



**OFFICE OF INSPECTOR GENERAL**  
U.S. Agency for International Development

# MCC Should Do More to Assess the Threshold Program's Progress in Achieving Its Overall Objectives

**AUDIT REPORT M-000-21-001-P**  
**September 2, 2021**

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## MEMORANDUM

DATE: September 2, 2021

TO: Millennium Challenge Corporation, Vice President for the Department of Policy and Evaluation, Alicia Phillips Mandaville  
Millennium Challenge Corporation, Vice President for Congressional and Public Affairs, Aysha House

FROM: Director, Millennium Challenge Corporation Performance Audits,  
Gary Middleton /s/

SUBJECT: MCC Should Do More to Assess the Threshold Program's Progress in Achieving Its Overall Objectives (M-000-21-001-P)

This memorandum transmits the final report on our audit of the Millennium Challenge Corporation's (MCC's) Threshold Program. Our audit objectives were to determine the extent to which MCC had (1) assessed progress on the Threshold Program's overall objectives, (2) provided comprehensive performance information to the Board of Directors to consider when selecting countries for compacts, and (3) fully assessed Threshold Program implementation before recommending countries to the board for compact selection. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix C.

The report contains three recommendations to improve MCC's processes to assess and communicate information regarding the Threshold Program. After reviewing information you provided in response to the draft report, we consider recommendation 2 resolved but open pending completion of planned activities, and recommendations 1 and 3 open and unresolved. For recommendation 2, please provide evidence of final action to [OIGAuditTracking@usaid.gov](mailto:OIGAuditTracking@usaid.gov). Please work with us to resolve recommendations 1 and 3.

We appreciate the assistance you and your staff provided to us during this audit.

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## INTRODUCTION

Over the last decade, the Millennium Challenge Corporation (MCC) has committed \$172 million under its Threshold Program, in part, to assist countries undertaking difficult policy reforms in becoming eligible for the agency’s primary 5-year compact grants. In addition, MCC has used information from countries in the Threshold Program to assist MCC’s Board of Directors when selecting countries for compacts, according to an MCC official. In total, MCC has awarded 33 Threshold Program grants to 30 countries since Congress established the agency in 2004.

In 2015, MCC established the three overall objectives for the Threshold Program: (1) boosting the “MCC Effect” by incentivizing partner countries’ greater commitment to investing in people, economic freedom, and ruling justly; (2) investing in policy and institutional reforms critical to growth and good governance; and (3) assessing the opportunity for a compact partnership.<sup>1</sup>

According to MCC, the smaller Threshold Program grants provide countries with an opportunity to demonstrate their commitment to just and democratic government, economic freedom, and investments in their people. However, in the past, Congress has expressed concern that MCC sometimes selected countries for compact eligibility before the countries implemented Threshold Program-related reforms.<sup>2</sup>

Our audit objectives were to determine the extent to which MCC had (1) assessed progress on the Threshold Program’s overall objectives, (2) provided comprehensive performance information to the Board of Directors to consider when selecting countries for compacts, and (3) fully assessed Threshold Program implementation before recommending countries to the board for compact selection.

To address our objectives, we chose the 12 countries that MCC selected for the Threshold Program from 2011 to 2019 for our audit. We interviewed officials in the Washington, DC-based Threshold Program division, Selection and Eligibility division, and the Monitoring and Evaluation division. We also interviewed Regional Threshold Directors from MCC based in Guatemala, Kosovo, and Sierra Leone. We selected these three countries because they had projects that were currently in the Threshold Program’s implementation phase as well as directors who could provide insight into operations in country. In addition, we surveyed the 16 most recent board members’ representatives—those who had served at some time between 2016 and 2020—and conducted follow-up interviews with 5 of these representatives. We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides more detail on our scope and methodology.

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<sup>1</sup> MCC, “Information Memorandum to the Board of Directors,” December 1, 2015.

<sup>2</sup> MCC, “Information Memorandum to the Board of Directors,” August 30, 2010.

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## SUMMARY

MCC has not assessed progress on the Threshold Program’s overall objectives—boosting the “MCC Effect,” investing in policy and institutional reforms, and assessing the opportunity for compact partnership—because it lacked a process for doing so. Individual Threshold Program partner countries developed projects targeting barriers specific to their economic growth as well as corresponding performance indicators to track progress of their projects. Although the Threshold Program division collected data from individual partner countries to ensure the timely completion of projects in a manner consistent with MCC standards, it did not use the data to assess progress in achieving the three overall objectives of the Threshold Program. Without a process to assess progress in achieving the overall program objectives, as required by the GPRA Modernization Act of 2010, MCC could not fully measure the effectiveness of the Threshold Program or determine how it contributed to assessing candidates for future MCC compacts.<sup>3</sup>

Officials who represented members of MCC’s interagency Board of Directors were generally satisfied with the performance information that MCC provided on the countries in the Threshold Program. However, nearly half of those surveyed indicated that additional information on countries in the Threshold Program would aid in the deliberation process for compact selection. Federal internal control standards require that management periodically evaluate an entity’s methods of communication so that the organization has the appropriate tools to communicate quality information throughout, and outside of, the entity on a timely basis. By periodically evaluating MCC’s methods of communication, the agency could better ensure that it provides its Board of Directors with sufficient information on countries in the Threshold Program during the compact selection deliberation process.

MCC recommended countries in the Threshold Program for compacts before allowing them to substantially implement their programs. In 2010, the agency noted that allowing countries to substantially implement projects in the Threshold Program reduced risks to MCC by engaging countries earlier with smaller, short-term investments as compared to compact grants, which are larger, long-term investments. However, MCC did not clearly define what substantially implementing programs entailed. Furthermore, MCC decided to forgo implementation for four countries in the Threshold Program and recommended them for compacts: Cote d’Ivoire, Nepal, Sri Lanka, and Timor-Leste. According to MCC, it recommended these countries for compacts because these countries had met MCC’s criteria for compact eligibility in addition to completing a constraints analysis, which the countries could leverage for their compacts.<sup>4</sup> By not implementing Threshold Program projects with these countries, MCC missed the opportunity to gather information on these countries’ capacity and willingness to

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<sup>3</sup> GPRA Modernization Act of 2010, P.L. 111-352, 124 Stat. 3866, January 4, 2011. Title 31 of the United States Code, Chapter 11 (31 U.S.C. 1115).

<sup>4</sup> A constraints analysis is a type of economic analysis that seeks to identify the most serious impediments to economic growth through their impact on private investment and entrepreneurship in each country’s context, according to MCC.

implement policy and institutional reforms. In fact, compacts in two of the four countries (Nepal and Sri Lanka) have been stalled or discontinued due to a lack of political will from the partner country governments to sign the compact agreements.

We made three recommendations to improve measurement of Threshold Program performance and communication and use of performance results. MCC agreed to act on one of three recommendations.

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## **BACKGROUND**

Congress initially authorized MCC to provide assistance to countries seeking to become compact eligible in the Millennium Challenge Act (MCA) of 2003. The African Growth and Opportunity Act and Millennium Challenge Act Modernization Act (AGOA and MCA Modernization Act) upheld the program and authorized MCC to make up to 10 percent of its annual appropriation available for Threshold Program assistance.

