Honduras Field Report
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Honduras was the second country to sign a compact with the Millennium Challenge Corporation (MCC). It was also second in terms of when its compact "entered into force" (EIF).[2] Despite this early start, Honduras is last among Millennium Challenge Account (MCA) countries with regards to meeting disbursement targets. Delays in program implementation and disbursement are due primarily to premature entry into force. The official compact period began before key program designs and structures were in place, and on the cusp of a major political transition. MCA Honduras (MCAH)[3] has thus been playing catch up, trying to finish program design, staff up, create standard documents and procedures, secure buy-in from the new government, meet pre-conditions of policy change, implement programs, and try to close the timeline gap all at the same time.

This has created a number of interrelated risks for MCAH. The most fundamental risk is the ability to deliver implementation results on a compressed timetable without sacrificing quality and core program principles. For example, in an effort to accelerate operations will the MCAH relax policy pre-conditions and safeguards (such as resettlement plans); or will it stand firm on conditions even at the expense of not reaching program goals within the five-year timeline of the compact? This risk is exacerbated by weak government buy-in (of a newly-elected administration) that has made it particularly hard (and slow) to meet policy pre-conditions. The pace of progress has been further slowed by over-zealous oversight and risk management on the part of MCC Washington. To top it off, the MCAH's intense focus on catching up and getting things done has led it to spend insufficient time and effort in building better relations with civil society, a core element of the MCA approach.

The MCAH faces a formidable set of risks. The good news is that even in this difficult context, MCAH's early program interventions are excellent. They include an impressive approach to increase farmers' productivity and connections to markets; a strong commitment to getting right a plan for resettlement of people affected by road construction; practical coordination with other donors; and a set of positive steps in institution building and policy reform.

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[1] This report is based on interviews conducted in Honduras in February and March, 2007.
[2] "Entry into force" refers to the point at which the 5-year compact clock starts ticking. At this time disbursements of compact funds may begin.
[3] The MCA program is known in Honduras by its Spanish name—*La Cuenta Desafío del Milenio*. In the interest of consistency with other MCA Monitor field reports, this report refers to the MCA Honduras as MCAH.

A SNAPSHOT OF MCA HONDURAS

In June 2005, the Government of Honduras signed a $215 million, five-year compact with the MCC. The compact has two major components, rural development and transportation.

Rural Development Project ($72.2 million): This component is designed to increase the productivity and business skills of farmers on small and medium-sized farms around the country. It has four parts:

- **Farmer training and development** ($27.4 million): This program is well underway. It is being implemented by Fintrac, a private firm specializing in market-oriented technical assistance to farmers. So far Fintrac is working with about 400 farmers (of the 8,255 that will "graduate" from the program over the life of the compact).
- **Farm-to-market roads** ($21.5 million): This program will upgrade 1,500 km of rural roads and is in the advanced planning stages. In order to select roads in a transparent manner, MCAH has created an inter-institutional committee and is developing a model to estimate economic rates of return for potential road investments that is informed by detailed social, economic and topographical geographic information system (GIS) data. The MCAH expects to have a list of target roads by July 2007.
- **Access to credit** ($13.8 million): This component will provide technical assistance to credit institutions via a contract to be signed in early May, create a guarantee fund and a national lien registry, and most importantly, foster legal reforms to allow for moveable property to be used as collateral. The MCAH is currently working on the legal reform aspect of this component.
- **Agricultural public goods facility** ($8 million): The public goods facility will be available to farmers' groups or communities to invest in agricultural infrastructure such as irrigation or post-harvest storage. The MCAH is in the process of seeking implementers for this program.

Transportation Project ($125.7 million): This component is designed to reduce transportation costs between production centers and national, regional and global markets. It has three parts:

- **CA-5 Highway** ($96.4 million): This activity will widen and improve a 109 km stretch of the CA-5 highway that is part of the logistical corridor that connects central Honduras to ports on both the north and south coasts. The MCC/MCAH are working in conjunction with the World Bank, the Inter-American Development Bank (IADB) and the Central American Bank for Economic Integration (CABEI) that are each funding part of this corridor. The MCAH has hired a private firm (Louis Berger) to be the Transportation Project Manager (TPM). The TPM is working with the Ministry of Public Works, Transport and Housing (Soptravi) to finalize the road designs, while MCAH's Director of Social and Environmental Impact is overseeing the creation of a resettlement plan for those affected along the MCC-funded stretch.
- **Secondary roads** ($21.3 million): This component is designed to pave and improve approximately 90 km of secondary roads. The MCAH Board has approved a list of roads, and MCAH is in process of reviewing designs and preparing bidding documents.
- **Vehicle Weight Control Program** ($4.7 million): This program will improve road safety and extend road longevity by providing the legal framework and physical infrastructure

for the operation of eight weigh stations around the country. Implementation of this project is awaiting a decision by the government as to the legal structure for the system.

