of expected benefits and beneficiaries may also change. MCC provides updated estimates in publicly available documents such as monitoring and evaluation plans as they are available.

We have greatly appreciated working with the GAO in the development of these documents. If you have any questions, please do not hesitate to contact me.

Sincerely Yours,

[Signature]

Patrick C. Fine
Department of Compact Implementation
Related GAO Products


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Country Characteristics

Located in the Caucasus region of Asia, Armenia has a population of about 3.1 million. It is a lower-middle-income country. Its economy is based primarily on services and industry, which respectively constitute 48 and 34 percent of its gross domestic product (GDP). Agriculture constitutes 19 percent of GDP but employs about 46 percent of the labor force. After the breakup of the Soviet Union in 1991, Armenia implemented some economic reforms, but geographic isolation, a narrow export base, and monopolies in important business sectors made it vulnerable to the deterioration in the global economy. After several years of high economic growth, Armenia faced an economic recession, with GDP declining by at least 15 percent in 2009. Its economy is further challenged by high transportation costs. The country is landlocked, and its borders with Azerbaijan and Turkey have been closed since the early 1990s.

Compact Timeline

During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Armenia was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 75 percent of the compact’s 5-year period had elapsed.

Key Events for Armenia Compact

- May 6, 2004: Selected as eligible for assistance
- March 27, 2006: Compact signed
- September 29, 2006: Compact enters into force, implementation begins
- June 30, 2010: Current
- September 28, 2011: Compact implementation ends; MCC funding expires
Armenia

MCC Selection Criteria

MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Armenia was classified as a low-income country from 2004 through 2007. In 2008, Armenia’s rising GNI per capita lifted it to lower-middle-income status.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Armenia met MCC’s eligibility criteria each year from 2004 through 2007 as a low-income country. In 2008, it rose to lower-middle-income status and each year since then has failed to meet the criteria for that group.

Armenia GNI Per Capita

<table>
<thead>
<tr>
<th>Year</th>
<th>GNI per Capita (in U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$570</td>
</tr>
<tr>
<td>2005</td>
<td>$950</td>
</tr>
<tr>
<td>2006</td>
<td>$1,120</td>
</tr>
<tr>
<td>2007</td>
<td>$1,470</td>
</tr>
<tr>
<td>2008</td>
<td>$1,930</td>
</tr>
<tr>
<td>2009</td>
<td>$2,640</td>
</tr>
<tr>
<td>2010</td>
<td>$3,350</td>
</tr>
</tbody>
</table>

Source: GAO analysis of World Bank World Development Indicators and MCC income cutoffs.

Armenia’s Performance on MCC Eligibility Indicators

<table>
<thead>
<tr>
<th>Indicator Category</th>
<th>MCC eligibility year</th>
<th>MCC income group</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<th>2010</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Lower-middle</td>
<td>Lower-middle</td>
<td>Lower-middle</td>
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<td>✓</td>
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<td>X</td>
<td>X</td>
<td>X</td>
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<td>✓</td>
<td>✓</td>
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<td>X</td>
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<td>Voice and Accountability</td>
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<td>✓</td>
<td>✓</td>
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<td>X</td>
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<td>Rule of Law</td>
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<td>Control of Corruption</td>
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<td>Girls’ Primary Education Completion.a</td>
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<td>✓</td>
<td>X</td>
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<td>Primary Education Expenditures</td>
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<td>✗</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Health Expenditures</td>
<td></td>
<td></td>
<td>✗</td>
<td>✗</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
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<td>Immunization Rates</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>X</td>
<td>X</td>
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<td>Natural Resource Management (2008-2010)</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Country Credit Rating (2004-2005)</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Days to Start a Business (2004-2007)</td>
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<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Cost of Starting a Business (2006-2007)</td>
<td></td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Business Start-up (2008-2010)</td>
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<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Inflation</td>
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<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<tr>
<td>Fiscal Policy</td>
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<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<tr>
<td>Trade Policy</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Regulatory Quality</td>
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<td></td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: GAO analysis of Millennium Challenge Corporation data.

Passed (scored above the median)  Failed (scored at the median or below)  NA for that year

aIn 2004, the indicator was “Primary Education Completion.”
bIn 2009, MCC stopped making an eligibility determination for countries with existing compacts.
Armenia

Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Armenia’s compact focused on reducing rural poverty by increasing the agricultural sector’s economic performance. At that time, more than 1 million Armenians (35 percent of the population) were dependent on semisubsistence agriculture. In June 2009, MCC put a hold on funding for the Rural Road Rehabilitation Project because of concerns about the status of democratic governance in Armenia. MCC will not resume funding for any future road construction under the compact. MCC also rescoped the Irrigated Agriculture Project.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

The Armenia compact is one of five compacts for which GAO has independently verified the reliability of MCC’s result projections. In June 2008, GAO reported that MCC made analytic errors in its original projections of the Armenia compact’s impact. Correcting these errors reduces MCC’s expected impact on income in rural areas and on poverty (GAO-08-730).

MCC has modified the Armenia compact but only partially recalculated the expected results.

MCC Expected Results

<table>
<thead>
<tr>
<th>Constraints to Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor transportation infrastructure and an underdeveloped agricultural economy constrain rural development.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Planned Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Road Rehabilitation</td>
</tr>
<tr>
<td>• Rehabilitate up to 943 km of rural roads, 45 percent of the proposed lifeline road network.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Planned Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irrigated Agriculture</td>
</tr>
<tr>
<td>• Rehabilitate up to 31 (previously 99) irrigation infrastructure projects to increase the area of irrigated land.</td>
</tr>
<tr>
<td>• Provide technical and rural credit assistance to build water management capacity and support transition to higher-value crops.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MCC Expected Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduced rural transport costs by an estimated $20 million annually, beginning 5 years after project completion.</td>
</tr>
<tr>
<td>• Will benefit rural Armenians living in 265 communities connected to the rehabilitated roads.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MCC Expected Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Total area of land under irrigation production increased by approximately 40 percent.</td>
</tr>
<tr>
<td>• Average net incomes of over 60,000 farmers increased by approximately 25 percent.</td>
</tr>
</tbody>
</table>

| Increased incomes for approximately 428,000 Armenians. |

Source: GAO analysis of Millennium Challenge Corporation data.

¹MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes. The hold on funding for the Rural Road Rehabilitation Project may affect results.

¹In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported the compact would benefit approximately 750,000 people.
Armenia

Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (March 2006), MCC obligated $235.6 million for the Armenia compact. As of December 2009, the overall obligation amount had not changed, however, nearly $7 million had been reallocated from Program Administration and Monitoring and Evaluation funds to the Irrigated Agriculture Project. In addition, because MCC put a hold on funding for the Rural Road Rehabilitation Project, approximately $59.0 million of compact funds will not be disbursed or reallocated.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $54.0 million (approximately 23 percent) of compact funds, compared with the $153.4 million (approximately 65 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $80.8 million has been committed under the compact for pending expenses as of December 2009.

Armenia Compact Project Allocations

<table>
<thead>
<tr>
<th>Program Administration and Monitoring and Evaluation</th>
<th>Dollars in millions</th>
<th>Program Administration and Monitoring and Evaluation</th>
<th>Dollars in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Road Rehabilitation</td>
<td>$67.1</td>
<td>Rural Road Rehabilitation</td>
<td>$67.1</td>
</tr>
<tr>
<td>Irrigated Agriculture</td>
<td>$145.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total: $235.6 million</td>
<td></td>
<td>Total: $235.7 million</td>
<td></td>
</tr>
</tbody>
</table>

Total allocated at compact signature
Total allocated as of December 2009
Hold on remaining funding

Note: The difference in total compact funds allocated at compact signature and as of December 2009 is due to rounding.

Armenia Compact Planned and Actual Disbursements

<table>
<thead>
<tr>
<th>Program Administration and Monitoring and Evaluation</th>
<th>Dollars in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned disbursements through December 2009</td>
<td>Actual disbursements through December 2009</td>
</tr>
<tr>
<td>Total for compact</td>
<td>$235.6</td>
</tr>
<tr>
<td>Rural Road Rehabilitation</td>
<td>$67.1</td>
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<tr>
<td>Irrigated Agriculture</td>
<td>$99.4</td>
</tr>
<tr>
<td>Program Administration and Monitoring and Evaluation</td>
<td>$22.9</td>
</tr>
</tbody>
</table>

Total allocated as of compact signature
Total allocated as of December 2009

Source: GAO analysis of Millennium Challenge Corporation data.

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Country Characteristics
Located in coastal West Africa, Benin has a population of approximately 8.7 million. It is a low-income country. Its economy is based on services, which constitute 52 percent of its gross domestic product; industry and agriculture constitute another 15 and 33 percent, respectively. The economy has experienced some positive growth in the last few years, with the real economic growth rate averaging 4.2 percent from 2007 through 2009. However, the global economic slowdown has negatively affected Benin’s growth. The current government, which entered office in 2006, has emphasized efforts to fight corruption and accelerate Benin’s economic growth.

Compact Timeline
During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Benin was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 75 percent of the compact’s 5-year period had elapsed.

Key Events for Benin Compact
- May 6, 2004: Selected as eligible for assistance
- February 22, 2006: Compact signed
- October 6, 2006: Compact enters into force, implementation begins
- June 30, 2010: Current
- October 5, 2011: Compact implementation ends; MCC funding expires

Map of Benin
Source: Map Resources (map).

Source: GAO analysis of Millennium Challenge Corporation data.
MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Benin has been classified as a low-income country every year since MCC began operations in 2004.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the Board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the Board can suspend or terminate the compact.

Benin met MCC’s eligibility criteria in 2004 through 2006. In 2007 through 2009, it did not meet the criteria because it either failed the corruption indicator or more than three Investing in People indicators. Benin met all criteria in 2010.

Benin’s Performance on MCC Eligibility Indicators

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>MCC eligibility year</th>
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<th>2005</th>
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<td>X</td>
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<td>X</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tbody>
</table>

Indicator performance results:
- Passed (scored above the median)
- Failed (scored at the median or below)
- NA for that year

MCC eligibility determination:
- Eligible
- NA

Source: GAO analysis of Millennium Challenge Corporation data.

In 2004, the indicator was “Primary Education Completion.”
In 2009, MCC stopped making an eligibility determination for countries with existing compacts.
Benin

Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Benin’s compact aimed to improve core physical and institutional infrastructure and increase private sector activity and investment. At that time, one-third of Benin residents lived in poverty; 1 percent of Benin households held a formal title to land, with a majority of the rural population relying on oral customary land rights; and only a small fraction of the population owned a bank account.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact results. (See GAO-08-730 and GAO-07-909.)

Structure of Benin Compact, as of December 2009

<table>
<thead>
<tr>
<th>Constraints to Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor physical and institutional infrastructure constrains investment and private sector activity.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Planned Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Access to Land</strong></td>
</tr>
<tr>
<td>• Support government reforms to establish land policy.</td>
</tr>
<tr>
<td>• Provide citizens with more secure and useful records of their land rights.</td>
</tr>
<tr>
<td>• Upgrade and decentralize title registration services in 24 communes.</td>
</tr>
<tr>
<td>• Help design, equip, and staff new local land registry.</td>
</tr>
<tr>
<td>• Support land reform steering and working groups.</td>
</tr>
<tr>
<td><strong>Access to Financial Services</strong></td>
</tr>
<tr>
<td>• Conduct business demand and feasibility assessments and establish a financial innovation and challenge facility that provides technical assistance to financial institutions and businesses.</td>
</tr>
<tr>
<td>• Support legal and policy changes to expand financial sector.</td>
</tr>
<tr>
<td><strong>Access to Justice</strong></td>
</tr>
<tr>
<td>• Support expansion of dispute resolution center in Chamber of Commerce.</td>
</tr>
<tr>
<td>• Invest in existing and new business registration centers to improve the business registration process.</td>
</tr>
<tr>
<td>• Improve court services through training for judges and court personnel, a legal information center, new courthouses, and a public awareness campaign.</td>
</tr>
<tr>
<td><strong>Access to Markets</strong></td>
</tr>
<tr>
<td>• Improve the Port of Cotonou’s infrastructure to increase efficiency and the volume of goods flowing through the port and to reduce vehicle operating costs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MCC Expected Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Secure tenure and affordable access to land information for approximately 115,000 households, a 50 percent decrease in land dispute cases, and up to 20 percent increase in investments.</td>
</tr>
<tr>
<td>• Increased access to more financial services for poor individuals, particularly women.</td>
</tr>
<tr>
<td>• Improved capacity of courts to resolve commercial cases.</td>
</tr>
<tr>
<td>• Improved quality of transportation and fish processing facilities for importers, exporters and consumers.</td>
</tr>
</tbody>
</table>

Increased incomes for approximately 13.4 million Beninese.