From 2005 to 2014, USAID developed and administered Threshold Programs in-country on MCC's behalf. Under this model, MCC used Threshold Program assistance to impact specific policy indicators to assist countries in meeting compact eligibility requirements. Policy indicators, such as the control of corruption indicator, are based on criteria established in MCC's authorizing legislation that serve as one component for determining eligibility for the agency's larger, 5-year compact grants.<sup>5</sup>

In 2010, MCC redesigned the Threshold Program and assumed responsibility for managing the operation and implementation of Threshold Programs in-country after MCC and Congress cited limitations with the program's ability to assist partner countries in becoming compact eligible. Moreover, MCC acknowledged that it could not attribute movements in a country's indicator scores to Threshold Program participation. Consequently, as part of the 2010 redesign, MCC placed the responsibility of raising indicator scores on the country itself. While completing a Threshold Program is not a requirement for compact eligibility, the redesigned Threshold Program focused on assisting countries committed to policy and institutional reform in a 2- to 3-year time frame, laying important groundwork for future compact selection, according to MCC. In 2015, MCC set forth the following three objectives for the Threshold Program: (1) boost the "MCC Effect," (2) invest in policy and institutional reform critical to growth and good governance, and (3) assess the opportunity for a future compact.

### **Accountable Entities and Threshold Program Phases**

According to MCC, country ownership is a founding principle, which means that each partner country leads the development and implementation of its Threshold Program projects. As part of this approach, partner countries create an organization with in-

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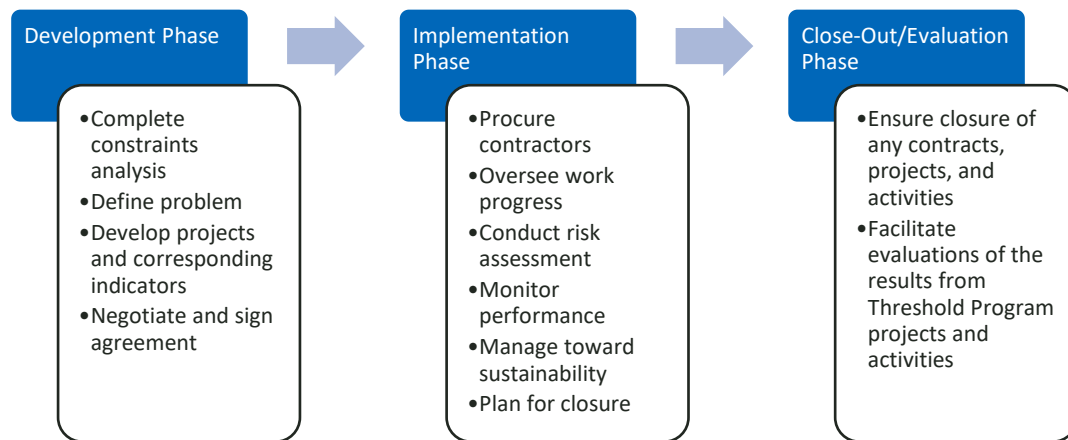
<sup>5</sup> MCC measures policy performance based on the eligibility criteria established in MCC's authorizing legislation. MCC's country selection process uses performance indicators developed by independent sources based on their relationship to growth and poverty reduction, transparency, and their relative soundness and objectivity, among other considerations, according to MCC.

country staff, referred to as an “accountable entity.” The accountable entity may include staff who are also members of the partner country’s government.<sup>6</sup> Partner countries may establish accountable entities to implement the projects as mutually agreed upon and manage Threshold Program funds, although MCC may decide to manage all or part of a Threshold Program itself. Threshold Programs include the following activities:

- *Development phase.* Focuses on completing a constraints analysis to identify barriers inhibiting economic growth and designing projects to address those barriers.
- *Implementation phase.* Executes projects and policy reforms that address the barriers to economic growth identified in the constraints analysis and oversees work progress toward completion.
- *Close-out/Evaluation phase.* Ensures closure of any contracts, projects, and activities and facilitates evaluations of the results from Threshold Program projects and activities.

During the Threshold Program’s development phase, MCC works jointly with counterparts in the partner country government to prepare the constraints analysis and develop projects, according to MCC. In addition, MCC works with officials in the partner country government to create monitoring and evaluation plans. These monitoring and evaluation plans include output, outcome, and goal indicators to track the extent to which project activities are achieving their identified objectives over the course of implementation using indicator tracking tables. While MCC develops the first draft of monitoring and evaluation plans, the partner country finalizes and approves them, according to MCC. Figure 1 illustrates an overview of the Threshold Program phases:

**Figure 1. Threshold Program Phases**



Source: OIG analysis based on MCC information.

<sup>6</sup> According to MCC’s “Guidelines for Accountable Entities and Implementation Structures,” the government of an MCC account-eligible country must identify a legal entity that will be accountable for the projects funded by MCC. Although these guidelines refer explicitly to compact, and not Threshold Programs, partner countries have created accountable entities for all Threshold Programs in our scope that have signed agreements, which include Guatemala, Honduras, Kosovo, and Sierra Leone.



MCC uses data from implementation to oversee the progress of Threshold Programs in each country. For example, the Threshold Program division uses data submitted by accountable entities to ensure the timely completion of projects and ensure that funding requests are commensurate with ongoing activities in country. The Monitoring and Evaluation division provides technical assistance to partner countries by overseeing data quality and supporting preparations for an independent, third-party evaluation following project implementation.

## Status of Country Threshold Programs Since 2011

Table I provides information on the status of the 12 countries selected for the Threshold Program from 2011 to 2019. During this period, MCC committed approximately \$172 million toward implementation to countries in the Threshold Program and recommended 4 of the 12 countries for compacts. One country (Honduras) has closed out its Threshold Program under the redesigned Threshold Program.

**Table I. Countries Selected for Threshold Programs, 2011-2019**

Country	Date Selected for Threshold Program	Funding Commitment (in millions)	Began Implementation Phase	Status as of May 2021
Honduras	2011	\$15.6	✓	Close-out phase completed in 2019
Nepal	2011	--		Moved to compact in 2014
Guatemala	2012	\$28	✓	Started Implementation in 2016
Cote d'Ivoire	2014	--		Moved to compact in 2015
Sierra Leone	2014	\$44.4	✓	Started implementation in 2016; selected for compact in 2020
Sri Lanka	2015	--		Moved to compact in 2016; compact discontinued in 2020
Togo	2015	\$35	✓	Started implementation phase in 2020
Timor-Leste	2016	--		Moved to compact in 2017
Kosovo <sup>a</sup>	2017	\$49	✓	Started implementation phase in 2017
The Gambia	2017	TBD		Pending approval to develop projects

Country	Date Selected for Threshold Program	Funding Commitment (in millions)	Began Implementation Phase	Status as of May 2021
Ethiopia	2018	TBD		Pending approval to develop projects
Solomon Islands	2018	TBD		Pending approval to develop projects
<b>Total Row</b>		<b>\$172</b>		

Source: OIG analysis of MCC Threshold Program data.

