

MINISTRY OF FINANCE

REPORT ON THE MCC UNIVERSITY WORKSHOP
HELD IN WASHINGTON DC
FROM 27TH – 31ST MARCH 2006

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INTRODUCTION

The Millennium Challenge Corporation (MCC) organized an MCC “university” workshop for all eligible countries from 27th to 31st March 2006. The objective of the workshop was to train participants from eligible countries about the MCC process and learn from the experience so far. The training involved:

- i) Detailed explanation of the MCC process by the MCC Transaction Teams and
- ii) Sharing experiences of the countries that have gone through the process of developing their country proposals and have their compacts signed

Generally the event was insightful, thought provoking and a very useful learning experience particularly for the newly eligible countries.

The workshop was preceded by a brief session on 27th March 2006 which served as an opportunity to introduce the Tanzanian delegation to the MCC Transaction Team for Tanzania. After the brief self introductions some members of the MCC transaction Team for Tanzania and the delegation from Tanzania paid a courtesy call to the Tanzanian Ambassador in Washington DC. In the afternoon, there was focused discussion with specific members of the MCC Transaction Team dealing with specific sectors.

The composition of the MCC Transaction Team for Tanzania has the following members:-

1. Mrs. Gretchen Brevnov -country director
2. Mr. David M. Nummy – Financial Accountability
3. Mr. Prestin Winter – Fiscal Accountability
4. Jonathan S. Saiger – Director of Infrastructure
5. John A. Polk – Program Officer, Infrastructure
6. Virginia Seitz – Director of Social and Gender Assessment, and with particular interest on environment and Social Assessment
7. Thomas J. Campbell – Senior Director Financial and Private Sector Development – with special interest on Education Sector
8. Lucas Black – Associate country director
9. Anne Rothbaum -Economic Analysis
10. Steve Anderson -Economic Analysis
11. Richard North – Consultant Water sector
12. Mathew Cavanagh Associate country director
13. Jerry I Dutkewych – Director, Country Relations

The Team was briefed about the current status of the Tanzania's preparations for the MCA including:

- Composition of the core Team;
Appointment of the Point of Contact, establishment of the steering committee and a Technical Team and appointment of a few members of the Core Team.
- Outreach activities;
Briefing to the committee of the Parliament on Foreign Affairs, contacts with some sector Ministries, contacts with Zanzibar and draft briefing paper to the Cabinet
- Development of the initial draft of the work plan and budget
- A few sectors that have been pointed out including, energy, infrastructure, water, education and health on the Zanzibar initial draft proposal

On the other side, the MCC Team pointed out that they were planning a 2nd visit to Tanzania in April and May 2006. They also hinted that the President of the United Republic of Tanzania is scheduled to visit the MCC and meet with the MCC Board of Directors in May 2006.

THE MCC UNIVERSITY – 28TH - 30TH MARCH 2006

The MCC University was the first organized workshop for all 23 selected countries since the establishment of the Millennium Challenge Corporation in 2004. The overall objectives of the event were:-

- To provide an opportunity for better understanding of the MCC process and factors that help to speed up compact development and approval by the US Congress;
- To provide the basic MCC guiding principles; and
- Learn from experiences so far;

The 3 days workshop covered the following main components; (i) MCA overview, (ii) Developing an MCC proposal, (iii) Review of Indicators, (iv) Consultative process, (v) Due Diligence/sector analysis, (vi) Economic Analysis, (vii) Monitoring and Evaluation (viii) MCC Legal processes and procedures, (ix) Environmental and Social Assessment, (x) Fiscal Accountability (xi) Governance (xii) Compact Development Funding and (xiii) Oversight Roles and Responsibilities (US Government Accountability Office and Inspector General) (xiv) Lessons learned.

1.0 MCA Overview

The overall mission of the Millennium Challenge Corporation which manages the MCA is to reduce poverty through sustainable economic growth in developing countries that govern justly, invest in their people and encourage economic freedom. The MCA intends to fulfill President's Bush's Monterrey commitment to provide greater resources to countries taking greater responsibility for their own development.