Source: GAO analysis of Millennium Challenge Corporation data.

"MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes. In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported the compact would benefit approximately 5 million people."
**Benin Compact Project Funding**

*MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.*

At signature (February 2006), MCC obligated $307.3 million for the Benin compact. As of December 2009, the overall obligation amount and project allocations had not changed.

**Compact Disbursements**

*At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.*

As of December 2009, MCC had disbursed $66.3 million (approximately 22 percent) of compact funds, compared with the $215.1 million (70 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $139.3 million has been committed under the compact for pending expenses as of December 2009.

**Benin Compact Project Allocations**

**Benin Compact Planned and Actual Disbursements**

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Country Characteristics

Located in West Africa, Burkina Faso is a land-locked country with a population of approximately 15.2 million. It is a low-income country. Its economy is based on services and industry, which respectively constitute about 50 and 30 percent of its gross domestic product (GDP). Agriculture constitutes 30 percent of GDP but employs 90 percent of the labor force. Burkina Faso has undertaken several broad macroeconomic reforms since the mid-1990s, including market-oriented reforms, decentralization of power, adoption of a new labor code, and business climate improvements. However, Burkina Faso continues to face severe constraints to growth and poverty reduction. Burkina Faso’s GDP grew by about 5.2 percent in 2009.

Compact Timeline

During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Burkina Faso was first selected as eligible in fiscal year 2006, MCC’s third eligibility round for low-income countries. As of June 30, 2010, 18 percent of the compact’s 5-year period had elapsed.

Key Events for Burkina Faso Compact

- November 8, 2005: Selected as eligible for assistance
- July 14, 2008: Compact signed
- July 31, 2009: Compact enters into force, implementation begins
- June 30, 2010: Current
- July 30, 2014: Compact implementation ends; MCC funding expires

Compact development
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014

Compact implementation
- 18 percent
- 82 percent

Source: GAO analysis of Millennium Challenge Corporation data.
Burkina Faso

MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Burkina Faso was selected as eligible in fiscal year 2006 and has been classified as a low-income country ever since.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Burkina Faso became eligible in 2006 and met MCC’s eligibility criteria each year from 2006 through 2009. It did not meet the criteria in 2010 because it failed three of the five Investing in People indicators.

MCC Selection Criteria

Burkina Faso GNI Per Capita

Burkina Faso’s Performance on MCC Eligibility Indicators

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>MCC eligibility year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<th>2009</th>
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<td>✔️</td>
<td>✔️</td>
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</tr>
</tbody>
</table>

Indicator performance results: Passed, Failed

MCC eligibility determination: Not Eligible, Eligible, NA

In 2009, MCC stopped making an eligibility determination for countries with existing compacts.

Source: GAO analysis of Millennium Challenge Corporation data.

In 2004, the indicator was “Primary Education Completion.”

In 2009, MCC stopped making an eligibility determination for countries with existing compacts.

Source: GAO analysis of World Bank World Development Indicators and MCC income cutoffs.
Burkina Faso

Compact Characteristics

*MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.*

Burkina Faso’s compact targets rural areas, which, according to MCC, are home to 95 percent of the country’s poor. Many of the compact projects are focused in Boucle de Mouhoun, the third poorest of Burkina Faso’s 13 regions. In addition, a small number of projects focus on the Comoé region. At compact signature, Burkina Faso was one of the poorest countries in the world.

Expected Results

*This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.*

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact results. (See GAO-08-730 and GAO-07-909.)

MCC Expected Results

- **Up to 415,200 households will have access to local land registration and titling services.**
- **Improved agricultural and livestock production conditions, water management, and access to credit for up to 150,000 individuals.**
- **Improved access to markets and health and education facilities and improved ability to trade with neighboring countries.**
- **Improve educational for up to 19,800 children, including 9,900 girls.**

Increase incomes for approximately 1.2 million Burkinabe.

Source: GAO analysis of Millennium Challenge Corporation data.

* MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.

In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. MCC did not publish a beneficiary estimate for Burkina Faso at compact signature.
MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (July 2008), MCC obligated $480.9 million for the Burkina Faso compact. As of December 2009, the overall obligation amount and project allocations had not changed.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $34.2 million (approximately 7 percent) of compact funds, compared with the $34.2 million (approximately 7 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $48.6 million has been committed under the compact for pending expenses as of December 2009.

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Country Characteristics
Located off the coast of West Africa, Cape Verde is a group of 10 islands with a population of about 500,000. It is a lower-middle-income country. Its economy is heavily based on services, which constitute 74 percent of its gross domestic product (GDP); industry and agriculture constitute 17 and 9 percent of GDP, respectively. Its economy suffers from a poor natural resource base and relies heavily on foreign assistance and remittances. Cape Verde is considered one of Africa’s most stable democracies and, despite its economic challenges, has experienced economic growth, a reduction of poverty, and increases in access to education and health care. Cape Verde is the first country eligible for a second MCC compact.

Compact Timeline
During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Cape Verde was 1 of 16 countries that MCC selected as eligible in its first eligibility round. It was the third country to begin implementing a compact. As of June 30, 2010, 94 percent of the compact’s 5-year period had elapsed.
Cape Verde

MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Cape Verde was a low-income country in 2004. It was not a candidate in 2005 because its GNI rose above the low-income cut-off. Since 2006, Cape Verde has been a lower-middle-income country.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria.

If a country’s policy performance declines, the board can suspend or terminate the compact.

Cape Verde met MCC’s eligibility criteria in 2004 as a low-income country. In 2005, it rose to lower-middle-income status and was not a candidate. In 2006, it failed the indicators for its group and did not meet the criteria again until 2010.

Cape Verde’s Performance on MCC Eligibility Indicators

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>MCC eligibility year</th>
<th>MCC income group</th>
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<td>Civil Liberties</td>
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<td>Voice and Accountability</td>
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<td>Government Effectiveness</td>
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<tr>
<td>Rule of Law</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Control of Corruption</td>
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</tr>
<tr>
<td>Girls’ Primary Education Completiona</td>
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</tr>
<tr>
<td>Primary Education Expenditures</td>
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<tr>
<td>Health Expenditures</td>
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<tr>
<td>Immunization Rates</td>
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<tr>
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<td>Days to Start a Business (2004-2007)</td>
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</tbody>
</table>

Cape Verde was not a candidate for assistance in 2005 because it surpassed the cut-off for low-income candidates.

a In 2004, the indicator was “Primary Education Completion.”

b In 2009, MCC stopped making an eligibility determination for countries with existing compacts.

Source: GAO analysis of Millennium Challenge Corporation data.
Cape Verde

Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Cape Verde’s compact focused on water and infrastructure projects on four islands. Compact funds support the upgrade and expansion of the Port of Praia, which is Cape Verde’s busiest port and handles half of the country’s cargo. At signature, 10 percent of Cape Verde’s land was arable, and agricultural productivity was low; approximately 85 percent of food was imported (70 percent in the form of food aid). In May 2008, MCC restructured the Cape Verde compact in response to project rescoping, increased input costs, and currency fluctuations.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact results. (See GAO-08-730 and GAO-07-909.)

Structure of Cape Verde Compact, as of December 2009

Constraints to Development

Water scarcity, lack of adequate infrastructure, weak institutional support for the private sector, and an insufficiently trained workforce constrain economic growth.

Planned Projects

Watershed Management and Agriculture Support

- Develop water management infrastructure, including walls, terrace, dikes, and reservoirs.
- Promote drip irrigation technology and increase productive capacity and marketing of agricultural products among farmers and small agribusinesses.
- Provide access to credit for drip irrigation, working capital, and agribusiness investments; increase the capacity of financial institutions through technical assistance.

Infrastructure

- Upgrade and expand the Port of Praia.
- Improve transportation infrastructure on the islands of Santiago and Santo Antão, including reconstruction of five roads totaling 64 km and construction of several bridges.

Private Sector Development

- Collaborate with the government and World Bank to identify, prioritize, design, and implement interventions to increase investment in priority sectors of the economy.
- Provide technical assistance to support the development of microfinance institutions and government efforts to expand access to the primary market for government securities.

MCC Expected Results

- Increased access to water and agribusiness development services for 70,000 people.
- Reduced transportation costs for over 60,000 people on Santiago and Santa Antão islands, including importers, exporters, shippers and consumers.
- Improved investment climate and increased employment and entrepreneurial opportunities.

Increased incomes for approximately 385,000 Cape Verdeans.¹

Source: GAO analysis of Millennium Challenge Corporation data.

¹MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes. ¹In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. MCC did not publish a beneficiary estimate for Cape Verde at compact signature.
Cape Verde

Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (July 2005), MCC obligated $110.1 million for the Cape Verde compact. As of December 2009, the overall obligation amount had not changed, however over $4 million was reallocated from the Private Sector Development Project to the Infrastructure Project.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $69.1 million (approximately 63 percent) of compact funds, compared with the $92.6 million (approximately 84 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $31.7 million has been committed under the compact for pending expenses as of December 2009.

Cape Verde Planned and Actual Disbursements

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Country Characteristics

Located in Central America, El Salvador has a population of about 6.1 million. It is a lower-middle-income country. Its economy is largely based on services, which constitute an estimated 61 percent of its gross domestic product (GDP) and employ about 58 percent of the labor force. Industry and agriculture constitute 28 and 11 percent of GDP, respectively. A 12-year civil war that ended in 1992 left nearly two-thirds of the country’s population in poverty. During the war, public investment was deferred and deterioration of the natural resource base accelerated. Despite a strong record of economic reform, El Salvador’s economic growth has been modest in recent years and contracted by 2.6 percent in 2009.

Compact Timeline

During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

El Salvador was one of two lower-middle-income countries selected in the fiscal year 2006 eligibility round, the first year of MCC’s program for lower-middle-income countries. El Salvador was the first lower-middle-income country to begin implementing a compact. As of June 30, 2010, 56 percent of the compact’s 5-year period had elapsed.
**MCC Candidate Criteria**

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

El Salvador became a candidate for MCC assistance in 2006, the first year that MCC considered lower-middle-income countries.

**MCC Eligibility Criteria**

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

El Salvador met MCC’s eligibility criteria in 2006 and 2007. It did not meet the criteria in 2008, 2009, or 2010 because it failed three or more of the five Investing in People indicators.

---

**El Salvador GNI Per Capita**

<table>
<thead>
<tr>
<th>Nominal GNI per capita (in U.S. dollars)</th>
<th>MCC’s program for lower-middle-income countries began in 2006</th>
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<tr>
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Source: GAO analysis of World Bank World Development Indicators and MCC income cutoffs.

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<td>Primary Education Expenditures</td>
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</tr>
</tbody>
</table>

Source: GAO analysis of Millennium Challenge Corporation data.

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El Salvador was not a candidate in 2004 and 2005.

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El Salvador was not a candidate in 2004.

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El Salvador was not a candidate in 2005.

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*In 2004, the indicator was “Primary Education Completion.”