<sup>a</sup>The MCC Board of Directors selected Kosovo for a compact although MCC did not recommend it. While MCC has authority to recommend countries that meet its criteria, selecting countries for compact eligibility is the responsibility of the Board of Directors.

## MCC's Interagency Process for Updating the Board of Directors

Around 2006, MCC created an interagency forum to ensure that agencies represented on the Board of Directors—as well as private sector members of the Board of Directors—were consulted on issues raised at MCC board meetings, according to MCC officials, which included the status of projects and MCC's recommendations for selecting countries for the Threshold Program and compact grants. The MCC Board of Directors is comprised of the Secretary of State, the Secretary of the Treasury, the U.S. Trade Representative, the Administrator of USAID, the CEO of MCC, and four private sector members appointed by the President of the United States with the advice and consent of the U.S. Senate. While MCC recommends countries for the Threshold Program and compact grants to the Board of Directors, the board is responsible for selecting the countries. MCC's Department of Congressional and Public Affairs serves as the liaison to the Board of Directors and communicates information to the Board of Directors through the Board Representatives Interagency Advisory (BRIA) group. This group consists of representatives for the board members from the respective agencies. BRIA members consult with the principals from their respective agencies to provide input on ongoing programs or recommendations for future selections for Threshold Program and compact grants. MCC also relies on cognizant staff to brief BRIA members on ongoing Threshold Program grants with specific countries as well as sector-specific information that may impact Federal agencies represented on the Board of Directors.

## MCC ASSESSED PROGRESS FOR ACHIEVING OBJECTIVES OF INDIVIDUAL THRESHOLD PROGRAM PROJECTS BUT LACKED A PROCESS FOR ASSESSING PROGRESS OF THE OVERALL PROGRAM

MCC had performance indicators for objectives specific to individual country projects funded by the Threshold Program but lacked a process for assessing progress in meeting the three overall Threshold Program objectives. Although MCC does track policy and

institutional reforms for the purpose of evaluation, the agency did not have a method to use this information in assessing the overall effectiveness of the Threshold Program. Such a method would include defining objectives in measurable terms so that MCC management could assess progress in achieving those objectives, as required by internal control standards. Without indicators for the Threshold Program's three objectives, MCC could not objectively assess the overall effectiveness of the program.

## **MCC Had Performance Indicators for Objectives Specific to Individual Country Projects Funded by the Threshold Program**

We found that 4 of the 12 Threshold Program countries from 2011 to 2019 (Guatemala, Honduras, Kosovo, and Sierra Leone) had signed grant agreements allowing them to start the implementation phase and developed monitoring and evaluation plans and performance indicators. Based on our review of indicator tracking tables, the Threshold Program partner countries within our scope developed multiple indicators directly related to assessing whether they were achieving the objectives of their individual projects. For example:

- The Guatemala Threshold Program developed projects to target an identified underlying constraint to the country's economic growth—the education sector. The partner country designed projects aimed at preparing Guatemalan youth for success in the labor market through greater investments in secondary education. Indicators for these projects tracked the number of teachers and principals enrolled in secondary teacher degree programs and the number of school visits by advisors, among other indicators.
- The Honduras Threshold Program developed projects to increase the efficacy and transparency of the government of Honduras by strengthening public financial management functions, such as improving budgeting and procurement processes as well as auditing capacity. The program also developed projects to improve the functioning of public-private partnerships to attract private investment and reduce financial risks to the government of Honduras. Partner country officials developed 47 performance indicators to track activities for those projects.
- The Kosovo Threshold Program developed pilot projects to promote efficient energy use in households, thereby lowering demand and stress on the energy grid and reducing costs to customers. Indicators for these projects included tracking the cost of electricity, the megawatt hours of imported electricity, and the difference between supply and demand for electricity.
- The Sierra Leone Threshold Program developed projects to address the lack of access to reliable and affordable electricity and clean water. The program also developed projects to address regulatory reform for those sectors, which the partner country determined to be a constraint to its economic growth. Partner country officials developed 236 performance indicators to track activities for those projects.

Table 2 provides details on the policy and institutional reforms that constrained economic growth, and project indicator categories for the four countries that have developed constraints analyses and monitoring and evaluation plans since 2011.

**Table 2. Performance Indicator Information for Threshold Country Programs in the Implementation Phase Since 2011-2019**

Country	Constraints to Countries' Economic Growth	Project Indicator Categories	Number of Performance Indicators for Threshold Projects
<b>Guatemala</b>	Shortage of skilled labor in workforce	<ul style="list-style-type: none"> <li>• Education</li> <li>• Resource mobilization</li> </ul>	<ul style="list-style-type: none"> <li>• Education indicators: 226</li> <li>• Resource mobilization indicators: 21</li> </ul>
	Weak rule of law	N/A	
<b>Honduras</b>	Weak rule of law	N/A <sup>a</sup>	<ul style="list-style-type: none"> <li>• Public and financial management indicators: 38</li> </ul>
	Lack of efficiency and transparency in government	<ul style="list-style-type: none"> <li>• Public and financial management</li> <li>• Public-private partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• Public-private partnerships indicators: 9</li> </ul>
<b>Kosovo</b>	Unreliable supply of electricity	<ul style="list-style-type: none"> <li>• Reliable energy landscape</li> </ul>	<ul style="list-style-type: none"> <li>• Reliable energy landscape indicators: 55</li> </ul>
	Real and perceived weakness in rule of law, government accountability and transparency	<ul style="list-style-type: none"> <li>• Transparent and accountable government</li> </ul>	<ul style="list-style-type: none"> <li>• Transparent and accountable government indicators: 116</li> </ul>
<b>Sierra Leone</b>	Lack of access to reliable and affordable electricity	<ul style="list-style-type: none"> <li>• Electricity sector reform</li> <li>• Regulatory strengthening</li> </ul>	<ul style="list-style-type: none"> <li>• Electricity sector reform indicators: 32</li> <li>• Water sector reform indicators: 158</li> </ul>
	Lack of access to clean water and sanitation	<ul style="list-style-type: none"> <li>• Water sector reform</li> <li>• Regulatory strengthening</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory reform indicators: 46</li> </ul>

<sup>a</sup> Although Honduras identified crime and security as constraints undermining economic growth in the country, it did not develop projects to address reforms in these areas.

Source: OIG analysis based on MCC Threshold Program project information.

## **MCC Lacked a Process for Assessing Threshold Program Progress Toward Achieving Its Three Overall Objectives**

MCC stated in its fiscal year 2019 Congressional Budget Justification that the Threshold Program had proven to be an effective tool to incentivize and implement positive policy and institutional reforms in selected partner countries. However, the Threshold

Program division did not have performance indicators for the three overall program objectives: (1) boosting the “MCC Effect,” (2) investing in policy and institutional reforms critical to growth and good governance, and (3) assessing a country’s capacity to develop a potential compact in the future. In addition, the Threshold Program division did not have a process for linking the project performance indicators to the three overall objectives.