The MCC Board has selected 23 countries in Fiscal years 2004 to 2006 from Africa, Latin America and Eurasia. The selected countries include:

(i) African countries: Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Lesotho, Madagascar, Mali, Morocco, Mozambique, Namibia, Senegal, Tanzania

(ii) Latin America countries: Bolivia, El Salvador, Honduras, Nicaragua

(iii) Eurasia: Armenia, East Timor, Georgia, Mongolia, Sri Lanka, Vanuatu

To date, the congress has appropriated \$ 4.27 billion; \$ 1.5 billion have already been committed in 8 compacts that have been signed and \$ 100 million earmarked for threshold agreements with 5 countries. Countries that have signed MCA compacts are Madagascar, Cape Verde, Georgia, Benin, Honduras, Nicaragua, Vanuatu and Armenia. And Malawi, Burkina Faso, Tanzania, Paraguay and Albania have approved threshold agreements.

It is a vigorous process that evolves through 4 distinct stages namely

- (i) Compact design and development
- (ii) Due Diligence which involves intensive analysis of the country proposal
- (iii) Approval and signing of the compact and
- (iv) Implementation.

Advice: Things that will speed up the process:

- Start with a consultative process to identify key constraints and opportunities to growth and poverty reduction
- Work with the MCC Transaction Team to develop the program logic. It is however important to note that each country is different and hence does not have to limit itself to what MCC has done in other eligible countries.
- Counties should be ambitious and creative and
- Strive for clarity and focus

It was emphasized that throughout the process the focus should be on programs and projects that have high potential to improve the lives of the majority of the population based on key constraints to growth and poverty reduction identified through a consultative process.

2.0 Developing the MCC Proposal:

This is the first stage after a country has become eligible for the MCA process. Successful development of a country proposal leads to an opportunity memo, by the MCC Country Transaction Team, to the Investment Committee, recommending the proposal for due Diligence.

Country proposals must include:

- (a) Overview and program logic giving the context of the proposal (including country development plans and strategies, consultative process, description of the program)
- (b) Project assessments (for each project being proposed)
- (c) Country commitment and effectiveness on institutional, financial and environmental and social sustainability
- (d) Implementation arrangements including management, financial and procurement arrangements
- (e) Monitoring and Evaluation arrangements

Advice:

- It is important to continuously remain focused on the overall impact and develop the program logic around the expected overall impact
- Picking projects in areas where pre-feasibility study has been done tends to fasten the process
- Focusing on a few sectors and fairly large projects tends to promise higher impact and more effective management than small projects scattered in many sectors.

3.0 Review of Indicators

The 16 indicators which are used to determine eligibility of countries to the MCA will continue to be monitored throughout the compact period. The indicators are in three main categories namely (i) Ruling justly (ii) Encouraging economic freedom and (iii) Investing in people

- **Ruling Justly category:** There are 6 indicators in this category which measure just and democratic governance, including a country's demonstrated commitment to promote political pluralism, equality, and the rule of law, respect human and civil rights, including the rights of people with disabilities, protect private property rights, encourage transparency and accountability of government; and combat corruption.

- **Encouraging Economic Freedom:** There are 6 indicators in this category which measures the extent to which a government encourages economic freedom, including a demonstrated commitment to economic policies that encourage individuals and firms to participate in global trade and international capital markets, promote private sector growth and the sustainable management of natural resources, strengthen market forces in the economy, and respect worker rights, including the right to form labour unions.
- **Investing in People:** There are 4 indicators in this category which measures investments in people particularly women and children, including programs that promote broad-based primary education, strengthen and build capacity to provide quality public health and reduce child mortality.