*In 2009, MCC stopped making an eligibility determination for countries with existing compacts.
El Salvador

Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, El Salvador’s compact focused on developing the economy of the country’s Northern Zone, where, according to the MCC compact at signature, nearly 20 percent of El Salvador’s poor lived. At that time, significant numbers of the poor lacked access to basic public services and less than 10 percent of children completed secondary school.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

The El Salvador compact is one of five compacts for which GAO has independently verified the reliability of MCC’s results projections. In June 2008, GAO reported that MCC had made errors in its original projections of the impact of El Salvador’s compact (GAO-08-730). MCC corrected these errors, reducing the expected impact on poverty and income. For example, MCC originally projected that beneficiaries’ per capita income would increase by $148.0 but now projects an increase of $123.0.

Structure of El Salvador Compact, as of December 2009

Constraints to Development

Poor infrastructure, limited education resources, and low agricultural production constrain regional development in the Northern Zone.

Planned Projects

**Human Development**
- Expand the quality of and access to vocational and technical education and training for poor people in the Northern Zone.
- Increase access for poor people in the Northern Zone to basic public services and infrastructure.

**Productive Development**
- Technical assistance to poor farmers to shift to high-value agricultural production; preinvestment studies and technical assistance to implement business plans in the Northern Zone.
- Provide investment capital for business development benefiting the poor in the Northern Zone.
- Provide credit guarantees and technical assistance to lenders and agricultural insurance to farmers to promote lending activity in rural areas.

**Connectivity**
- Design, construct, and rehabilitate the 290 km of the Northern Transnational Highway.
- Improve 240 km of connecting roads.

MCC Expected Results

- Access to formal and informal training for over 27,000 individuals, basic public services for 65,000 households, and greater access for over 130,000 people to markets, employment and facilities supporting health and education.
- New or expanded market opportunities for agribusinesses and other enterprises, and increased net incomes for 55,000 people employed in agriculture or nonfarm activities.
- New economic opportunities for rural households, lower transportation costs, and decreased travel times to markets and social service delivery points.

Increased incomes for approximately 901,000 El Salvadorans.\(^b\)

Source: GAO analysis of Millennium Challenge Corporation data.

\(^a\)MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.

\(^b\)In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported the compact would benefit at least 1 million people.
El Salvador Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (November 2006), MCC obligated $460.9 million for the El Salvador compact. As of December 2009, the overall obligation amount had not changed, however minor funding reallocations were made.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburse funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $66.1 million (approximately 14 percent) of compact funds, compared with the $222.9 million (approximately 48 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $135.4 million has been committed under the compact for pending expenses as of December 2009.

El Salvador Compact Project Allocations

El Salvador Compact Planned and Actual Disbursements

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Country Characteristics

Located in the Caucasus region of Asia on the southern border of Russia, Georgia has a population of about 4.4 million. It is a lower-middle-income country. Its economy is based on services and industry, which respectively constitute 62 and 26 percent of its gross domestic product (GDP). Agriculture constitutes 12 percent of GDP but employs 56 percent of the labor force. Other key economic activities include mining of manganese and copper. Following the “Rose Revolution”—widespread protests that led to its president’s resignation—Georgia elected a new government in 2004 that focused on anticorruption efforts and other reforms. In August 2008, conflict erupted with Russia over regions in Georgia seeking independence. Although Georgia’s GDP had been growing, the conflict and the global economic crisis negatively impacted its economy, which contracted by nearly 5 percent in 2009.

Compact Timeline

During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Georgia was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 85 percent of the compact’s 5-year period had elapsed.

Key Events for Georgia Compact

- September 12, 2005: Compact enters into force, implementation begins
- May 6, 2004: Selected as eligible for assistance
- April 6, 2011: Compact implementation ends; MCC funding expires
- April 7, 2006: Compact enters into force, implementation begins
- June 30, 2010: Current

Compact implementation time expired
Compact implementation time remaining
Compact development

Source: GAO analysis of Millennium Challenge Corporation data.
Georgia

MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Georgia was a low-income candidate country from 2004 through 2008. In 2009, Georgia’s rising GNI per capita lifted it to lower-middle-income status.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Georgia failed MCC’s eligibility criteria in 2004, 2005, and 2006, in part because it failed the corruption indicator, but the MCC board deemed it eligible. It met the criteria in 2007 and 2008. In 2009, Georgia became lower-middle-income and failed the criteria for that group that year and in 2010.

MCC Selection Criteria

Source: GAO analysis of Millennium Challenge Corporation data.

### Georgia’s Performance on MCC Eligibility Indicators

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>MCC eligibility year</th>
<th>2004</th>
<th>2005</th>
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<td>### Civil Liberties</td>
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<td>X</td>
<td>X</td>
<td>X</td>
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<td>X</td>
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<td>Cost of Starting a Business (2006-2007)</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>Regulatory Quality</td>
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<td>✓</td>
<td>✓</td>
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<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

**Indicator performance results: Passed (scored above the median)  Failed (scored at the median or below)  NA (no data)**

Source: GAO analysis of Millennium Challenge Corporation data.

*In 2004, the indicator was “Primary Education Completion.”

*In 2009, MCC stopped making an eligibility determination for countries with existing compacts.

Millennium Challenge Corporation
Georgia

Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Georgia’s compact aimed to stimulate growth in regions outside the capital, Tbilisi, with a particular emphasis on the Samtskhe-Javakheti region in southwestern Georgia. At that time, these regions were collectively home to more than 40 percent of the country’s total population. The compact includes plans to rehabilitate key infrastructure. In addition, the compact includes plans to invest in, and provide technical assistance to, regional enterprises.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact projects’ expected results. (See GAO-08-730 and GAO-07-909.)

Structure of Georgia Compact, as of December 2009

Constraints to Development

- Poor infrastructure, low management capacity, and limited access to credit impede enterprise development and economic growth.

Planned Projects

Regional Infrastructure Rehabilitation
- Rehabilitate and construct 245 km of main roads in the Samtskhe-Javakheti region.
- Rehabilitate the North-South gas pipeline and advise the Ministry of Energy on an energy sector plan.
- Provide grants to fund regional and municipal infrastructure such as water supply, sanitation, irrigation, municipal gasification, roads, and waste.

Enterprise Development
- Develop a regional investment fund to provide capital, provide technical assistance to enterprises, and identify legal and policy reforms to encourage investment.
- Provide technical assistance and grants and disseminate market information to help farmers transition from subsistence to commercial agriculture.

MCC Expected Results\(^a\)

- Enhanced agricultural and trade opportunities and improved access to education, health care, and employment.
- Reduced greenhouse gas emission and improved health and safety of the population and improved access to basic public services.

Increased incomes for approximately 4.6 million Georgians.\(^b\)

Source: GAO analysis of Millennium Challenge Corporation data.

\(^a\)MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.

\(^b\)In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported thecompact would benefit nearly 500,000 people.
Georgia

Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (September 2005), MCC obligated $295.3 million for the Georgia compact. In addition to previous reallocations, MCC and Georgia amended the compact in November 2008, increasing the total compact amount to $395.3 million to complete works originally envisioned in the compact.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $191.1 million (approximately 48 percent) of compact funds, compared with the $295.3 million (approximately 75 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $143.3 million has been committed under the compact for pending expenses as of December 2009.

Georgia Project Allocations

Enterprise Development ($47.5)
72%
Regional Infrastructure Rehabilitation ($211.7)
16%
Program Administration and Monitoring and Evaluation ($36.1)
12%

Total: $295.3 million

Enterprise Development ($52.2)
79%
Regional Infrastructure Rehabilitation ($310.8)
13%
Program Administration and Monitoring and Evaluation ($32.4)
8%

Total: $395.3 million

Source: GAO analysis of Millennium Challenge Corporation data.

Georgia Planned and Actual Disbursements

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.

Source: GAO analysis of Millennium Challenge Corporation data.
Country Characteristics

Located in coastal West Africa, Ghana has a population of 23.9 million. It is a low-income country. Its economy is distributed among the services, agriculture, and industry sectors, which respectively account for 38, 37 and 25 percent of its gross domestic product (GDP). However, agriculture employs about 56 percent of the labor force. Despite an abundance of natural resources, Ghana remains heavily dependent on international financial and technical assistance. Ghana experienced consistent economic growth over the last decade, with real GDP growth rising from 3.7 percent in 2000 to 7.3 percent in 2008; GDP growth slowed to 4.7 percent in 2009.

Compact Timeline

During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Ghana was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 67 percent of the compact’s 5-year period had elapsed.
**Ghana**

### MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Ghana has been classified as a low-income candidate country every year since MCC began operations in 2004.

### MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Ghana has met MCC’s eligibility criteria each year since 2004, except in 2007, when it failed four of six Economic Freedom indicators.

---

**Ghana GNI Per Capita**

<table>
<thead>
<tr>
<th>Year</th>
<th>MCC eligibility year</th>
<th>Nominal GNI per capita (in U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Low</td>
<td>$320</td>
</tr>
<tr>
<td>2005</td>
<td>Low</td>
<td>$380</td>
</tr>
<tr>
<td>2006</td>
<td>Low</td>
<td>$450</td>
</tr>
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<td>2007</td>
<td>Low</td>
<td>$520</td>
</tr>
<tr>
<td>2008</td>
<td>Low</td>
<td>$590</td>
</tr>
<tr>
<td>2009</td>
<td>Low</td>
<td>$670</td>
</tr>
<tr>
<td>2010</td>
<td>Low</td>
<td>$750</td>
</tr>
</tbody>
</table>

- MCC’s program for lower-middle-income countries began in 2006
- MCC eligibility determination

**Ghana’s Performance on MCC Eligibility Indicators**

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>Indicator performance results</th>
<th>MCC eligibility determination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Rights</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Civil Liberties</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Voice and Accountability</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Girls’ Primary Education Completion</td>
<td>Failed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Primary Education Expenditures</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Health Expenditures</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Immunization Rates</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Natural Resource Management (2008-2010)</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Days to Start a Business (2004-2007)</td>
<td>Failed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Cost of Starting a Business (2006-2007)</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Business Start-up (2008-2010)</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Inflation</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Fiscal Policy</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Trade Policy</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>Passed</td>
<td>Eligible</td>
</tr>
</tbody>
</table>

- MCC eligibility determination

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1In 2004, the indicator was “Primary Education Completion.”
2In 2009, MCC stopped making an eligibility determination for countries with existing compacts.
Compact Summary

Structure of Ghana Compact, as of December 2009

Constraints to Development

Inconsistent supply and quality of agriculture crops, high transportation costs, and insufficient access to basic services hinder growth.

Planned Projects

Agriculture
- Develop commercial skills and capacity among farmer-based organizations and business partners.
- Develop a limited number of retention ponds and weirs for irrigation.
- Improve land tenure security and access to land for high-value agriculture.
- Facilitate investments and access to credit for post-harvest infrastructure.
- Rehabilitate up to 950 km of feeder roads in 8 districts.

Transportation
- Upgrade 14 km of the National Highway between the cities of Accra and Tema.
- Improve 230 km of trunk roads in the Afram Basin region.
- Improve Lake Volta ferry services that connect the north and south shores.

Rural Development
- Strengthen the public sector procurement capacity.
- Construct and rehabilitate educational, water, and sanitation facilities and expand access to electricity in rural areas.
- Automate and interconnect 121 rural banks and improve the national payments system.

MCC Expected Results

- 51,000 farm households trained in commercial skills, improved operation of approximately 120 enterprises, and road improvements for over 120,000 households.
- Decreased transportation costs for approximately 150,000 daily users.
- Decreased incidence of disease and time spent collecting water, and increased school attendance and productivity.
- Improved access to financial services and public sector performance.

Increased incomes for approximately 1.2 million Ghanaians.

Source: GAO analysis of Millennium Challenge Corporation data.

*MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.