MCC’s Agency Financial Report documents and communicates the performance of MCC programs to external stakeholders. We reviewed Agency Financial Reports for fiscal years 2015 through 2019, and we did not identify any reporting on the achievement of overall objectives demonstrating the effectiveness of the Threshold Program. We also examined the semiannual program reviews for each partner country’s program prepared by the Threshold Program division for MCC management. Our analysis identified performance data for individual projects, but MCC did not link them to the overall objectives of the Threshold Program. MCC maintained that it had a robust system in place for measuring progress and performance of individual Threshold Program countries, including indicator tracking tables to track policy reform in targeted sectors, independent evaluations, and achievement reviews of program development milestones. In addition, MCC stated that it would be difficult and perhaps not very useful to assess the three Threshold Program objectives across the portfolio of countries in the Threshold Program.

The lack of a process for measuring results of program objectives runs counter to key Federal requirements for assessing a program’s progress. Specifically, the GPRA Modernization Act of 2010 established a framework for agencies to set goals for program performance and to measure results that demonstrate progress towards those goals.<sup>7</sup> This process included developing a tracking system with quantitative or qualitative performance indicators to measure the extent to which the Threshold Program was achieving its overall objectives. When agencies focus on program performance and measuring results, they can objectively inform decision makers about the effectiveness of their program. In addition, Principle 6 of “Standards for Internal Control in the Federal Government” requires management to define objectives in measurable terms so that performance toward achieving those objectives can be assessed.<sup>8</sup> Without a process with performance indicators for assessing progress on overall Threshold Program objectives, MCC lacked an essential tool to objectively assess the overall effectiveness of the program.

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<sup>7</sup> GPRA Modernization Act of 2010, P.L. 111-352, 124 Stat. 3866, Jan. 4, 2011. Title 31 of the United States Code, Chapter 11 (31 U.S.C. 1115).

<sup>8</sup> See Principle 6 – Define Objectives and Risk Tolerance, sections 6.01-6.07 in GAO’s “Standards for Internal Control in the Federal Government” (GAO-14-704G), September 2014. The prior version of GAO’s Federal internal control standards (GAO/AIMD-00-21.3.1, published in 1999), which was in effect at the time MCC redesigned the Threshold Program in 2010, also required agencies to identify and analyze relevant risks and take actions to manage those risks.

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## **BRIA MEMBERS WERE GENERALLY SATISFIED WITH THE THRESHOLD PROGRAM INFORMATION MCC PROVIDED, BUT SOME WANTED MORE DETAILED PERFORMANCE INFORMATION TO BETTER INFORM THE BOARD'S DELIBERATIONS**

We surveyed 16 current and former BRIA members—the Board of Directors' representatives—to get their perspectives on whether MCC provided comprehensive information on Threshold Programs to the interagency Board of Directors. Based on the results of the 15 respondents, BRIA members were generally satisfied with the Threshold Program information MCC provided. However, nearly half of the surveyed BRIA members stated that additional information on countries in the Threshold Program would improve the compact selection deliberation process.

### **BRIA Members Surveyed Were Generally Satisfied With the Performance Information MCC Provided on Countries in the Threshold Program**

BRIA members that we surveyed reported that MCC provided information on the performance of countries in the Threshold Program to the board through BRIA. According to MCC, BRIA was formed to ensure that all board members were well prepared for, and broadly consulted on, the issues raised at MCC board meetings. MCC officials said that BRIA had always been a consultative body, giving MCC's technical teams an opportunity to brief their interagency counterparts, who in turn could then brief their agencies, bureaus, deputies, and principals to ensure that MCC board meetings ran smoothly, and all members were well prepared to make decisions at the meetings. According to MCC, BRIA meetings coincided with the board processes. The MCC board bylaws guide when BRIA meets—at least quarterly, typically 10 working days before board meetings.

To determine the extent to which MCC provided the board with comprehensive performance information for compact selection, we conducted a survey of BRIA members who served in the group from 2016 through 2020 and found that they were generally satisfied with the information provided by MCC. BRIA members provided information on the performance of countries in the Threshold Program, scorecard performance, governance/political stability, and quality of the partnership to their respective board members.<sup>9</sup>

Specifically, our survey results showed that all current and former BRIA members who responded to the survey (15 out of 16) indicated that they were very satisfied or somewhat satisfied with the type of information and the level of detail MCC provided on a country's Threshold Program performance. Approximately three-quarters (11 out

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<sup>9</sup> MCC developed the scorecard to allow for an objective comparison of all candidate countries. The scorecard consists of multiple policy indicators, using information collected from several third-party sources, such as the Brookings Institute, Heritage Foundation, and the World Health Organization.

of 15) of respondents were very satisfied with the type of information MCC provided on country Threshold Program performance, while approximately one-quarter (4 of 15) felt somewhat satisfied. Moreover, three-quarters of the representatives who had requested additional information from MCC indicated that MCC was very responsive to their requests.

### **Some BRIA Members Noted That Additional Information on the Performance of Countries' Threshold Programs Would Be Helpful**

Approximately half of BRIA respondents (7 of 15) indicated that additional information on countries in the Threshold Program would aid in the compact selection deliberation process.<sup>10</sup> For example, respondents noted that MCC was well prepared for meetings, but they would have liked more detailed information on Threshold Programs, including program implementation (most MCC information is provided pre-program approval), quantitative information on program performance, and results and milestones progress updates. According to one representative, BRIA meetings could have benefited from additional information from technical staff to raise awareness of what occurred in country.

Seven representatives requested additional information on countries in the Threshold Program. Of the seven BRIA members who requested this information, four strongly agreed and three somewhat agreed that MCC provided information with sufficient detail in their response. Additionally, seven BRIA members indicated that additional information would aid the compact selection deliberation process. Examples of the type of information that would be helpful include (1) more detailed information on how the Threshold Program would improve country scorecard performance and more frequent updates from in-country staff and (2) post-implementation impact evaluations—though these were not available for every Threshold Program partner country.

Comprehensive information on the performance of countries in the Threshold Program is critical for the Board of Directors' deliberations, particularly when selecting countries for larger investments through compact funding. Principle 15.08 of "Standards for Internal Control in the Federal Government" requires management to periodically evaluate an entity's methods of communication so that the organization has the appropriate tools to communicate quality information throughout, and outside of, the entity on a timely basis.

When asked if they had assessed BRIA members' information needs, MCC's Department of Congressional and Public Affairs officials responded that MCC hosted onboarding sessions for new BRIA members to introduce MCC's model. MCC noted that while they have established open lines of communication so that BRIA members can ask questions and request information from MCC, there is no set system in place. MCC

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<sup>10</sup> Six of 15 respondents had no opinion on whether additional information would improve the compact selection process. Two of 15 respondents said additional information probably would not improve the compact selection process.

officials also emphasized that they are responsive to BRIA's requests for information and meetings. According to MCC, in addition to the standard reporting on the Threshold Program that they share with the board and BRIA members (such as quarterly portfolio updates), MCC also periodically sends fact sheets and other materials to BRIA as they become available. However, MCC acknowledged that their informal communications are affected by frequent turnover within BRIA. Without an assessment to ensure it addressed BRIA members' ongoing information needs, MCC risked providing insufficient information to support the board's deliberations.

