Reducing Poverty Through Economic Growth
• Introduction
• Evidence-Based Approach
• Types of Agreements
• Country Selection
• Development Approach
• Project Selection Factors
• Where Do We Work?
• Sectors
• Honduras PFM Project
MCC’s mission is to reduce poverty through economic growth.

- Created by U.S. Congress in January 2004 with strong bipartisan support

- Changing the conversation on how best to deliver smart U.S. foreign assistance by focusing on good policies, country ownership, and results.

- Benefits both developing countries and U.S. taxpayers through:
  - Competitive selection
  - Country-led solutions
  - Country-led implementation
Evidence-Based Approach

- Poverty Reduction through Economic Growth
- Country Scorecards
- Suspension & Termination Policy
- Constraints Analysis
- Economic Rate of Return
- Beneficiary Analysis
- Social and Gender Constraints to Poverty Reduction Analysis (SGCPRA)
- Investment Opportunity Analysis (IOA)
- Concept Notes
- Concept Papers
- Project Proposals
- Compact
- Program Implementation Agreement (PIA)
- Work plans
- Key Performance Indicators
- Audits
- Performance Evaluations
- Impact Evaluations
Types of Agreements

Compact:
- Historical Range $60MM - $700MM
- Build large public works intended to enable economic growth
- 5-year grant

Threshold Program:
- For countries who don’t meet required indicators for Compact
- Intended to enable countries to become Compact-eligible
- $10MM - $50MM
- 3-4 year grant

Relationship between Compact and Threshold Program
- The country’s record implementing a threshold program will provide the MCC Board of Directors with important information about:
  - MCC’s opportunity to reduce poverty and stimulate growth in that country through a compact investment
  - Threshold country partner’s capacity and commitment to implementing policy and institutional reforms within the context of MCC’s evidence driven model.
- MCC’s Scorecard will remain the cornerstone of compact eligibility decisions.
Country Selection

Twenty indicators

- All produced by 3rd parties
- All are independent
- All are public
- All cover governance issues critical for driving economic growth
- Only LIC and LMIC countries considered

Three requirements to “Pass”

- Pass the Control of Corruption indicator
- Pass either the Political Rights or Civil Liberties indicator
- Pass at least 10/20 overall
# Development Process

## Overview of MCC Compact Development

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Analysis</strong></td>
<td>Names Compact Development Coordinator and establishes Compact Development Team. Conducts analyses of constraints to economic growth, opportunities for private investment, and social constraints to poverty reduction. Commences public consultations.</td>
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<tr>
<td><strong>Project Definition</strong></td>
<td>Consults stakeholders on potential projects. Develops project proposals based on preparatory analyses and MCC investment criteria.</td>
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<tr>
<td><strong>Project Development and Appraisal</strong></td>
<td>Prepares detailed project proposals. Consults stakeholders on project design and sustainability. Begins establishing compact implementation structures.</td>
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<tr>
<td><strong>Compact Negotiation and Signing</strong></td>
<td>The Partner Country &amp; MCC... Negotiate on technical and legal terms of compact agreement. Sign compact, committing funds, defining program objectives, budget, monitoring and evaluation framework, and implementation arrangements.</td>
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</tbody>
</table>
| **Preparation for Entry into Force** | The Partner Country... Establishes Millennium Challenge Account Accountable Entity. Completes:  
  - Implementing Entity agreements  
  - Annual budgets and implementation and project management plans  
  - Terms of Reference and work plans for implementation and procurement  
  - Pre-qualification of consultants and contractors for early procurements. |

## Millennium Challenge Corporation

<table>
<thead>
<tr>
<th>Role</th>
<th>Actions</th>
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<tbody>
<tr>
<td>Advises and assists with analyses</td>
<td>Conducts formal project appraisal. Selects projects for approval. May provide funding for and assistance with feasibility studies, environmental impact assessments, resettlement plans and other preparatory studies. Notifies Congress of its intent to enter into compact negotiations.</td>
</tr>
<tr>
<td>Provides project design guidance</td>
<td>Reviews project proposals. Approves projects for full development and appraisal. Provides funding for feasibility, social, environmental, and other technical studies, as appropriate.</td>
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## MCC Board

Considers compact program and agreement.
Project Selection Factors

- Can be completed in 5 years
- Private Sector Investment
- Supportive Policy Environment
- Manageable Environmental and Social Risks
- Sufficiently Pro Poor
- Sufficient Returns (ERR)
- Within Capacity of Country

The Project
Where do we work?