*In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported the compact would benefit over 1 million people.
Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (August 2006), MCC obligated $547.0 million for the Ghana compact. As of December 2009, the overall obligation amount had not changed, however funds were reallocated among the projects.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $123.2 million (approximately 23 percent) of compact funds, compared with the $314.2 million (approximately 57 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $216.7 million has been committed under the compact for pending expenses as of December 2009.

Ghana

Compact Funding

Ghana Project Allocations

Dollars in millions

| Program Administration and Monitoring and Evaluation | $61.6 |
| Rural Development | $101.3 |
| Transportation | $143.1 |
| Agriculture | $241.0 |

Total: $547.0 million

- Total allocated at compact signature
- Total allocated as of December 2009

Source: GAO analysis of Millennium Challenge Corporation data.

Ghana Planned and Actual Disbursements

Planned disbursements through December 2009

| Program Administration and Monitoring and Evaluation | $61.6 |
| Rural Development | $89.4 |
| Transportation | $174.3 |
| Agriculture | $227.9 |

Actual disbursements through December 2009

- Total allocated as of compact signature
- Total allocated as of December 2009

Source: GAO analysis of Millennium Challenge Corporation data.

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Country Characteristics
Located in Central America, Honduras has a population of about 7.2 million. It is a low-income country. Its economy is based on services, which constitute 58 percent of its gross domestic product (GDP) and employ about 40 percent of the labor force. Industry and agriculture constitute 28 and 14 percent of GDP, respectively. Honduras’s real GDP contracted in 2009 by 3.1 percent. In June 2009, Honduran President Zelaya was ousted from office after attempting to change the constitution to allow for his re-election, which the Honduran congress and judiciary strongly opposed. As a result of this situation, MCC has partially terminated assistance under its compact with Honduras.

Compact Timeline
During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Honduras was 1 of 16 countries that MCC selected as eligible in its first eligibility round. Honduras was the second country to begin implementing a compact with MCC. As of June 30, 2010, 95 percent of the compact’s 5-year period had elapsed.

Key Events for Honduras Compact
- May 6, 2004: Selected as eligible for assistance
- June 13, 2005: Compact signed
- September 29, 2005: Compact enters into force, implementation begins
- September 28, 2010: Compact implementation ends; MCC funding expires
- June 30, 2010: Current
- 95 percent compact implementation time elapsed
- 5 percent compact implementation time remaining

Source: GAO analysis of Millennium Challenge Corporation data.
## MCC Selection Criteria

### Honduras GNI Per Capita

<table>
<thead>
<tr>
<th>Nominal GNI per capita (in U.S. dollars)</th>
<th>MCC eligibility year</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCC's program for lower-middle-income countries began in 2006</td>
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<td>MCC cutoff for lower-middle-income candidates</td>
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<td>MCC cutoff for low-income candidates</td>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>GNI Per Capita (in U.S. dollars)</th>
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</thead>
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<td>2008</td>
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<td>2009</td>
<td>$1,490</td>
</tr>
<tr>
<td>2010</td>
<td>$1,600</td>
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</table>

Source: GAO analysis of World Bank World Development Indicators and MCC income cutoffs.

## MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Honduras has been classified as a low-income country every year since MCC began operations in 2004.

## MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the Board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the Board can suspend or terminate the compact.

Honduras met MCC’s eligibility criteria most years since 2004. It did not meet the criteria in 2008 and 2010 because it failed the corruption indicator.

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>MCC eligibility year</th>
</tr>
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<tbody>
<tr>
<td>girls' primary education completion</td>
<td>passed</td>
</tr>
<tr>
<td>primary education expenditures</td>
<td>passed</td>
</tr>
<tr>
<td>health expenditures</td>
<td>passed</td>
</tr>
<tr>
<td>immunization rates</td>
<td>passed</td>
</tr>
<tr>
<td>natural resource management (2008-2010)</td>
<td>passed</td>
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<td>country credit rating (2004-2005)</td>
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<td>cost of starting a business (2006-2007)</td>
<td>passed</td>
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<td>business start-up (2008-2010)</td>
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<td>inflation</td>
<td>passed</td>
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<tr>
<td>fiscal policy</td>
<td>failed</td>
</tr>
<tr>
<td>trade policy</td>
<td>passed</td>
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<tr>
<td>regulatory quality</td>
<td>passed</td>
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<td>land rights and access (2008-2010)</td>
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</table>

<table>
<thead>
<tr>
<th>Indicator performance results</th>
<th>MCC eligibility determination</th>
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<tr>
<td>passed</td>
<td>eligible</td>
</tr>
<tr>
<td>failed</td>
<td>scored at the median or below</td>
</tr>
</tbody>
</table>

Source: GAO analysis of Millennium Challenge Corporation data.

*In 2004, the indicator was “Primary Education Completion.”

*In 2009, MCC stopped making and eligibility determination for countries with existing compacts.
**Compact Characteristics**

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, the Honduras compact aimed to generate economic growth in rural areas. In September 2009, MCC partially terminated assistance under its compact with Honduras, ceasing to fund parts of the Transportation and Rural Development Projects. MCC also placed a hold on funding for a section of the CA-5 Highway Activity, under the Transportation Project; the hold on funding was lifted in early 2010. MCC acted in response to the Honduran president’s removal and the failure to reestablish democratic order, which were inconsistent with MCC’s eligibility criteria.

**Expected Results**

The graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact results. (See GAO-08-730 and GAO-07-909.)

MCC has modified the Honduras compact but only partially recalculated the expected results.

### Structure of Honduras Compact, as of December 2009

#### Constraints to Development

- Low agricultural productivity and high transportation costs impede economic growth.

#### Planned Projects

**Rural Development**

- Provide technical assistance to transition 7,340 farmers (previously 8,255) to high-value crops.
- Provide technical assistance and loans to financial institutions.
- Support adaptation of technological advances to Honduran agriculture.
- Upgrade 493 km (previously 1,500 km) of rural roads to connect farmers to markets.

**Transportation**

- Pave and upgrade 68 km (previously 90 km) of secondary roads.
- Upgrade and pave 105 km of the CA-5 highway. (Activities resumed in 2010.)
- Develop a vehicle weight control system and build 8 weight stations to help preserve upgraded roads.

**MCC Expected Results**

- Improved business skills, productivity, market access and risk management practices of producers who operate small- and medium-size farms.
- Reduced transportation costs between targeted production centers and national, regional, and global markets, stimulating economic growth.

Increased incomes for approximately 1.8 million Hondurans.

---

MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes. The partial termination of the two projects may affect results.

In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. MCC did not publish a beneficiary estimate for Honduras at compact signature.
Honduras

Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (June 2005), MCC obligated $215.0 million for the Honduras compact. In September 2009, MCC terminated part of the compact assistance, representing about $10.0 million, and put a hold on funding for another part of the compact. As of December 2009, the overall obligation had decreased to $205.0 million.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $132.1 million (approximately 65 percent) of compact funds, compared with the $174.4 million (approximately 85 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $60.4 million has been committed under the compact for pending expenses as of December 2009.

Compact Status

Honduras Compact Funding

Honduras Compact Planned and Actual Disbursements

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Located in southern Africa, Lesotho is a landlocked country, surrounded by South Africa, with a population of about 2.0 million. It is considered a low-income country. Its economy is based on industry and services, which respectively account for 45 and 39 percent of Lesotho’s gross domestic product (GDP). Agriculture accounts for 16 percent of GDP but employs 86 percent of the labor force. However, about 35 percent of Lesotho’s male wage earners work in South Africa. In recent years, the government of Lesotho has embarked on major reforms to remove impediments to private sector growth, improve access to credit, and increase the participation of women in the economy. Lesotho’s real GDP growth rate averaged 3.3 percent in 1991 through 2007, but the growth rate has been erratic, ranging from less than 1 percent in 2005 to more than 8 percent in 2006. In 2009, real GDP contracted by 0.9 percent.

Compact Timeline

During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Lesotho was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 36 percent of the compact’s 5-year period had elapsed.
Lesotho

**MCC Candidate Criteria**

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Lesotho has been classified as a low-income country every year since MCC began operations in 2004.

**MCC Eligibility Criteria**

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Lesotho has met MCC’s eligibility criteria each year since 2004.

**Lesotho GNI Per Capita**

<table>
<thead>
<tr>
<th>MCC eligibility year</th>
<th>MCC income group</th>
<th>Low</th>
<th>Low</th>
<th>Low</th>
<th>Low</th>
<th>Low</th>
<th>Low</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>MCC program for lower-middle-income countries began in 2006</td>
<td>$740</td>
<td>$960</td>
<td>$1,030</td>
<td>$1,000</td>
<td>$1,080</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: GAO analysis of World Bank World Development Indicators and MCC income cutoffs.

**Lesotho’s Performance on MCC Eligibility Indicators**

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>Indicator</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Girls’ Primary Education Completion</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Primary Education Expenditures</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Health Expenditures</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Immunization Rates</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Cost of Starting a Business (2006-2007)</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Fiscal Policy</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Trade Policy</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
</tbody>
</table>

**Indicator performance results**

- Passed (scored above the median)
- Failed (scored at the median or below)
- NA for that year

Source: GAO analysis of Millennium Challenge Corporation data.

1In 2004, the indicator was “Primary Education Completion.”
2In 2009, MCC stopped making an eligibility determination for countries with existing compacts.

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**Millennium Challenge Corporation**

Page 2
Lesotho

Compact Summary

Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Lesotho’s compact focused on sectors that affect most of the population, such as health care and potable water production. The compact aimed to strengthen the country’s health care infrastructure to improve health outcomes, improve the water supply for industrial and domestic needs, and remove barriers to foreign and local private sector investment. At signature, nearly 25 percent of 15- to 49-year-old adults in Lesotho were HIV/AIDS-positive, the third highest prevalence rate in the world.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

The Lesotho compact is one of five compacts for which GAO has independently verified the reliability of MCC’s results projections. In June 2008, GAO reported that it was unable to assess MCC’s compact-level impact projections for Lesotho because MCC based them on a prior World Bank economic growth model (GAO-08-730).

Structure of Lesotho Compact, as of December 2009

Constraints to Development

Lack of water for industrial and domestic use, the poor health of the workforce, and barriers to foreign and local private sector investment constrain economic growth.

Planned Projects

Water Sector

- Construct bulk water conveyance system to supply water for garment and textile factories.
- Extend and rehabilitate urban and periurban water networks.
- Improve sanitation for 25,000 rural households by constructing ventilated pit latrines and water systems.
- Restore degraded wetlands at three areas in the highland pastures.
- Prepare strategic environmental assessments for national watershed management and wetlands conservation.

Health Sector

- Renovate and rehabilitate 150 health centers.
- Renovate 14 hospitals to support antiretroviral therapy.
- Construct, equip, and train staff for a new central laboratory
- Construct, equip, and train staff for blood collection and processing facilities.
- Build dormitories and staff housing at the National Health Training College.
- Strengthen health systems’ training, decentralization, and research and development.
- Improve medical waste management practices.

Private Sector Development

- Establish a credit bureau and a national identification card system to facilitate the exchange of information and the screening of prospective debtors.
- Implement a new system for internal and cross-border payments.
- Provide technical assistance to revise land reform legislation; develop a new land administration authority; fund public outreach; and promote gender equality.
- Develop courts and promote alternative commercial dispute resolution.

MCC Expected Results

- Preserve or create 34,000 jobs.
- Improved access to water for 454,000 in 5 years.
- Improved livelihoods of approximately 55,000 people who live within 16 km of target wetland sites.
- Improved delivery of health care services.
- Recognized land titles for 55,000 households, improved access to credit, and lower cost of receiving and sending money for 184,000 individuals.
- Access to a commercial court system for over 2,000 people and companies.

Increase incomes for approximately 1 million residents of Lesotho.

Source: GAO analysis of Millennium Challenge Corporation data.

*MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.