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## **MCC RECOMMENDED COUNTRIES IN THE THRESHOLD PROGRAM FOR COMPACTS WITHOUT ALLOWING THEM TO SUBSTANTIALLY IMPLEMENT THEIR PROGRAMS**

Although MCC recognized the importance of countries implementing Threshold Programs as a means of identifying good partners for compacts, MCC has not defined substantial implementation. In redesigning the Threshold Program, MCC indicated that the Threshold Program provided an opportunity to identify partners for future compact investments by engaging countries earlier with smaller, short-term investments, and allowing them to substantially implement projects. However, since 2012, MCC has recommended four countries from the Threshold Program for compacts without implementing any project activities to allow it to better assess country capacity, government support, and political will to enact policy and institutional reform. Since then, two of those countries have experienced delays in their compacts due to capacity issues, a lack of government support, or political instability. MCC discontinued one of the compacts due to a lack of government support in the host country.

### **Although MCC Recognized the Importance of Countries Implementing Threshold Programs to Identify Good Partners for Compacts, It Has Not Defined Substantial Implementation**

When MCC redesigned the Threshold Program in 2010 in response to congressional concerns, MCC recommended that partner countries make substantial progress in implementing reforms, a key objective of the Threshold Program, before considering them for compact eligibility, although MCC did not clearly define what substantial implementation progress entailed. Principle 6.03 of "Standards for Internal Control in the Federal Government" states that management should define objectives in specific terms, so they are understood at all levels of the entity. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement. MCC's information memorandum to the board in 2015 highlighted that the Threshold Program offered an opportunity to identify and engage with new partner countries using lower risk, smaller dollar investments (tens of millions of dollars under Threshold Programs versus hundreds of millions of dollars under compacts). For example, according to MCC, the Threshold Program provided an opportunity for MCC



to assess a country's willingness and capacity to implement difficult reforms for economic growth. Active engagement through a Threshold Program benefited MCC in making this assessment. In addition, implementing project activities allowed MCC to assess a country's capacity to implement a larger compact grant, government support for working with the U.S. government, and political will to enact policy and institutional reform.

For example, in the case of Sierra Leone, MCC was better positioned to assess its partnership because the country had completed a substantial amount of implementation in its Threshold Program, including instituting challenging policy reforms. In its memo recommending the country for a compact, MCC stated that the government of Sierra Leone was a committed partner in adopting key institutional and political reforms, such as implementing politically sensitive tariffs for electricity. MCC was also able to assess Sierra Leone's capacity to implement in accordance with MCC standards as the country entered the final year of its Threshold Program. For example, in a 2019 semiannual review of the Sierra Leone Threshold Program, MCC assessed progress, potential risks, and lessons learned that could benefit a Sierra Leone compact team in the future. Specifically, MCC cited Sierra Leone's progress in the energy sector program and identified challenges with procurement that had contributed to delays in implementation activities in the energy and regulatory sector projects. MCC also identified potential risks to the Sierra Leone Threshold Program, such as the impact of staff attrition as the program neared completion. Finally, in the semiannual review, MCC noted the importance of continuing to capture lessons learned—such as the difficulty in hiring consultants and challenges with contract management—to inform a potential compact team in the future.

## **MCC Decided to Forgo Implementation Under the Threshold Program for Four Countries It Recommended for Compacts**

From 2014 to 2017, MCC recommended four Threshold Program countries for compacts during the development phase of their Threshold Program. Specifically, MCC recommended Cote d'Ivoire, Nepal, Sri Lanka, and Timor-Leste from the Threshold Program for compacts during the development phase, prior to those countries signing an agreement implementing projects. These four compacts totaled roughly \$1.76 billion in funding commitments.

According to MCC officials, although these countries had not implemented projects in their Threshold Programs, all countries had completed a constraints analysis before MCC recommended them for compacts. However, the development phase relies heavily on creating a constraints analysis and developing projects and corresponding indicators, whereas the implementation phase provides MCC with an opportunity for more robust engagement and additional information on a country's capacity to execute projects in accordance with MCC's standards. In addition, information from implementation allows MCC to identify risks in working with a particular country. For example, in MCC's commitment to country ownership, MCC requires the partner country to manage implementation, which includes submitting funding disbursement requests, procurement performance reports, and project tracking data to MCC on a quarterly basis. During

implementation, MCC continues to track commitments to policy reforms, among other commitments, that countries agree to as a condition to receive funding through the Threshold Program grant. The implementation phase also provides MCC with a greater opportunity to assess a country’s willingness to enact difficult reforms and its potential to work with MCC in a future compact. Table 3 lists countries in the Threshold Program that MCC recommended for compacts during the development phase.

**Table 3. Four Countries MCC Recommended for Compacts During the Threshold Program Development Phase, 2011-2017**

Country	Year Selected for Threshold Program	Year Selected for Compact	Threshold Program Phase When Selected for Compact	Status of Compact as of May 2021	Compact Funding Commitments (in millions)
Cote d'Ivoire	2014	2015	Development	Started implementation in 2019	\$525
Nepal	2011	2014	Development	Negotiating compact agreement with Nepali government	\$500
Sri Lanka	2015	2016	Development	Discontinued in 2020	\$480
Timor-Leste	2016	2017	Development	Negotiating compact agreement with Timor-Leste government	\$250
<b>Total</b>					<b>\$1.755 billion</b>

Source: OIG analysis of MCC data.

Note: The Board of Directors selected Kosovo for a compact, although MCC did not recommend it. While MCC has authority to recommend countries that meet its criteria, selecting countries for compact eligibility is the responsibility of the Board of Directors.

We reviewed MCC documentation supporting the recommendations for these countries to receive a compact and found that MCC cited scorecard performance as the primary factor for recommending a country, followed by factors such as political stability, completion of an economic constraints analysis, and support of the government. However, based on our review, information from substantial implementation of a Threshold Program was not a factor.

Two of the four countries that MCC recommended for movement to compacts prior to Threshold Program project implementation—Nepal and Sri Lanka (valued at roughly \$980 million combined)—experienced delays. In December 2020, MCC’s Board of Directors decided to discontinue the compact with Sri Lanka.

In 2011, MCC recommended Nepal for the Threshold Program, citing its performance on the policy indicators on MCC’s scorecard and an opportunity to learn about Nepal’s capacity to manage and implement a complex program. In 2014, while acknowledging

capacity as a challenge to implementing a compact, MCC recommended Nepal for a compact valued at \$500 million despite the country never implementing projects in its Threshold Program. The government of Nepal signed a compact agreement in September 2017; however, progress on the compact stalled after the government of Nepal broke its commitment to ratify the compact agreement by September 2019. According to MCC, the agency has not established a new date to start the compact, but MCC was continuing to work with the government of Nepal and its partners there to meet necessary conditions prior to starting the compact.

In 2015, MCC recommended Sri Lanka for a Threshold Program and then a compact the following year, noting its political stability and commitment to partnering with MCC. The Sri Lankan Cabinet of Ministers fulfilled the requirement to formally approve the compact on October 29, 2019, after MCC's Board of Directors approved a \$480 million compact with Sri Lanka on April 25, 2019. However, following the Sri Lankan presidential election in November 2019, engagement with the new government over the proposed compact was complicated by political dynamics and disinformation campaigns, according to MCC. In December 2020, the Board of Directors voted to discontinue the compact with Sri Lanka.