(For more information on the MCAH compact, see the Honduras page on the MCC's website: http://www.mcc.gov/countries/honduras/index.php and the MCAH website www.mcahonduras.hn)

Disbursement: While it is officially a year and a half into its compact, the MCAH has disbursed only $5 million of the $90 million target for the first two years (Y1 $27.7 million, Y2 $62.2 million).[4] Disbursement delays are due, in part, to the premature EIF. Because program designs were not completed and basic MCAH structures and staff were not in place at the time of EIF, the MCAH has had to complete planning and recruitment during precious compact time. In addition, shortly after EIF, Honduran elections were won by the opposition party, which brought in a whole new government with little institutional memory or commitment to the MCAH. This essentially stopped the MCAH in its tracks for six months. These issues, as well as other reasons for delay are discussed in the part three of this report.

Honduras is not alone in being behind schedule in disbursements. All MCA countries, with the exception of Armenia, are falling short of initial disbursement goals. While it is clearly essential for the MCC to improve its track record on the pace of expenditures, it is also important that MCC and MCA countries' success not be measured solely or even primarily on disbursement rates. The numbers in disbursement rates are a poor proxy for actual progress in implementation. The next section focuses on early achievements of the MCAH program that are underway even though very little money has been spent.

MCAH PROGRAM SUCCESSES

MCAH is doing a lot right at the programmatic level. The highlights are an impressive approach to farmer training; a solid resettlement plan; practical coordination with other donors; and a set of positive steps in institution building and policy reform.

Farmer Training and Development

The rural development program for farmer training is downright inspiring. A day in the field with participating farmers revealed very tangible improvements that are leading to increased productivity, linkages to more reliable buyers, increases in income, and a lot of pride. The visit also illustrated the wide diversity of farmers involved in the program—from those working over five acres to those joining together to work less than one; and from those exporting to El Salvador to those taking the first step to sell in local markets. The aspect that unites all of these farmers is a commitment to try new technologies and cover the costs of inputs.

[4] See the MCC's March 2007 Honduras Country Status Report (http://www.mcc.gov/countries/csr/Honduras_CSR.pdf)

The implementer of this component, Fintrac, sequences interventions and training based on the producers' existing capacity and resources. The basic interventions are low-cost and low-technology but can double or triple productivity quickly. They include:

- Creating natural barriers (of elephant grass, corn or sorghum, for example) around horticulture fields to attract pests before they reach fields;
- Preparing fields well in advance of planting, allowing time for weed seed to germinate and be removed before planting crops;
- Economizing fertilizer use by delivering fertilizers through the irrigation system for more targeted application and better absorption;
- Economizing pesticide use by setting sticky traps to identify specific pests and apply pesticides accordingly;
- Bolstering plants' natural defenses against pests by applying a solution of vitamins and sugars, thereby reducing the use of harmful and expensive pesticides;
- Designing rudimentary irrigation systems with used rubber tubing bought at reduced prices from larger agribusinesses.

While these interventions are designed to increase productivity and reduce costs, Fintrac also works to increase and improve farmers' connection to buyers of their products and sellers of their key inputs. For example, Fintrac works with sellers to supply local stores with the inputs its partner farmers want (such as specific pesticides rather than the catch-all version most readily available). Fintrac also supports farmers in negotiating more favorable arrangements with buyers by helping keep them up to date on prices and their quality standards high.

Resettlement Plans

The MCAH-funded segments of the CA-5 upgrade will affect about 300 families, 30 businesses, and 11 other entities such as schools or churches. Of these, only about 20 families will actually have to move their homes; others will be affected in terms of land or small businesses that border the road expansion. Many respondents argued that the MCAH and MCC are raising the bar on resettlement policies in Honduras. In the words of one respondent, they are "going to the mat" on sound principles and high standards for resettlement.

The MCAH is using World Bank guidelines on resettlement that include six steps: a socioeconomic survey of affected people; estimation of costs; negotiation with affected families, business and public facilities; payment of compensation; relocation of affected people; and monitoring of affected people for one year after resettlement to ensure equal or better quality of life. According to a number of respondents, the Government of Honduras (and the World Bank itself) has a poor track record on the fourth and fifth steps, and never does the last. The MCC and MCAH are raising the bar in two ways—insisting on appropriate and timely compensation payments and completing steps one through five before road construction begins.

In many donor-funded programs that have required resettlement (and in the World Bank-funded segment of the CA-5), the Government of Honduras (GoH) has had the responsibility of funding compensation payments to affected people. These payments tend to be low because the GOH calculates compensation using a formula that pays an amount in between the cadastral price of land and the market price. In contrast, The MCC has agreed to fund these payments and will require that MCAH pay compensation for real estate based on market prices, compensate for other losses to income (e.g. payments for lost work days due to construction and relocation) and ensure that compensation payments are timely and fair.

Unlike other donors, the MCC is insisting that road construction not begin on a segment until resettlement for that segment is complete. This obliges the MCAH to pursue a more complicated approach to implementation, starting construction in waves rather than all at once.