*In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. MCC did not publish a beneficiary estimate for Lesotho at compact signature.
Lesotho

Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (July 2007), MCC obligated $362.6 million for the Lesotho compact. As of December 2009, the overall obligation amount had not changed, however minor reallocations of funds were made among projects.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $20.8 million (approximately 6 percent) of compact funds, compared with the $88.9 million (approximately 25 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $59.1 million has been committed under the compact for pending expenses as of December 2009.

Compact Status

Lesotho Compact Funding

Dollars in millions

Private Sector Development ($36.1)
Program Administration and Monitoring and Evaluation ($40.0)
Health Sector ($122.4)
Water Sector ($164.0)

Total: $362.6 million

Lesotho Compact Planned and Actual Disbursements

Dollars in millions

Total for compact
Private Sector Development
Health Sector
Water Sector
Program Administration and Monitoring and Evaluation

Total allocated at compact signature
Total allocated as of December 2009

Source: GAO analysis of Millennium Challenge Corporation data.

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Country Characteristics
Located in West Africa, Mali has a population of about 12.7 million. It is a low-income country. Its economy is based on agriculture, which accounts for 45 percent of its gross domestic product (GDP) and employs about 80 percent of its labor force. Services and industry account for 38 and 17 percent of GDP, respectively. Despite its low income, Mali has experienced favorable economic growth in recent years; in 2009, Mali’s real GDP grew by 3 percent. Mali is considered to be one of the strongest democracies in Africa, and its government has pursued economic reforms to encourage growth.

Compact Timeline
During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Mali was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 56 percent of the compact’s 5-year period had elapsed.

Key Events for Mali Compact
- November 13, 2006: Compact signed
- May 6, 2004: Selected as eligible for assistance
- September 17, 2007: Compact enters into force, implementation begins
- June 30, 2010: Current
- September 16, 2012: Compact implementation ends; MCC funding expires

Map of Mali

Source: Map Resources (map).

Source: GAO analysis of Millennium Challenge Corporation data.
Mali

MCC Selection Criteria

Mali’s Performance on MCC Eligibility Indicators

MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Mali has been classified as a low-income country each year since MCC began operations in 2004.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Mali met MCC’s eligibility criteria from 2004 through 2007. It did not meet the criteria in 2008 through 2010, because it failed three of five Investing in People indicators.

Source: GAO analysis of Millennium Challenge Corporation data.

*a In 2004, the indicator was “Primary Education Completion.”
*b In 2009, MCC stopped making an eligibility determination for countries with existing compacts.
Mali

Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Mali’s compact aimed to improve agricultural production and productivity in one of the poorest areas of central Mali. At that time, 64 percent of Malians were poor and one-third of poor Malians lived in extreme poverty. In 2008, MCC restructured the Mali compact because of escalating global construction costs, currency fluctuations, and operational issues. Funds formerly designated to the Industrial Park Project were reallocated to the Airport Project.

Structure of Mali Compact, as of December 2009

Constraints to Development

Lack of adequate infrastructure constrains access to markets and trade, efforts to attract businesses, and agricultural production and productivity.

Planned Projects

Airport Improvement

• Improve infrastructure at the Bamako-Sénou Airport, including the runway, navigational equipment, and security systems.
• Upgrade and construct airport terminal and utility infrastructure.
• Establish institutional mechanisms for management and maintenance of airport facilities.

Industrial Park

• Build infrastructure for a 100 hectare industrial park near airport.
• Resettle and compensate cultivators for loss of livelihoods resulting from Airport and Industrial Park improvements.
• Establish institutional mechanisms for management and maintenance of industrial park.

Alatona Irrigation

• Upgrade 81 km of a north-south road in the national highway network.
• Develop and expand the Alatona irrigation system and support water management.
• Allocate newly irrigated lands and improve rural land tenure security.
• Provide resettlement, compensation, and social services to individuals affected by the irrigation project.
• Strengthen agricultural practices.
• Provide financial services to encourage agricultural lending.

MCC Expected Results

• Increased revenue from passenger and aircraft traffic and increased value and volume of goods shipped through the airport.
• Improved infrastructure and services for small and medium enterprises and improved business climate for prospective entrepreneurs and investors.
• Increased incomes of agricultural workers, decreased vehicle operating costs for road users, and improved access to health and social services.

Increased incomes for approximately 2.8 million Malians.

Source: GAO analysis of Millennium Challenge Corporation data.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact projects’ expected results. (See GAO-08-730 and GAO-07-909.)

In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. MCC did not publish a beneficiary estimate for Mali at compact signature.
Mali

Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (November 2006), MCC obligated $460.8 million for the Mali compact. In September 2008, MCC and Mali amended the compact, removing the Industrial Park Project and reallocating funds to the Airport Project. As of December 2009, the overall obligation amount had not changed.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $60.6 million (approximately 13 percent) of compact funds, compared with the $210.9 million (approximately 46 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $110.2 million has been committed under the compact for pending expenses as of December 2009.

Mali Project Allocations

Mali Planned and Actual Disbursements

Note: Project allocations in figures may not add up to 100 percent due to rounding.

Source: GAO analysis of Millennium Challenge Corporation data.

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
**Country Characteristics**

Located in Asia between Russia and China, Mongolia has a population of approximately 2.6 million. It is a low-income country. Its economy is based on services, which account for 49 percent of its gross domestic product (GDP) and employ 61 percent of the labor force. Industry and agriculture account for 30 and 21 percent of GDP, respectively. Mongolia’s economy struggled during the 1990s following the dissolution of the Soviet Union, which had provided up to one-third of Mongolia’s annual GDP in foreign assistance. In the mid-2000s, Mongolia’s economy grew by nearly 9 percent each year owing largely to its copper and gold mining industries, although it has been negatively affected by the global financial crisis.

**Compact Timeline**

During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Mongolia was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 36 percent of the compact’s 5-year period had elapsed.

**Key Events for Mongolia Compact**

- **May 6, 2004:** Selected as eligible for assistance
- **October 22, 2007:** Compact signed
- **September 17, 2008:** Compact enters into force, implementation begins
- **June 30, 2010:** Current
- **September 16, 2013:** Compact implementation ends; MCC funding expires

**Map of Mongolia**

Source: Map Resources (map).
MCC Selection Criteria

Mongolia GNI Per Capita

Mongolia’s Performance on MCC Eligibility Indicators
**Mongolia**

### Compact Characteristics

*MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.*

At signature, Mongolia’s compact focused on improving the country’s human, institutional, and physical resources. In April 2009, the government of Mongolia withdrew the Rail Project of the compact. In September 2009, MCC approved the reallocation of $50.0 million from the $188.4 million Rail Project to expand and modify three existing compact projects—Health, Vocational Education, and the periurban component of the Property Rights Project. In December 2009, MCC approved the reallocation of the remaining funds from the Rail Project to two new projects—the Energy and Environment and the North-South Road Projects—as well as a contingency fund. The reallocations went into effect in January 2010.

### Expected Results

*This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.*

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact results. (See GAO-08-730 and GAO-07-909.)

MCC has modified the Mongolia compact but only partially recalculated the expected results.

### Compact Summary

<table>
<thead>
<tr>
<th>Constraints to Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aging transport infrastructure and weak institutions constrain economic growth.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Planned Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rail</strong></td>
</tr>
<tr>
<td>• Provide technical assistance to improve rail operation, management, and regulation.</td>
</tr>
<tr>
<td>• Assist the formation and operation of a government-owned company to acquire and lease railway assets.</td>
</tr>
<tr>
<td><strong>Property Rights</strong></td>
</tr>
<tr>
<td>• Upgrade capacity of formal land privatization and registration system.</td>
</tr>
<tr>
<td>• Privatize and register land plots in periurban rangeland areas.</td>
</tr>
<tr>
<td>• Lease rangeland to herder groups in three periurban areas.</td>
</tr>
</tbody>
</table>

| **Vocational Education** |
| • Strengthen the vocational education system. |
| • Create occupational standards for vocational education. |
| • Provide training, equipment, and instructional materials. |
| • Establish career guidance and employment information services. |
| • Upgrade and modernize up to 15 vocational training centers. |

| **Health** |
| • Improve non-communicable disease and injury (NCDI) health services through capacity building, prevention, early detection, and improved management activities. |

| **North-South Road** |
| • Rehabilitate approximately 176 km of a major north-south road. |
| • Rehabilitate and construct critical bridges, and rehabilitate a road from Ulaanbaatar to Nailakh. |
| • Technical assistance to improve road maintenance. |

| **Energy and Environment** |
| • Promote energy-efficient technologies for domestic use. |
| • Develop the first commercial wind-powered electricity generation facility in Mongolia. |
| • Support a public awareness campaign about renewable energy and efficiency. |

<table>
<thead>
<tr>
<th><strong>MCC Expected Results</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Decreased access to titled land for 75,000 households and leased land for approximately 465 herder groups.</td>
</tr>
<tr>
<td>• Increased student enrollment of over 40,000 and improved wage and employment for 170,000 graduates over 20 years.</td>
</tr>
<tr>
<td>• Improved critical roads and a bridge accessed by at least 87,600 households.</td>
</tr>
<tr>
<td>• Decreased air pollution, improved health outcomes, fuel cost savings and improved business productivity.</td>
</tr>
</tbody>
</table>

Source: GAO analysis of Millennium Challenge Corporation data.

* MCC expected results are reported as of compact signature, but reflect the two new projects.
* In fiscal year 2009, MCC recalculated the number of expected beneficiaries with increased income using a standardized methodology. At compact signature, MCC reported the compact would benefit approximately 3.1 million people by 2028.
Compact Funding

Mongolia Project Allocations

Dollars in millions

<table>
<thead>
<tr>
<th>Program</th>
<th>Dollars in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total allocated at compact signature</td>
<td>$284.9 million</td>
</tr>
<tr>
<td>Total allocated as of December 2009</td>
<td>$284.9 million</td>
</tr>
</tbody>
</table>

Note: The reallocation of Rail Project funds went into effect in January 2010.

Mongolia Planned and Actual Disbursements

Source: GAO analysis of Millennium Challenge Corporation data.

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Planned disbursements for Mongolia do not reflect Rail Project reallocations because reallocations did not go into effect until January 2010. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.

Millennium Challenge Corporation
Country Characteristics

Located in northern Africa, bordering both the Atlantic Ocean and Mediterranean Sea, Morocco has a population of about 31.2 million. It is a lower-middle-income country. Its economy is based largely on services and industry, which respectively account for 49 and 33 percent of the country's gross domestic product (GDP). Agriculture accounts for 19 percent of GDP but 45 percent of the labor force. Morocco's economic policies have brought macroeconomic stability to the country, with generally low inflation, improved financial sector performance, and steady development of the services and industrial sectors. Morocco's primary economic challenge is to accelerate and sustain growth in order to reduce high levels of unemployment and underemployment. Morocco's GDP grew by 5.1 percent in 2009.

Compact Timeline

During compact development, MCC and an eligible country negotiate project proposals and the compact's terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC's statute limits compact implementation to 5 years.

Morocco was the only country to be newly selected as eligible in fiscal year 2005, MCC's second eligibility round. As of June 30, 2010, 36 percent of the compact's 5-year period had elapsed.
MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Morocco was selected as eligible in fiscal year 2005 as a low-income country. In 2007, Morocco’s rising GNI per capita lifted it to lower-middle-income status.

MCC Eligibility Criteria

MCC’s Board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Morocco met MCC’s eligibility criteria in 2005 and 2006 but has failed each year since.

Morocco GNI Per Capita

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal GNI per capita (in U.S. dollars)</th>
<th>MCC’s program for lower-middle-income countries began in 2006</th>
<th>MCC cutoff for lower-middle-income candidates</th>
<th>MCC cutoff for low-income candidates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$1,320</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>$1,520</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>$1,730</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>$1,900</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>$2,250</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>$2,580</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>$3,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: GAO analysis of World Bank World Development Indicators and MCC income cutoffs.