By recommending Nepal and Sri Lanka for compacts prior to Threshold Program implementation, MCC missed an opportunity to learn and assess its partnerships and risks with them with a smaller, 2- to 4-year investment before committing to a full-scale compact, which MCC stated as an objective of the Threshold Program in its 2010 and 2015 memos to the board. Further, MCC stated that the Threshold Program used a rigorous, evidence-based approach to implement high-quality programs and lay the foundation for larger funding, which MCC could not obtain from partner countries in these cases. According to MCC, the political and economic dynamics within a partner country can impact project design, results, and sustainability of a compact. However, without gathering this information during Threshold Program implementation, MCC will have more difficulty evaluating the quality and risks of partnership before entering a compact, which could result in delays during the congressionally defined 5-year compact period and impact the sustainability of MCC investments.

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## CONCLUSION

The Threshold Program gives MCC an opportunity to assess partner countries' commitment to broad policy and institutional reform, such as just and democratic government, economic freedom, and investments in their people. Partner countries' performance in the program can provide MCC with critical information on country capacity to implement projects and an awareness of political and economic dynamics that may pose risks to further investment. Although MCC captured information on individual projects in the Threshold Program, without processes that ensured the program was meeting its overall goals, MCC could not determine the effectiveness of the overall program and its ability to identify potential risks with working with Threshold Program partner countries for future compacts. In addition, by formally assessing BRIA's information needs, MCC could seize an opportunity to provide

comprehensive information to the board and take full advantage of smaller investments before moving to larger compact investments in the future. Finally, the lack of guidance on the substantial progress countries should demonstrate before MCC recommends them for compact selection increased the risk to the success of compacts as countries may not have implemented the necessary policy reforms while in the Threshold Program. By addressing these concerns, MCC would enhance transparency and better ensure accountability for Threshold Program results.

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## RECOMMENDATIONS

To measure the effectiveness of the Threshold Program, we recommend the Threshold Program division:

1. Develop and implement a process that clearly defines performance indicators with targets for the overall threshold program objectives, as well as a method to track and assess performance indicators to demonstrate the extent to which the Threshold Program is meeting its targets and achieving its overall objectives.

To enhance communication on ongoing progress of Threshold Programs, we recommend the Department of Congressional and Public Affairs:

2. Assess the Board Representatives Interagency Advisory's information needs—including the types and frequency of communication—and develop a plan to address any identified information gaps.

To clarify the importance of substantial implementation prior to considering countries for compact eligibility, we recommend that MCC:

3. Define “substantial implementation” for Threshold Programs and develop and implement a process for informing the MCC Board of Directors on the progress made toward substantial implementation by countries implementing a Threshold Program, when such a country is recommended for compact eligibility.

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## OIG RESPONSE TO AGENCY COMMENTS

We provided our draft report to MCC on June 9, 2021. On July 16, 2021, we received the agency's response, which is included as Appendix C of this report. MCC also provided technical comments with its response, which we considered and incorporated into the report, as appropriate.

The report includes three recommendations. We consider one of them resolved but open pending completion of planned activities (recommendation 2), and two of them open and unresolved (recommendations 1 and 3). For recommendation 1, we do not acknowledge a management decision because the course of action does not respond to the recommendation, and MCC did not provide a final action target date.

Concerning recommendation 3, MCC agreed that defining "substantial implementation" of a Threshold Program would be useful. However, it also voiced concern based on its interpretation of the remainder of the recommendation included in our draft report. After considering MCC's comments, we revised recommendation 3, as presented in this final report. MCC may submit its management decision on this recommendation for the OIG to consider.

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## APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from September 2019 through June 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives were to determine the extent to which MCC had (1) assessed progress on the Threshold Program's overall objectives, (2) provided comprehensive performance information to the Board of Directors to consider when selecting partner countries for compacts, and (3) fully assessed Threshold Program implementation before recommending countries to the board for compact selection.

To address our objectives, we chose the 12 countries that MCC selected for Threshold Programs from 2011 to 2019. During these years, MCC committed roughly \$172 million in funding for Threshold Programs for projects in multiple sectors, such as power, government transparency, and water and sanitation. We did not rely on computer-processed data to answer our objectives.

In planning and performing the audit, we assessed and gained an understanding of the internal controls that were significant to the audit objectives. Specifically, we designed and conducted procedures related to two internal control principles under two of the five components of internal control as defined by the U.S. Government Accountability Office (GAO).<sup>11</sup> These included the Risk Assessment (principle 6) and Information and Communication (principle 15).

To examine the extent to which MCC assessed progress on the Threshold Program's overall objectives, we reviewed Threshold Program memos from 2010 and 2015 to identify the objectives of the program. In addition, we reviewed MCC's strategic plan from 2016 to understand how MCC intended to utilize the Threshold Program to achieve its objectives. We reviewed MCC's Annual Financial Reports from 2015 through 2019 to determine in what ways, if any, MCC reported on the results of the Threshold Program to Congress. We also reviewed semiannual program reviews for Guatemala, Honduras, Kosovo, and Sierra Leone to examine the extent to which the Threshold Program division used data from performance indicators from Threshold Program implementation to assess the Threshold Program's overall objectives. We analyzed indicator tracking tables from Quarterly Disbursement Request Packages (QDRPs) for Guatemala, Honduras, Kosovo, and Sierra Leone to identify and review performance indicators and associated data. At the time of our analysis, these four countries had started implementing projects in their Threshold Programs and reported data on the performance indicators as part of their QDRPs. We compared the performance indicators from the indicator tracking tables with the program goals from the constraints analyses that partner countries completed to determine the extent to which

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<sup>11</sup> GAO, "Standards for Internal Control in the Federal Government," September 2014.

the performance indicators corresponded to the overall objectives of the Threshold Program. Finally, we interviewed officials in the Threshold Program division and Regional Threshold Directors from MCC in Guatemala, Kosovo, and Sierra Leone to understand their processes for overseeing Threshold Programs implemented by partner countries and the extent to which they assessed the overall Threshold Program against its objectives. We selected these three countries because they had projects that were currently in the Threshold Program's implementation phase as well as resident directors who could provide insight into operations in country. We determined that the risk assessment component of internal controls was significant to this audit objective and compared this information to federal internal control standards. We also interviewed officials in the Division of Monitoring and Evaluation to understand (1) the significance of tools it used to monitor Threshold Programs implemented by country partners, (2) the processes the division used to ensure data quality that partner countries produced to support third-party evaluations, and (3) the division's role in assessing the overall Threshold Program against clearly defined objectives.