Section 611 (a) of the Millennium Challenge Act of 2003, provides that, after consultation with MCC's Board of Directors, the Chief Executive Officer (CEO) may suspend or terminate MCA assistance in whole or in part for an MCA – Eligible Country or other entity utilizing MCA assistance, if the CEO determines that:

- ❖ The country or entity is engaged in activities which are contrary to the national security interests of the United States;
- ❖ The country or entity has engaged in a pattern of actions inconsistent with the criteria to determine the eligibility of the country or entity; or
- ❖ The country or entity has failed to adhere to its responsibilities under its Millennium Challenge Compact.

4.0 Addressing the Consultative Process

It was emphasized that the MCA process must be conducted through an open, transparent and consultative approach. Consultations have to start at the initial stage of identifying constraints and opportunities for economic growth and reduction of poverty and continue at every stage of the MCC process namely:-

- i) Proposal Development
- ii) Specific Projects design
- iii) Due diligence
- iv) Implementation and
- v) Monitoring and Evaluation

Observation:

It was observed that most of the eligible countries have been using consultative processes in developing their national policies and programmes, particularly the countries that have undergone Poverty Reduction Strategy (PRS) processes. In this case it was underscored that these countries need to draw on the outcomes of previous participatory planning experiences and design the MCA consultative process to flow logically from previous national dialogues or debates.

5.0 Due Diligence

This is a very comprehensive and intensive analytic exercise done by the MCC Transaction Teams in consultation with country core Teams to determine soundness of country proposals. Due diligence is broadly conducted to answer 5 key questions namely:

- (i) What evidence is there that a problem exists?
- (ii) What has been done to try to address the problem?
- (iii) What precisely is being proposed and is it appropriate?
- (iv) Who are the beneficiaries? How to measure success?
- (v) What are the risks? How can they be addressed?

6.0 Economic Analysis of MCA Proposals

Economic analysis is done by respective countries during development of the country compact proposal to ensure that it provides sufficient evidence that the specific proposed projects have the potential to promote growth and significantly reduce poverty. It is intended to:-

- ❖ To identify “high return” projects and screen out “low return” projects;
- ❖ To measure the magnitude of the contribution to growth and to guide project design and refinement accordingly;
- ❖ To start the analysis that will lead to monitoring indicators and associated targets.

The economic analysis therefore defines the logical chain of causes and effect connecting inputs (financial resources) to growth benefits as measured by household incomes and value added (wages and profits). The key feature of the analysis is calculation of the economic rate of return (ERR) based on value added, rather than aggregate surplus (which is done in cost benefit analysis).

During due diligence a rigorous economic analysis is done:-

- ❖ To evaluate relevant evidence on source of and constraints to growth and poverty reduction;
- ❖ To ensure that country proposals are underpinned by the growth/poverty analysis and are logically coherent, and individual projects are both necessary and sufficient to stimulate economic growth
- ❖ To calculate ex-ante the economic rates of return (ERR) and impacts of individual projects.

7.0 Monitoring and Evaluation

Each compact proposal must have a monitoring and evaluation plan which describes the arrangements to monitor progress and evaluate impact of the proposed interventions. Specifically the monitoring and evaluation plan is expected to:-

- ❖ Give the arrangements to collect performance data to better manage implementation of the program and trigger future disbursements
- ❖ Enable reporting to different stakeholders on progress achieved towards reaching the program's goals;
- ❖ Enable the testing of the assumptions and measure ex-post, in a statistically valid way, the program's impact on growth and poverty
- ❖ Provide evidence of program, activity and policy reform effectiveness and lessons for future programs

Monitoring and evaluation is closely linked with the economic analysis. It is the economic analysis which provides the basis for selection of indicators, identification of the baseline data and setting targets and performance benchmarks. The major contents of a monitoring and evaluation plan include:-

- ❖ Program logic
- ❖ Description of beneficiaries

- ❖ The monitoring plan with indicators, baselines and targets as well as data collection strategy and data quality reviews
- ❖ Evaluation plan which is usually done by an independent body to compare the situation with the program and what would have been the situation without the program (counterfactual).