Morocco’s Performance on MCC Eligibility Indicators

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>Indicator performance results</th>
<th>MCC eligibility determination</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Girls' Primary Education Completion</td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Primary Education Expenditures</td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Health Expenditures</td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Immunization Rates</td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Natural Resource Management (2008-2010)</td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Days to Start a Business (2004-2007)</td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Cost of Starting a Business (2006-2007)</td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Business Start-up (2008-2010)</td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Inflation</td>
<td>Passed</td>
<td>Failed</td>
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<tr>
<td>Fiscal Policy</td>
<td>Passed</td>
<td>Failed</td>
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<tr>
<td>Trade Policy</td>
<td>Passed</td>
<td>Failed</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>Passed</td>
<td>Failed</td>
</tr>
</tbody>
</table>

Source: GAO analysis of Millennium Challenge Corporation data.

*In 2004, the indicator was “Primary Education Completion.”
*In 2009, MCC stopped making an eligibility determination for countries with existing compacts.
Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Morocco's compact aimed to stimulate economic growth by increasing productivity and improving employment in sectors of the economy that the Kingdom of Morocco has identified as having high potential for growth, such as agribusiness, fishing, and artisan crafts. The compact also focused on supporting small business creation and growth by investments in financial services and enterprise support. At signature, 11 percent of Moroccans lived in extreme poverty.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact projects’ expected results. (See GAO-08-730 and GAO-07-909.)

Structure of Morocco Compact, as of December 2009

Constraints to Development

- Low productivity in industrial sectors where Morocco has a comparative advantage constrains economic growth.

Planned Projects

<table>
<thead>
<tr>
<th>Fruit Tree Productivity</th>
<th>Small-Scale Fisheries</th>
<th>Artisan and Fez Medina</th>
<th>Financial Services</th>
<th>Enterprise Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Rehabilitate or expand production of olive, almond, and fig trees on more than 400,000 acres.</td>
<td>• Construct or upgrade fishery facilities in up to 13 major ports.</td>
<td>• Provide technical training, literacy, and vocational education to artisans</td>
<td>• Support Jaida, a nonbank financial institution providing debt funding to the microcredit sector.</td>
<td>• Measure impact of and potentially expand two existing Moroccan government training initiatives for entrepreneurs.</td>
</tr>
<tr>
<td>• Increase irrigation efficiency of olive and date trees on approximately 103,000 acres.</td>
<td>• Construct or rehabilitate up to six wholesale fish markets in major cities</td>
<td>• Provide technical assistance and equipment to approximately 2,000 mobile fresh fish vendors.</td>
<td>• Improve access to financial services for capital investments to increase artisan production</td>
<td></td>
</tr>
<tr>
<td>• Establish a national scientific coordinating and advisory committee and develop the fruit tree sector value chain.</td>
<td></td>
<td></td>
<td>• Renovate or reconstruct tourist sites in Fez Medina</td>
<td></td>
</tr>
</tbody>
</table>

MCC Expected Results

- Improved livelihoods of approximately 136,000 farm households in rural areas of Morocco.
- Increased net revenue for 25,000 individuals through reduced maintenance and repair costs and strengthened market integration.
- Approximately 185,000 individuals trained; approximately 20,000 low income workers’ poverty reduced in the Fez Medina.
- Increased supply of financial services for approximately 174,000 individuals or micro-enterprises by the end of the compact term.
- Training of approximately 600 enterprises and potential provision of technical assistance to up to 6,000 enterprises.

Increased incomes for approximately 973,000 Moroccans.

Source: GAO analysis of Millennium Challenge Corporation data.

* MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.
* In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported the compact would directly benefit 600,000 people over the compact term.
Morocco

Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (August 2007), MCC obligated $697.5 million for the Morocco compact. As of December 2009, the overall obligation amount and project allocations had not changed.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $35.0 million (5 percent) of compact funds, compared with the $201.9 million (29 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $115.2 million has been committed under the compact for pending expenses as of December 2009.

Morocco Project Allocations

Morocco Planned and Actual Disbursements

Source: GAO analysis of Millennium Challenge Corporation data.

Notes: Project allocations in figures may not add up to 100 percent due to rounding.

Source: GAO analysis of Millennium Challenge Corporation data.

Notes: We base planned disbursements on MCC's projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Country Characteristics
Located on the Indian Ocean coast of southern Africa, Mozambique has a population of about 21.8 million. It is a low-income country. Its economy is based on services and industry, which respectively account for 45 and 31 percent of the country’s gross domestic product (GDP). Agriculture accounts for 24 percent of GDP but employs about 81 percent of the labor force. Mozambique is considered a strong economic performer in Africa and experienced an average of 8 percent growth from 1994 to 2007, although growth has slowed in more recent years. Macroeconomic reforms by the government, starting in the late 1980s, have contributed to the country’s economic growth. However, Mozambique’s government is still heavily reliant on foreign aid, which comprises more than half of its budget.

Map of Mozambique

Compact Timeline
During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Mozambique was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 35 percent of the compact’s 5-year period had elapsed.

Key Events for Mozambique Compact

Source: GAO analysis of Millennium Challenge Corporation data.
Mozambique

MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Mozambique has been classified as a low-income country every year since MCC began operations in 2004.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Mozambique failed MCC’s criteria in 2004 and 2005, but the MCC board deemed it eligible. It met the criteria in 2006 and 2007. Since 2008, when MCC added a fifth Investing in People indicator, Mozambique again failed the criteria.

MCC Selection Criteria

Mozambique GNI Per Capita

Mozambique’s Performance on MCC Eligibility Indicators

Indicator | MCC eligibility year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | MCC income group | Low | Low | Low | Low | Low | Low | Low
--- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | ---
Political Rights | |
Civil Liberties | | | | | | | | | | | | | | | |
Voice and Accountability | | | | | | | | | | | | | | | |
Government Effectiveness | | | | | | | | | | | | | | | |
Rule of Law | | | | | | | | | | | | | | | |
Control of Corruption | | | | | | | | | | | | | | | |
Girls’ Primary Education Completiona | | | | | | | | | | | | | | | |
Primary Education Expenditures | | | | | | | | | | | | | | | |
Health Expenditures | | | | | | | | | | | | | | | |
Immunization Rates | | | | | | | | | | | | | | | |
Natural Resource Management (2008-2010) | | | | | | | | | | | | | | | |
Country Credit Rating (2004-2005) | | | | | | | | | | | | | | | |
Days to Start a Business (2004-2007) | | | | | | | | | | | | | | | |
Cost of Starting a Business (2006-2007) | | | | | | | | | | | | | | | |
Business Start-up (2008-2010) | | | | | | | | | | | | | | | |
Inflation | | | | | | | | | | | | | | | |
Fiscal Policy | | | | | | | | | | | | | | | |
Trade Policy | | | | | | | | | | | | | | | |
Regulatory Quality | | | | | | | | | | | | | | | |

Indicator performance results: Passed (scored above the median), Failed (scored at the median or below), NA for that year

Source: GAO analysis of Millennium Challenge Corporation data.

In 2004, the indicator was “Primary Education Completion.”

In 2009, MCC stopped making an eligibility determination for countries with existing compacts.
Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Mozambique’s compact targeted four northern provinces: Cabo Delgado, Nampula, Niassa, and Zambézia. The compact aims to increase the productive capacity of the population in the targeted areas. At that time, these provinces were home to more than 10 million people.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

The Mozambique compact is one of five compacts for which GAO has independently verified the reliability of MCC’s results projections. In June 2008, GAO reported that MCC had made errors in its original projections of the impact of Mozambique’s compact (GAO-08-730). MCC corrected these errors, reducing the expected impact on poverty. For example, MCC originally expected to lift 270,000 people out of poverty by 2015 but revised that projection to 56,000 people.

Structure of Mozambique Compact, as of December 2009

Constraints to Development

Inadequate infrastructure, poor land tenure administration, limited human capacity and poor health, and low agricultural productivity constrain economic growth.

Planned Projects

Water Supply and Sanitation
- Water supply and sanitation systems in six mid-sized or large cities.
- Water supply systems in two small towns and 600 rural villages.
- Repair the Nacala Dam and reservoir.
- Build the capacity of local institutions to develop policies and manage programs.

Roads
- Rehabilitate 491 km of the main National Route 1 road in three provinces.

Land Tenure Services
- Address implementation problems for the existing land law through regulatory review.
- Build institutional capacity to implement land policies and provide quality services.
- Map and inventory land to support registering land rights, and provide information to streamline investor and farmer access to land.

Farmer Income Support
- Eradicate diseased coconut palm trees and replant at least 810,000 seedlings.
- Provide technical assistance to increase productivity of coconut palms and help farmers diversify into other cash crops.

MCC Expected Results

- Improved access to water and sanitation systems for 1.9 million individuals; water systems serve up to 70 percent of the population by 2015.
- Improved access to roads for 2.3 million individuals, decreased vehicle operating costs, and travel time for vehicle users, and more affordable transportation.
- Land-use rights and reduced transaction costs for 1.9 million individuals by 2015.
- Benefits for 1.7 million small farmers who depend on coconut tree products for cash and in-kind income, and for approximately 5,000 workers on coconut estates.

Increased incomes for approximately 4.4 million Mozambicans.

Source: GAO analysis of Millennium Challenge Corporation data.

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Mozambique

Compact Summary

Increased incomes for approximately 4.4 million Mozambicans.  

MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.

In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported the compact would benefit approximately 5 million people over the compact term.
Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (July 2007), MCC obligated $506.9 million for the Mozambique compact. As of December 2009, the overall obligation amount had not changed, however minor reallocations of funds were made among projects.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $16.1 million (approximately 3 percent) of compact funds, compared with the $74.9 million (approximately 15 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $57.0 million has been committed under the compact for pending expenses as of December 2009.

Mozambique Project Allocations

<table>
<thead>
<tr>
<th>Program Administration and Monitoring and Evaluation</th>
<th>Dollars in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>$176.3</td>
</tr>
<tr>
<td>Water Supply and Sanitation</td>
<td>($203.6)</td>
</tr>
<tr>
<td>Land Tenure Services</td>
<td>($39.1)</td>
</tr>
<tr>
<td>3% Farmer Income Support</td>
<td>($17.4)</td>
</tr>
</tbody>
</table>

Total: $506.9 million

Source: GAO analysis of Millennium Challenge Corporation data.

Note: Project allocations in figures may not add up to 100 percent due to rounding.

Mozambique Planned and Actual Disbursements

<table>
<thead>
<tr>
<th>Program Administration and Monitoring and Evaluation</th>
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<td>Farmer Income Support</td>
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</tr>
<tr>
<td>Total for compact</td>
<td>$506.9 million</td>
</tr>
</tbody>
</table>

Total allocated at compact signature

Total allocated as of December 2009

Source: GAO analysis of Millennium Challenge Corporation data.

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
**Country Characteristics**

Located on the Atlantic coast of southern Africa, Namibia has a population of about 2.1 million. It is an upper-middle-income country. Its economy is based on services and industry, which respectively account for 56 and 35 percent of the country’s gross domestic product (GDP); the extraction and processing of minerals is an important economic activity. Agriculture accounts for 9 percent of GDP but employs 47 percent of the labor force. Namibia’s annual economic growth since independence from South Africa in 1990 has averaged 4.5 percent but has slowed in recent years. According to the World Bank, Namibia has a strong democracy with sound economic management, good governance, basic civic freedoms, and respect for human rights. However, the social and economic imbalances of apartheid still affect Namibia.

**Compact Timeline**

*During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.*

Namibia was one of two lower-middle-income countries selected in the fiscal year 2006 eligibility round, the first year of MCC’s program for lower-middle-income countries. As of June 30, 2010, 16 percent of the compact’s 5-year period had elapsed.

**Key Events for Namibia Compact**

- **July 28, 2008:** Compact signed
- **November 8, 2005:** Selected as eligible for assistance
- **September 16, 2009:** Compact enters into force, implementation begins
- **September 15, 2014:** Compact implementation ends; MCC funding expires
- **June 30, 2010:** Current

**Map of Namibia**

Source: Map Resources (map).