To determine the extent to which MCC provided comprehensive performance information to the Board of Directors to consider when selecting partner countries for compacts, we surveyed 16 Board Representatives Interagency Advisory (BRIA) group members who served on BRIA from 2016 to 2020 and received responses from 15 of 16 BRIA members. We did not generalize the results of our survey, as the BRIA dates back to 2006 and obtaining a universe of current and former BRIA members was not practical for our purposes. Instead, we selected a time frame (2016 to 2020) that would allow us to survey the most recent members who had both current and historical knowledge of BRIA and its operations. We compared the results of the survey with Federal internal control standards related to external communication. We determined that the information and communication components of internal controls were significant to our audit objective, along with the overall principle that management should periodically evaluate an entity's methods of communication so that the organization has the appropriate tools to communicate quality information throughout, and outside of, the entity on a timely basis. Following the survey, we conducted structured interviews with five respondents to obtain additional information based on their responses to open-ended questions in the survey. To develop the survey, we reviewed notes from BRIA meetings from 2017 to 2020 and interviewed three BRIA members. We pretested the survey instruments with three officials from USAID OIG. We also interviewed officials from MCC's Threshold Program division and the Selection and Eligibility division to obtain information on MCC's processes for informing the board on countries with Threshold Programs.

To examine the extent to which MCC fully assessed Threshold Program implementation before recommending countries to the board for compact selection, we conducted a qualitative analysis of the briefing materials MCC provided to the Board of Directors from 2010 to 2019. Specifically, we analyzed statements from MCC CEO memos, country prospectuses, and policy summaries for Threshold Programs from the years when Cote d'Ivoire, Kosovo, Nepal, Sri Lanka, and Timor-Leste moved to compacts. In addition, we identified factors that MCC used to support its recommendations to move countries from Threshold Programs to compacts and coded each statement to

determine what factored into compact selection decisions. We also reviewed the prospectus for Sierra Leone. We interviewed officials from the Threshold Program division and the Selection and Eligibility division to obtain information on MCC's process for recommending countries for Threshold Programs and compacts, and the extent to which a country's performance in the Threshold Program contributed to the process.



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## APPENDIX B. SURVEY OF BOARD REPRESENTATIVES INTERAGENCY ADVISORY MEMBERS

OIG administered a web survey to BRIA members who had served at some time between 2016 and 2020. The survey launched on June 29, 2020, and we closed the survey on July 17, 2020. Initially, we planned to conduct structured interviews with BRIA members; however, we changed our methodology to a web survey due to the onset of the COVID-19 pandemic. We received responses from 15 of 16 BRIA members for a nearly 94 percent response rate. The survey included questions on BRIA members' information needs regarding a country's Threshold Program and their satisfaction with communication on Threshold Programs from MCC. Questions 1 through 5 asked for biographical information from respondents, including the amount of time respondents had served as BRIA members, the number of meetings they attended, and their status as a current or previous BRIA member. Questions 6 through 25 are detailed in the following pages.

6. How satisfied are you with the type of information MCC provides to you on a country's performance in a Threshold Program?
  - o Very satisfied
  - o Somewhat satisfied
  - o Neutral
  - o Somewhat dissatisfied
  - o Very dissatisfied
  - o No basis to judge
  
7. To what extent do you agree or disagree with the following statements regarding the information that MCC provides on the performance of Threshold Programs in countries?

	<b>Strongly agree</b>	<b>Somewhat agree</b>	<b>Neither agree nor disagree</b>	<b>Somewhat disagree</b>	<b>Strongly disagree</b>	<b>No basis to judge</b>
<b>MCC provides adequate information on the status of implementation in current threshold programs.</b>						
<b>If delays in implementation occur, MCC provides information on the causes of those delays.</b>						

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	<b>Strongly agree</b>	<b>Somewhat agree</b>	<b>Neither agree nor disagree</b>	<b>Somewhat disagree</b>	<b>Strongly disagree</b>	<b>No basis to judge</b>
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**If delays in implementation occur, MCC provides information on the impact of those delays on the threshold program.**

**MCC provides the results of evaluations of threshold programs when they become available.**

8. What other information, if any, would you like to receive from MCC on the performance of Threshold Programs?
9. To what extent do you agree or disagree with the following statements regarding the usefulness of information on a country's performance in a Threshold Program?

	<b>Strongly agree</b>	<b>Somewhat agree</b>	<b>Neither agree nor disagree</b>	<b>Somewhat disagree</b>	<b>Strongly disagree</b>	<b>No basis to judge</b>
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**Information on performance in a threshold program impacts your deliberation for compact selection.**

**The results of evaluations on threshold programs are important information for deliberations during compact selection.**

**Threshold program performance has minimal influence on compact selection.**

10. To what extent do you agree with the following statements?

	<b>Strongly agree</b>	<b>Somewhat agree</b>	<b>Neither agree nor disagree</b>	<b>Somewhat disagree</b>	<b>Strongly disagree</b>	<b>No basis to judge</b>
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**MCC makes clear the goals of the threshold program.**

	<b>Strongly agree</b>	<b>Somewhat agree</b>	<b>Neither agree nor disagree</b>	<b>Somewhat disagree</b>	<b>Strongly disagree</b>	<b>No basis to judge</b>
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**Threshold program investments may lead to success in compacts.**

**MCC leverages threshold program performance to support compact selection recommendations.**

11. How satisfied are you with the level of detailed information that MCC provides on the performance of Threshold Programs?
- Extremely satisfied
  - Somewhat satisfied
  - Neither satisfied nor dissatisfied
  - Somewhat dissatisfied
  - Extremely dissatisfied
  - No basis to judge
12. If you are dissatisfied with the level of detail provided by MCC, what further details would you like to receive on Threshold Program performance? Please include all additional details that would be helpful and be specific.
13. Would additional Threshold Program partner country information aid in the deliberation process to select a country for a compact?
- Definitely yes
  - Probably yes
  - No opinion
  - Probably not
  - Definitely not
14. If yes, what additional Threshold Program partner country information would aid you in the deliberation process?
- A bit more granular information on partner country capacity and how a Threshold Program addresses weaknesses in partner country scorecard performance would be welcome
  - Any relevant resources, quarterly updates from MCC country teams for status updates
  - Evaluations would be helpful, but often this is not possible because countries are sometimes selected before evaluations are available

- o Don't have a general answer, depends on the country-specific context
15. Have you requested additional Threshold Program partner country information from MCC?
- o Yes
  - o No
16. If you have requested additional information, how responsive did you feel MCC was in providing that information?
- o Very responsive
  - o Somewhat responsive
  - o Neutral
  - o Somewhat unresponsive
  - o Very unresponsive
  - o No basis to judge
17. If you have requested additional information, to what extent do you feel that MCC provided information with sufficient detail in response?
- o To a great extent
  - o To some extent
  - o To a small extent
  - o Not at all
  - o No basis to judge
18. In your view, what factor, or factors, beyond scorecard performance are important to consider when selecting eligible Threshold Program countries for compacts?  
Please click and drag on the factors below to rank them in order of importance.