8.0 Fiscal Accountability

Fiscal accountability covers both financial management and procurement. The standard fiscal accountability structure involves the following entities (See annex I).;

- i) The Millennium Challenge Corporation,
- ii) MCC representative,
- iii) Government,
- iv) Accountable Entity,
- v) Fiscal Agent/funds control,
- vi) Procurement Agent,
- vii) A bank account,
- viii) Specific project management teams and
- ix) Vendors.

It was emphasized that there are 5 key issues that must be clarified for any compact to be approved. These are:-

- ❖ The procurement rules that will be followed. (If national procurement legal provisions happen to conflict with the MCC principles then international laws will apply).
- ❖ The entity that will administer the rules
- ❖ The entity that will be responsible for funds management and control
- ❖ The banking arrangements
- ❖ The institution that will conduct external audit and the frequency of audit.

The specified core procurement principles for the MCC include;

- i) Transparency;
- ii) Competitiveness (internationally);
- iii) Fairness;
- iv) Equal access to all procurement opportunities

9.0 Environment and Social Impact Assessment

A country proposal must undergo a thorough **Environment and social impact assessment** which includes a gender analysis. The assessment is usually done in accordance with host country laws, regulations and standards, as well as requirements by which the country is bound under international agreements. The assessment is done by both the host country and the MCC Transaction Team and there is a guideline that has been developed for this exercise.

The guideline categorizes different activities and provides measures to be taken in relation to the levels of environment and social impact assessment. These are:-

- **Prohibited activities:** These are activities that are likely to cause a significant environmental health or safety hazard. Existence of such activities in a compact makes the whole compact unacceptable.
- **Category A:** These are activities with a potential for significant adverse impacts. These kind of activities require a full environment impact assessment (EIA), including environment management plan.
- **Category B:** These are activities whose potential impact is site specific, not irreversible but with readily available mitigation measures. These activities require specific environmental and social impact analyses including environmental management plan and resettlement action plans.
- **Category C:** These are activities which are unlikely to have adverse impacts. Potential requirements for these kind of activities could include specific studies reporting, and/or training.
- **Category D:** intermediate funding facility with subprojects
 - Depending on nature of activities, may require EIAs
 - Consultation and disclosure
 - Monitoring, reporting, and auditing
 - Institutional capacity.

10. Other Important Considerations

Legal Processes and Procedures:

The MCA is governed by a legal provision “the Millennium Challenge Act of 2003” which prescribes some specific legal actions at different stages of the MCA process. A Country compact which is signed by the

US congress and a host country is considered to be a legally binding document. In addition before the compact starts to be implemented there are other numerous agreements with the MCC that need to be concluded. Eligible countries are therefore advised to involve a legal expert in the Core Team at the early stages of the process.

Lessons Learned:

- Countries that engaged a legal counsel early on in the process experienced less difficulties compared to those who did not have one
- It is important to have agreement on all supplemental agreements before compact signing to reduce the delay period between the time of signing the compact and implementation
- It is important to think about how the compact will be implemented during the development of the compact proposal

Governance

Under the compact MCC grants funds to the host country government to enable the host country government to implement the program. It is therefore the government which is held responsible for implementing the compact, and not the MCC. For effective and efficient implementation host government is expected to designate an Accountable Entity to manage the program but it was emphasized that the government remains ultimately accountable and responsible for the implementation of the country compact.

Typically, the Accountable Entity has a two-tier structure namely:-

- Supervisory Board (Board of Directors, Steering committee, Governing Council)
- Management Team (Technical secretariat, project management unit)

The specific roles responsibilities and functions of the two-tiers and the individual Team members of the Management Team are defined the MCC manual.

In identifying the Accountable Entity consideration should be on the arrangement that would best advance the goals of

- Government accountability
- Transparency

- Efficiency and operational capability
- Inclusion of stakeholders

Advice:

- Think about governance structure early on in the process as the country develops the proposal
- Take into account country-specific and program-specific considerations
- Committed and active participation by Board Members is crucial
- A strong and qualified management team, especially CEO is crucial
- Get general counsel/outside legal counsel to assist.