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**Namibia Compact Fact Sheet**

**MILLENNIUM CHALLENGE CORPORATION**

*GAO: Accountability • Integrity • Reliability*

**Country Characteristics**

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**Map of Namibia**

Source: Map Resources (map).
MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Namibia was selected as eligible in fiscal year 2006 and was classified as a lower-middle-income country until 2009. In 2010, Namibia’s rising GNI per capita lifted it to upper-middle-income status.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Namibia met MCC’s eligibility criteria in 2006 and 2007 but not in 2008 and 2009 because it failed more than half of the Investing in People indicators. MCC did not create a scorecard for Namibia in 2010 because it became an upper-middle-income country.

Namibia Performance on MCC Eligibility Indicators

<table>
<thead>
<tr>
<th>Indicator Category</th>
<th>MCC eligibility year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MCC income group</td>
<td>Lower-middle</td>
<td>Lower-middle</td>
<td>Lower-middle</td>
<td>Lower-middle</td>
<td>Lower-middle</td>
<td>Lower-middle</td>
<td>Lower-middle</td>
</tr>
<tr>
<td>Girls’ Primary Education Completion</td>
<td>Failed</td>
<td>Passed</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Primary Education Expenditures</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Health Expenditures</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Immunization Rates</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
<tr>
<td>Cost of Starting a Business (2006-2007)</td>
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<td>Passed</td>
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<tr>
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<td>Passed</td>
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<tr>
<td>Fiscal Policy</td>
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<td>Trade Policy</td>
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<tr>
<td>Regulatory Quality</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td>Passed</td>
<td></td>
</tr>
</tbody>
</table>

Indicator performance results:

- Passed (scored above the median)
- Failed (scored at the median or below)
- NA for that year

Source: GAO analysis of Millennium Challenge Corporation data.

Note: In 2004, the indicator was “Primary Education Completion.”

Namibia GNI Per Capita

<table>
<thead>
<tr>
<th>Nominal GNI per capita (in U.S. dollars)</th>
<th>MCC’s program for lower-middle-income countries began in 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$2,370</td>
</tr>
<tr>
<td>2005</td>
<td>$2,990</td>
</tr>
<tr>
<td>2006</td>
<td>$3,230</td>
</tr>
<tr>
<td>2007</td>
<td>$3,360</td>
</tr>
<tr>
<td>2008</td>
<td>$3,360</td>
</tr>
<tr>
<td>2009</td>
<td>$3,360</td>
</tr>
<tr>
<td>2010</td>
<td>$4,200b</td>
</tr>
</tbody>
</table>

MCC cutoff for lower-middle-income candidates |
MCC cutoff for low-income candidates

Source: GAO analysis of World Bank World Development Indicators and MCC income cutoffs.

Namibia was not a candidate in 2004 and 2005. Because Namibia rose to upper-middle-income status, it was not a candidate for assistance in 2010. However, its existing compact with MCC was not affected.
Namibia

Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Namibia’s compact focused on improving the quality of education for the rural poor, primarily in the northern part of the country, and diversifying Namibia’s economy with an emphasis on its growing agriculture and tourism sectors. At that time, Namibia had high unemployment, extreme disparity in wealth and income between the rich and poor, and an HIV prevalence rate of nearly 20 percent.

Expected Results

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact project’s expected results. (See GAO-08-730 and GAO-07-909.)

Structure of Namibia Compact, as of December 2009

Constraints to Development

An inadequately educated/skilled workforce and an economy narrowly focused on mineral commodities with underdeveloped livestock and tourism sectors constrain economic growth.

Planned Projects

Education

- Improve infrastructure and provide equipment for 47 schools.
- Establish a National Training Fund and a sustainable fee system for vocational training.
- Establish transparent acquisition processes for new textbooks and purchase textbooks for grades 5 to 12.
- Construct three regional libraries.
- Establish a financial aid system for tertiary and technical education.
- Strengthen Ministry of Education’s HIV/AIDs awareness and prevention plans.

Tourism

- Improve the management capacity and infrastructure—such as management centers and staff housing—of Etosha National Park.
- Develop marketing strategy for Namibia tourism, including a Web site and regional tourism packages.
- Provide technical assistance to about 31 conservancies to help them become financially self-sustainable.

Agriculture

- Improve communal land access and introduce effective communal land management practices through public outreach, capacity building, and a land verification and registration process.
- Construct about 5 veterinary centers in under-served communities.
- Increase the volume and quality of indigenous natural products and fund research, testing, and application of industry innovations and services.

MCC Expected Results

- 1 million students receive textbooks; 47,000 rural students receive higher quality schools; 50,000 students receive vocational training; 8,000 people have access to libraries; and 11,000 students receive financing for tertiary education.
- Increased tourism visits, value added to Namibian economy, employment and conservancy incomes, profits to joint venture partners, and wildlife populations.
- Improved rangeland access and management and veterinary services.

Increased incomes for approximately 1.1 million Namibians.

MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.

In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported the compact would benefit approximately 1.5 million people.

Source: GAO analysis of Millennium Challenge Corporation data.
Compact Project Funding

MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (July 2008), MCC obligated $304.5 million for the Namibia compact. As of December 2009, the overall obligation amount and project allocations had not changed.

Compact Disbursements

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $4.5 million (approximately 2 percent) of compact funds, compared with the $13.2 million (approximately 5 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $5.9 million has been committed under the compact for pending expenses as of December 2009.

Namibia Project Allocations

<table>
<thead>
<tr>
<th>Program</th>
<th>Dollars in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Administration and Monitoring and Evaluation</td>
<td>$45.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$47.0</td>
</tr>
<tr>
<td>Tourism</td>
<td>$67.0</td>
</tr>
<tr>
<td>Education</td>
<td>$145.0</td>
</tr>
</tbody>
</table>

Total: $304.5 million

Namibia Planned and Actual Disbursements

<table>
<thead>
<tr>
<th>Program</th>
<th>Dollars in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Administration and Monitoring and Evaluation</td>
<td>$45.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$47.0</td>
</tr>
<tr>
<td>Tourism</td>
<td>$67.0</td>
</tr>
<tr>
<td>Education</td>
<td>$145.0</td>
</tr>
</tbody>
</table>

Total for compact $304.5 million

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
Country Characteristics

Located in Central America, Nicaragua has a population of 5.7 million. It is a low-income country. Its economy is based primarily on services, which account for 57 percent of the country’s gross domestic product (GDP) and employ 52 percent of the labor force. Industry and agriculture account for 26 and 18 percent of GDP, respectively. Nicaragua’s real GDP contracted by about 3 percent in 2009. In November 2008, Nicaragua held municipal elections, the credibility of which was questioned by the U.S. government. Subsequently, the MCC partially terminated its compact with Nicaragua on the grounds that the government had engaged in actions inconsistent with MCC eligibility criteria.

Compact Timeline

During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Nicaragua was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 82 percent of the compact’s 5-year period had elapsed.

Key Events for Nicaragua Compact

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compact signed</td>
<td>May 6, 2004</td>
</tr>
<tr>
<td>Selected as eligible for assistance</td>
<td>July 14, 2005</td>
</tr>
<tr>
<td>Compact enters into force, implementation begins</td>
<td>May 26, 2006</td>
</tr>
<tr>
<td>Compact implementation ends; MCC funding expires</td>
<td>May 25, 2011</td>
</tr>
<tr>
<td>Current</td>
<td>June 30, 2010</td>
</tr>
</tbody>
</table>

Compact development: 82 percent
Compact implementation: 18 percent

Source: GAO analysis of Millennium Challenge Corporation data.
Nicaragua

MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Nicaragua has been classified as a low-income country every year since MCC began operations in 2004.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Nicaragua has met MCC’s eligibility criteria each year from 2004 through 2008. It did not meet the criteria in 2009 and 2010 because it failed the corruption indicator.

MCC Selection Criteria

Nicaragua GNI Per Capita

Nicaragua did not have a confirmed GNI for 2004. The World Bank estimated it at <$745.

Nicaragua’s Performance on MCC Eligibility Indicators

MCC’s program for lower-middle-income countries began in 2006.

Source: GAO analysis of World Bank World Development Indicators and MCC income cutoffs.

*Nicaragua did not have a confirmed GNI for 2004. The World Bank estimated it at <$745.*
**Compact Characteristics**

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Nicaragua’s compact aimed to build productive capacity in León and Chinandega, two regions in the northwest, where 70 percent of the rural population was poor. In June 2009, MCC partially terminated the Nicaragua compact, ceasing to fund the Property Regularization Project and activities not yet contracted under the Transportation Project. MCC acted in response to actions by the government of Nicaragua inconsistent with MCC’s eligibility criteria: electoral irregularities were reported surrounding the November 2008 municipal elections. MCC will continue to upgrade 20 km of the Pacific Corridor highway and 54 km of rural secondary roads under the compact.

**Expected Results**

This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.

GAO has not independently verified the reliability of MCC’s results projections for this compact. Previous GAO work has identified several problems with the methodology used to determine compact results. (See GAO-08-730 and GAO-07-909.)

MCC has modified the Nicaragua compact but only partially recalculated the expected results.

---

**Compact Structure**

**Structure of Nicaragua Compact, as of December 2009**

<table>
<thead>
<tr>
<th>Constraints to Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insecure property rights and inefficient property registration services, poor roads, and a focus on low-value crops undermine enterprise development, investment, and rural income growth.</td>
</tr>
</tbody>
</table>

---

**Planned Projects**

<table>
<thead>
<tr>
<th>Property Regularization</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Provide technical support to the government to implement property regularization reforms in León.</td>
</tr>
<tr>
<td>• Conduct property mapping in the region of León and link with the municipal and national registry.</td>
</tr>
<tr>
<td>• Clarify and improve documentation of property rights, including demarcation of environmentally protected areas.</td>
</tr>
<tr>
<td>• Fund short-term efforts to promote use of the improved property registration system.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Upgrade a 68 km stretch of the Nicaragua portion of the Pacific Corridor Highway.</td>
</tr>
<tr>
<td>• Upgrade 74 km (previously 100 km) of secondary roads to link rural producers to the primary road network.</td>
</tr>
<tr>
<td>• Provide technical assistance to government for road maintenance.</td>
</tr>
</tbody>
</table>

**Rural Business Development**

• Provide business development, technical, and financial assistance to transition rural businesses in the León-Chinandega region, including farmers, to higher profit businesses.

• Provide grants to improve water supply for farming and irrigation.

---

**MCC Expected Results**

| • Improved land rights for women and the poor and improved investment climate for residents and businesses. |
| • More secure, registered land titles for 70 percent of rural and 50 percent of urban properties in León (a total of 43,000 properties). |

| • Reduced transportation costs, stimulation of economic development, and improved access to markets and social services for users. |

| • Generation of an estimated 7,000 new jobs and increased farmer profits and wages by approximately $30 million annually, beginning 6 years after project initiation. |

Increased incomes for approximately 108,000 Nicaraguans.

---

a MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes. The termination of two projects may affect results.

b In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. MCC did not publish a beneficiary estimate for Nicaragua at compact signature.
Compact Project Funding

*MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.*

At signature (July 2005), MCC obligated $175.0 million for the Nicaragua compact. In June 2009, MCC partially terminated assistance under the Nicaragua compact ceasing to fund the Property Regularization Project and activities not already contracted under the Transportation Project. As of December 2009, the overall obligation had decreased to $113.6 million.

Compact Disbursements

*At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.*

As of December 2009, MCC had disbursed $87.8 million (approximately 77 percent) of compact funds, compared with the $81.8 million (72 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $15.3 million has been committed under the compact for pending expenses as of December 2009.
Country Characteristics
Located in eastern Africa, Tanzania—including the islands of Zanzibar—has a population of about 42.5 million. It is a low-income country. Its economy is based primarily on services, which account for 51 percent of the country’s gross domestic product (GDP). Industry accounts for 23 percent of GDP, with gold and mineral mining growing in importance. Agriculture accounts for 27 percent of GDP but employs 80 percent of the labor force. Tanzania has experienced several years of real GDP growth—more than 7 percent in 2007 and 2008—although it slowed to about 4.5 percent in 2009.