	1	2	3	4	5	6
<b>Threshold program performance</b>						
<b>Investment climate/ Opportunities for economic growth</b>						
<b>Governance/Political stability</b>						
<b>Quality of partnership</b>						
<b>Country's action taken to improve scorecard performance</b>						
<b>Other. Specify:</b>						

19. What partner country information do you communicate to the board member you represent? Select all that apply.
- o Threshold Program performance
  - o Scorecard performance
  - o Quality of partnership
  - o Investment climate/Opportunities for economic growth
  - o Governance/Political stability
  - o Other. Specify:
20. Based on your experience, how frequently does MCC update BRIA on the performance of Threshold Programs currently in implementation?
- o On a routine basis during BRIA meetings
  - o During BRIA meetings, but only when that information is necessary
  - o MCC rarely updates BRIA on Threshold Programs in implementation
  - o Other. Specify:
21. What challenges, if any, have emerged during the interagency process? Select all that apply.
- o No challenges have emerged
  - o Challenges with communication
  - o Challenges with sufficiency of information
  - o Challenges with access to information
  - o Other. Specify:
22. Please elaborate on the challenges that you have experienced.
23. How were those challenges addressed?
24. What works well with the interagency process?
25. Please provide any other comments that will help us better understand the BRIA process in relation to providing decision-making information.

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## APPENDIX C. AGENCY COMMENTS



DATE: July 16, 2021

TO: Gary Middleton  
Director, Millennium Challenge Corporation Performance Audits  
Office of Inspector General  
United States Agency for International Development

FROM: Aysha House /s/  
Vice President  
Department of Congressional and Public Affairs  
Millennium Challenge Corporation

Thomas Kelly /s/  
Acting Vice President  
Department of Policy and Evaluation  
Millennium Challenge Corporation

SUBJECT: Management Response to the Draft Audit Report, “MCC Should Do More to Assess the Threshold Program’s Progress in Achieving Its Overall Objectives,” dated June 9, 2021

The Millennium Challenge Corporation (MCC) appreciates the opportunity to review and comment on the draft audit report by the Office of Inspector General (OIG), “MCC Should Do More to Assess the Threshold Program’s Progress in Achieving Its Overall Objectives,” dated June 9, 2021. MCC believes the report accurately presents aspects of threshold programs that will be useful to MCC. However, MCC disagrees with some of the conclusions and recommendations as set forth in this response. Additional comments have been provided in an Annex to this response.

The audit report sets forth three recommendations. MCC provides our response and corrective action plan for each recommendation below.

## **OIG's Recommendation #1**

*To measure the effectiveness of the Threshold Program, we recommend the Threshold Program Office:*

*Develop and implement a process that clearly defines performance indicators with targets for the overall threshold program objectives, as well as a method to track and assess performance indicators to demonstrate the extent to which the Threshold Program is meeting its targets and achieving its overall objectives.*

### MCC's Response

In the report, OIG concludes that, "without processes that ensured the program was meeting its overall goals, MCC could not determine the effectiveness of the overall program and its ability to identify potential risks with working with Threshold Program partner countries for future compacts." OIG is correct in its finding that MCC primarily measures performance for threshold programs at the country level rather than the overall program objectives stated in the 2015 Information Memo to the Board. The intent of the 2015 Board memo was to describe MCC management's approach at the time to use the Threshold Program as a flexible tool that provides promising candidate countries with a potential gateway to compact eligibility. The 2015 memo was not intended to set measurable performance objectives and targets for the program as a whole, but rather to describe the benefits that a threshold program can provide to individual countries and MCC.

Ultimately, compact eligibility decisions are made by the Board on a country-by-country basis, not based on whether the threshold program overall is meeting its objectives. It is much more useful to measure performance at the individual program level rather than the program overall. Each country threshold program is very sector- and context-specific and programs do not lend themselves easily to common indicators and measures. Furthermore, the portfolio is small and sample size will always be limited. Trying to measure the objectives in the 2015 memo across the portfolio in very different sectors would not in MCC's opinion yield very useful information and risks drawing conclusions from limited and uncertain data.

MCC is in the process of identifying a set of agency-wide strategic priorities to shape MCC's work over the next four years. As part of this process, MCC may reassess the approach to the threshold program as described in the 2015 memo. Pending this reassessment, MCC will then develop a method to track and assess performance indicators to demonstrate the extent to which the Threshold Program is meeting its targets and achieving its overall objectives. MCC will develop indicators and targets no later than six months after establishing new agency-wide strategic priorities; provided that if the agency decides to undertake a broader reassessment of the Threshold Program as part of these new strategic priorities, this timeline may need to be extended.

## **OIG's Recommendation #2**

*To enhance communication on ongoing progress of Threshold Programs, we recommend the Office of Congressional and Public Affairs:*

*Assess the Board Representatives Interagency Advisory's information needs—including the types and frequency of communication—and develop a plan to address any identified information gaps.*

### MCC's Response

The second conclusion in the report is that, by formally assessing BRIA's information needs, MCC could seize an opportunity to provide comprehensive information to the board and take full advantage of smaller investments before moving to larger compact investments in the future. MCC believes the report does not adequately reflect the amount and quality of information that MCC staff provide to the BRIA. MCC also disagrees with the recommendation to the extent that it requires a broad assessment of BRIA information needs. In response to the recommendation, MCC will conduct a narrower assessment of what additional information BRIA needs regarding threshold programs specifically, and develop a plan to address information gaps, including the content and frequency for providing additional information. MCC will complete this final action no later than 180 days from the issuance of the report.

## **OIG's Recommendation #3**

*To clarify the importance of substantial implementation prior to considering countries for compact eligibility, we recommend that the Threshold Program Office:*

*Define "substantial implementation" to ensure that countries demonstrate progress in policy reforms in the Threshold Program before recommending them for compacts.*

### MCC's Response

The third conclusion of the report is that "the lack of guidance on the substantial progress countries should demonstrate before MCC recommends them for compact selection increased the risk to the success of compacts as countries may not have implemented the necessary policy reforms while in the Threshold Program." MCC agrees that defining "substantial implementation" of a threshold program would be useful. MCC does not concur, however, with the recommendation that MCC "ensure that countries demonstrate progress in policy reforms in the Threshold Program before recommending them for compacts." This new requirement, if implemented by MCC, would be inconsistent with the Millennium Challenge Act of 2003 (Act), as amended, as well as the Selection Criteria and Methodology Report (SCMR) that the MCC Board of Directors (Board) approves each year, neither of which require substantial implementation of a threshold program prior to compact selection. This new criterion would unduly impinge upon the decision-making authority of MCC's Board given to it under the Act. MCC will comply with the recommendation to define



“substantial implementation” to ensure that information regarding country progress on policy reforms in the threshold program is fully captured and communicated to the MCC Board of Directors when considering a Threshold Program country for compact eligibility. MCC will complete this final action within 180 days from the issuance of the report.

MCC appreciates OIG’s commitment to improving MCC’s programs and shares OIG’s interest in mitigating risks for the prudent use of public resources. MCC looks forward to working closely with OIG auditors on future engagements to achieve timely audits with original solutions that enhance the benefits of MCC’s investments for the beneficiaries in our partner countries.

If you have any questions, please contact Aysha House at 202-521-4089 or [housear@mcc.gov](mailto:housear@mcc.gov), or Thomas Kelly at [kellytj@mcc.gov](mailto:kellytj@mcc.gov) or 202-521-3710.

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## **APPENDIX D. MAJOR CONTRIBUTORS TO THIS REPORT**

The following people were major contributors to this report: Gary Middleton, audit director; Rhonda M. Horried, assistant director; Kyerion Printup, lead analyst; Cyrelle White, analyst; and Tifani Dyson, analyst.