Compact, Threshold Program and Eligible Countries

* As of January 2016
**Sectors**

**Education**

Poverty reduction and economic growth are possible when countries invest in educating their people. MCC works with partner countries to ensure that students obtain the knowledge and skills that can help them get better jobs and improve their livelihoods.

**Energy**

Many of MCC's partner countries prioritize energy investments as building blocks for economic development. MCC invests in the energy sector to help create self-sustaining power systems for businesses and households, and to attract private investment.

**Health**

MCC recognizes that a healthy population—including reduced illness and increased life expectancy—is critical for achieving sustained economic growth and poverty reduction.

**Property Rights and Land Policy**

Property Rights and Land Policy (PRLP) investments are designed to contribute to poverty reduction and economic growth by establishing secure and efficient access to land and property rights.

**Water, Sanitation, and Irrigation**

Safe and reliable water systems are a vital component in fulfilling MCC's mission of reducing poverty through economic growth around the world.
Implementation Elements

- MCC
- Government
- Accountable Entity
- Fiscal Agent/Funds Control
- Procurement Agent
- Common Payment System (ITS)
- Bank Account
- MCC Rep
- Project Manager/Implementer 1
  - Vendor
- Project Manager/Implementer 2
  - Vendor
- Project Manager/Implementer 3
  - Vendor
Problem: Poor Public Financial Management (PFM) in Honduras reduces the efficiency and effectiveness of public service delivery.

The immediate causes of poor PFM are:

a. High payment arrears
b. Poor budget planning and controls.
c. Inefficient procurement
d. Insufficient Institutionalized Accountability
1. *Payment Arrears.*

The primary causes of payment arrears are:

- Budget modifications.
- Revenue shortfalls.
- Inability to execute the financing plan
- Slow payment processing in line ministries or treasury.
2. Poor Budget Formulation.

The primary causes of poor budget formulation in Honduras are:

- The use of inertia based budgets.
- Lack of fiscal rules.
- Inadequate controls of commitments.
- Lack of a process to ensure that the long term costs of new legislation are affordable.
3. Poor procurement practices.

The primary causes of poor procurement practices are:
• Little oversight of procurement.
• Unqualified staff conducting procurements.
• Inadequate competition in bidding (vendors concerned about paying paid or that the process will not be fair, high use of private bidding..)
4. Insufficient Institutionalized Accountability.

Some of the primary causes are:

- Lack of capacity and experience in performance auditing.
- Lack of funding for Supreme Audit Institution.
- Quality of congressional budget hearings.
The Honduras PRM Project has four activities:

1. Budget and Treasury Management
2. Improving Procurement Capacity, Planning and Controls
3. Improving Capacity of the Tribunal Superior de Cuentas (TSC).
4. Grant Facility for Social Accountability.
1. **Budget and Treasury Management**

- Implementation of baseline budgets.
- Fiscal Impact Analysis (FIA).
- Revenue forecasting.
- Congressional Budget Hearings
1. Budget and **Treasury** Management

- **Eliminate “old” payment arrears.** External audit reviewed pending payments to determine validity.
- **Prevent new arrears.** Working with largest ministries to promptly and accurately enter invoices and TSC will audit compliance.
- **Transparent and objective payment priority procedures.**
2. Improving Procurement Capacity, Planning and Controls

- Unit for Evaluation and Statistics now assesses the procurement processes of government entities.
- Transition most of the positions in ONCAE into the civil service regime.
- Procurement certification program (new law will require a certified official to manage procurement processes).
3. Improving Capacity of the Tribunal Superior de Cuentas (TSC).

- Performance auditing training of 40 TSC staff completed and four pilot performance audits completed or in-progress.
- TSC will audit the implementation of some of the reforms in payment processing.
- Procurement assessment findings are being shared with TSC.
4. Grant Facility for Social Accountability

Funding Transparency International local chapter ASJ to assess:

- ONCAE (national procurement oversight body)
- ONADICI (National internal Auditing Office).
- effective hours of schooling and
- the prosecution of corruption cases.
Conclusions

• Improving PFM requires an integrated approach that includes legislature and SAI.
• Progress requires long-term TA (years not months).
• Problems with Payment Arrears are often underestimated using data in a government IFMS and deserve more attention.
• Cultural shift in procurement assessments from process compliance to value for money is needed but fiercely resisted.
Questions?

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