Compact Timeline
During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Tanzania was first selected as eligible in MCC’s third eligibility round for low-income countries. As of June 30, 2010, 36 percent of the compact’s 5-year period had elapsed.

Key Events for Tanzania Compact
- September 14, 2013: Compact implementation ends; MCC funding expires
- September 15, 2008: Compact enters into force, implementation begins
- February 17, 2008: Compact signed
- June 30, 2010: Current
- November 8, 2005: Selected as eligible for assistance

36 percent 64 percent

Compact development
Compact implementation
Compact implementation time elapsed
Compact implementation time remaining
Source: GAO analysis of Millennium Challenge Corporation data.
MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. Also, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Tanzania was selected as eligible in fiscal year 2006 and has been classified as a low-income country ever since.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Tanzania has met MCC’s eligibility indicator criteria each year since it was first deemed eligible in 2006.

MCC Selection Criteria

Tanzania GNI Per Capita

Nominal GNI per capita (in U.S. dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNI</td>
<td>$270</td>
<td>$290</td>
<td>$330</td>
<td>$340</td>
<td>$350</td>
<td>$400</td>
<td>$430</td>
</tr>
</tbody>
</table>

MCC's program for lower-middle-income countries began in 2006

Source: GAO analysis of World Bank World Development Indicators and MCC income cutoffs.

Tanzania’s Performance on MCC Eligibility Indicators

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Rights</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil Liberties</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Voice and Accountability</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Rule of Law</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Girls’ Primary Education Completion</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Primary Education Expenditures</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Health Expenditures</td>
<td>✓</td>
<td>✓</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Immunization Rates</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Natural Resource Management (2008-2010)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Country Credit Rating (2004-2005)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Days to Start a Business (2004-2007)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Cost of Starting a Business (2006-2007)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Business Start-up (2008-2010)</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Fiscal Policy</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Trade Policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Indicator performance results:
- Passed (scored above the median)
- Failed (scored at the median or below)
- NA for that year

MCC eligibility determination:
- Not Eligible
- Eligible
- NA

Source: GAO analysis of Millennium Challenge Corporation data.

1 In 2004, the indicator was “Primary Education Completion.”
2 In 2009, MCC stopped making an eligibility determination for countries with existing compacts.
Compact Structure

Compact Characteristics

MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.

At signature, Tanzania’s compact focused on rehabilitating road networks, improving and extending electricity service and coverage, and increasing the quantity and reliability of clean and safe water for domestic and commercial use. At that time, approximately 35 percent of the mainland and nearly 50 percent of the Zanzibar region’s populations lived below the national poverty line.

Structure of Tanzania Compact, as of December 2009

Constraints to Development

An inadequate transportation network, an insufficient and unreliable supply of energy, and a shortage of clean and safe water constrain economic growth and private sector investment.

Planned Projects

Transport Sector

- Rehabilitate and upgrade approximately 431 kilometers of three highways connecting mainland Tanzania to Kenya and Zambia and linking some regional capitals.
- Improve up to five rural roads on Pemba Island, totaling about 35 kilometers.
- Improve Tanzania’s capacity to maintain its road network by supporting strategic maintenance planning and contract management.
- Rehabilitate and upgrade facilities at the airport on Mafia Island.

Energy Sector

- Improve the electric power supply to Zanzibar’s Unguja Island by laying an underwater transmission cable and reinforcing power substations and existing lines.
- Conduct feasibility studies for a hydropower plant on the Malagarasi River.
- Rehabilitate the power distribution infrastructure and extend distribution lines to unserved areas in six regions.

Water Sector

- Expand the capacity of a water treatment plant serving Dar es Salaam.
- Improve the capacity of the Dar es Salaam Water and Sewage Authority and Company to address physical leaks and commercial losses due to theft and poor billing practices.
- Rehabilitate water intake and treatment plants and improve the existing distribution network in the city of Morogoro.

MCC Expected Results

- Reduced transport costs and travel times to social services and markets, increase year-round access to markets, and improve tourist and business access to Mafia Island.
- Improved quality of and access to electricity for 252,000 households, and provide access to electricity for 88,000 previously unserved households and businesses by 2020.
- Improved quality and reliability of the water supply for 667,000 households in Dar es Salaam and Morogoro.

Increased incomes for approximately 5.4 million Tanzanians.

Source: GAO analysis of Millennium Challenge Corporation data.

a MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.

b In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported the compact would benefit approximately 4.8 million people.
MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.

At signature (February 2008), MCC obligated $698.1 million for the Tanzania compact. As of December 2009, the overall obligation amount and project allocations had not changed.

At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.

As of December 2009, MCC had disbursed $11.1 million (approximately 2 percent) of compact funds, compared with the $104.2 million (approximately 15 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $85.7 million has been committed under the compact for pending expenses as of December 2009.
Country Characteristics

Located in the South Pacific about 1,300 miles northeast of Sydney, Australia, Vanuatu consists of 83 islands and has a population of about 200,000. It is a lower-middle-income country. Its economy is based primarily on services, which account for about 62 percent of its gross domestic product (GDP). Agriculture accounts for 26 percent of GDP but employs 65 percent of the labor force. Industry accounts for 12 percent of GDP. Fishing, offshore financial services, and tourism are important economic activities. Vanuatu has experienced several years of real GDP growth—more than 6 percent in 2007 and 2008—although it slowed to about 3.8 percent in 2009.

Compact Timeline

During compact development, MCC and an eligible country negotiate project proposals and the compact’s terms. After the compact is signed, the country finalizes administrative requirements, such as procurement and disbursement agreements. When the compact enters into force, MCC obligates funds and compact implementation begins. MCC’s statute limits compact implementation to 5 years.

Vanuatu was 1 of 16 countries that MCC selected as eligible in its first eligibility round. As of June 30, 2010, 83 percent of the compact’s 5-year period had elapsed.

Map of Vanuatu

Key Events for Vanuatu Compact

April 28, 2006: Compact enters into force, implementation begins
March 2, 2006: Compact signed
May 6, 2004: Selected as eligible for assistance
June 30, 2010: Current
April 27, 2011: Compact implementation ends; MCC funding expires

Source: Map Resources (map).

Source: GAO analysis of Millennium Challenge Corporation data.
Vanuatu

MCC Candidate Criteria

Each fiscal year, MCC uses per capita gross national income (GNI) data to identify two pools of candidate countries—low-income and lower-middle-income—based on World Bank lending thresholds. In addition, a candidate country must not be statutorily barred from receiving U.S. assistance. By law, MCC can use up to 25 percent of compact assistance each year for new compacts with lower-middle-income countries.

Vanuatu was a low-income country from 2004, the year that MCC began operations, through 2008. In 2009 Vanuatu’s rising GNI per capita lifted it to lower-middle-income status.

MCC Eligibility Criteria

MCC’s board uses quantitative indicators to assess a candidate’s policy performance. To meet MCC’s criteria, a country must pass the control of corruption indicator and at least half of the indicators in each of three categories. To pass an indicator, a country must score above the median in its income group. However, the board may select a country as eligible even if it does not meet the criteria. Once MCC has signed a compact with a country, MCC continues to work with it—even if it fails the criteria—as long as its actions are not inconsistent with the criteria. If a country’s policy performance declines, the board can suspend or terminate the compact.

Vanuatu met MCC’s eligibility criteria each year from 2004 through 2008. In 2009, Vanuatu rose to lower-middle-income status and failed the indicator criteria for that group.

Vanuatu GNI Per Capita

MCC’s program for lower-middle-income countries began in 2006.

Vanuatu’s Performance on MCC Eligibility Indicators

<table>
<thead>
<tr>
<th>Indicator category</th>
<th>MCC eligibility year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MCC income group</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Lower-middle</td>
<td>Lower-middle</td>
<td></td>
</tr>
<tr>
<td>Political Rights</td>
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Indicator performance results:

- Passed (scored above the median)
- Failed (scored at the median or below)
- NA for that year

Source: GAO analysis of Millennium Challenge Corporation data.

In 2004, the indicator was “Primary Education Completion.”

In 2009, MCC stopped making an eligibility determination for countries with existing compacts.
Vanuatu

Compact Characteristics

*MCC and the partner country determine the compact structure before the compact is signed. However, the structure of some compacts has been altered during implementation.*

At signature, Vanuatu’s compact aimed to benefit poor, rural, agricultural producers and providers of tourism-related goods and services by reducing transportation costs and improving the reliability of access to transportation services. At signature, 80 percent of the population lived in rural areas and 51 percent of rural residents lived in hardship. The compact was rescoped in early 2008 due to several circumstances, including escalating global construction costs and currency fluctuations, and the scope of the Transport Infrastructure Project was reduced.

Expected Results

*This graphic presents MCC’s expectations of selected compact results at compact signature and at the end of fiscal year 2009.*

The Vanuatu compact is one of five compacts for which GAO has independently verified the reliability of MCC’s results projections. In July 2007, GAO reported that MCC had overstated the expected results of its Vanuatu compact; GAO also identified additional risks that could affect compact results (GAO-07-909).

Structure of Vanuatu’s Compact, as of December 2009

**Constraints to Development**

Poor transportation infrastructure constrains private sector development and access to social services.

**Planned Projects**

- **Transport Infrastructure**
  - Construct and seal two national roads, the Efate Ring road and the Santo East Coast road.

**MCC Expected Results**

- Benefit providers of travel-related goods and services and local producers and inhabitants of remote communities with limited access to social and other services.

Increased incomes for approximately 15,000 ni-Vanuatu.

Source: GAO analysis of Millennium Challenge Corporation data.

*MCC expected results are reported as of compact signature, except the number of beneficiaries with increased incomes.

In fiscal year 2009, MCC recalculated the number of expected beneficiaries using a standardized methodology. At compact signature, MCC reported the compact would benefit approximately 65,000 people.
Vanuatu

Compact Project Funding

*MCC and the country may reallocate funds among projects during implementation. In some cases, MCC has also changed the overall compact obligation.*

At signature (March 2006), MCC obligated $65.7 million for the Vanuatu compact. As of December 2009, the overall obligation amount had not changed, however funds were reallocated from Transport Infrastructure project to the Program Administration and Monitoring and Evaluation.

Compact Disbursements

*At compact signature, MCC develops a disbursement plan for the compact. MCC disburses funds as the country begins implementing projects. According to MCC, any funds not disbursed within 120 days after the compact ends would return to MCC for reprogramming.*

As of December 2009, MCC had disbursed $45.2 million (approximately 69 percent) of compact funds, compared with the $63.2 million (approximately 96 percent) that it had planned to disburse as of that date.

Although it is not shown in the graphic, in addition to the above disbursements, $18.4 million has been committed under the compact for pending expenses as of December 2009.

Vanuatu Project Allocations

- **Program Administration and Monitoring and Evaluation**: $5.0 million ($8% of total)
- **Transport Infrastructure**: $60.7 million ($92% of total)

Total: $65.7 million

Vanuatu Planned and Actual Disbursements

- **Total for compact**: Planned $65.7 million, Actual $63.2 million
- **Transport Infrastructure**: Planned $60.7 million, Actual $59.6 million
- **Program Administration and Monitoring and Evaluation**: Planned $5.5 million, Actual $3.6 million, Total allocated as of December 2009: $2.8 million

Source: GAO analysis of Millennium Challenge Corporation data.

Notes: We base planned disbursements on MCC’s projections for the fiscal quarter ending December 2009. We assume that funds are disbursed evenly throughout each year. Actual disbursements by project may not add up to total disbursements because some disbursements are pending allocation to projects and are reflected in the total but not in the projects.
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