The MCAH's approach to resettlement is correct and principled, but it also comes with risks. Because it is a deviation from the traditional GoH approach, it requires a Congressional decree to exempt the MCAH from standard practice. The MCAH expects the decree to be passed by June 2007, thus allowing the MCAH to start negotiating with affected people. But if there are delays, the MCAH will face tough tradeoffs between program progress and program principles. These complex dynamics make the MCAH resettlement plan one of the key things to watch over the next year. The MCAH seems determined to adhere to its high standards, but is not blind to the risk of time pressure that could jeopardize its ability to do so.

Donor coordination

MCAH and Honduras-based MCC officials are promoting coordination among donors in very tangible ways. An official of Soptravi credited the MCC for taking the lead on coordinating the donors funding CA-5 improvements. This group coordinates on issues including road maintenance, weight control, and highway design. In addition, several donors commented that the MCAH has taken the lead on bringing together donors working to increase access to credit. The goal is to ensure that one donor's efforts to reform policy and legal frameworks take place in conjunction with others' investments in capacity building for credit institutions and development of new lending instruments.
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Institution building and policy reform

A key characteristic of MCA programs globally is that they are not just about products (like roads); they are also about process (like institutional strengthening). Honduras offers some good examples of this side of the MCC's approach. Even before spending significant program funds, the MCAH has created an unprecedented inter-agency planning process for rural roads, increased government commitment to better fund and manage national road maintenance, built a coalition for policy change in the financial sector, and helped strengthen the financial management capacity of the Ministry of Finance.

- **Rural roads planning:** The MCAH has created a committee to select the rural roads that will be funded by the MCAH. This brings together the Association of Municipalities, Soptravi, the Honduran Social Investment Fund (FHIS) in the office of the president, the Ministry of Natural Resources, and the MCAH in a joint planning exercise. The committee is using a model designed by the Honduran Center for Social and Economic Research (CIES) to calculate rates of return of roads. The model takes into account, among other things, farmer productivity increases from the MCAH's rural development program, the poverty index of municipalities and the wish lists of municipalities around the country. This formal, transparent, collaborative process for road selection and program planning is new in Honduras, and is setting an excellent example for improved government effectiveness in planning and budgeting.

- **Road maintenance fund:** As a condition for disbursement of MCAH transportation project funds, the GoH must allocate an increasing amount for the next three years to the national road maintenance fund (Fondo Vial) to cover maintenance of all roads, not just those funded by the MCAH. The GoH had agreed that $45 million would be the adequate amount for road maintenance in 2007. However, when the national budget went to the congress, it included only $40 million for the Fondo Vial. As a result, the MCC withheld funding for the transportation project until the GoH provided a written commitment to increase road maintenance funding for the next three years at acceptable levels, starting with $45 million for 2007.

  The MCA program is also helping improve planning and transparency in road maintenance operations in Honduras. In addition to providing adequate funding for road maintenance, the GoH must have a maintenance plan. This requires the Fondo Vial to develop a long term plan that inventories roads and prepare quarterly reports that track maintenance activities. According to one MCC official in Tegucigalpa, the Fondo Vial administration has not shared reporting or planning documents with its supervisory committee in the National Assembly. By requiring that Fondo Vial to develop and abide by a maintenance plan, MCAH will help government officials and public citizens better track the use of Fondo Vial's funds (a desperate need, judging from the corruption allegations against Fondo Vial in local papers recently).

- **Access to credit law:** According to a number of respondents, the creation of a moveable property law and registry is the MCAH activity likely to have the longest and largest transformative impact. Together, the law and the registry will increase access to credit by allowing borrowers to use assets other than land (such as cattle inventories or accounts payable) as collateral. The MCAH has been savvy in working toward this objective, engaging both other donors (such as the World Bank that is working on a bankruptcy law and the IADB that is working to design new financial instruments) and the private sector (such as the Chamber of Commerce) to design and advocate for this new legal framework.

- **Institutional strengthening of Sefin:** The Honduran Ministry of Finance (Sefin) serves as the fiscal agent for the MCAH. The MCAH is one of only three MCA programs worldwide that places the country government in this role. The MCAH's commitment to working through a government entity is an important contribution to building national capacity and should be commended. But it has its challenges. It has taken a lot of work for the MCAH and MCC to get Sefin to meet MCC fiscal accountability requirements in terms of accountability, reporting and speed. It would undeniably be easier and faster just to go around the government and hire a private firm to serve as a fiscal entity, as the MCA programs do in a number of other countries, but this would mean losing the opportunity to invest in the long-term financial management capacity of the government. To strike the right balance between bolstering national systems and meeting the MCC standards, the MCAH has decided to contract an independent fiscal oversight advisor that will help implement the fiscal accountability plan and act as a "third eye" of oversight and quality insurance over Sefin.

RISKS TO MCAH SUCCESS

The core of the MCAH—the actual program approach, is excellent. But it is surrounded by significant risk. Many of the risks derive from the premature EIF of the compact. The MCAH compact entered into force on September 29, 2005—the last day of the 2005 fiscal year in the U.S. The fact that the compact was not fully fleshed out at the time suggests that the MCC accelerated EIF to get in under the wire of the waning fiscal year and thereby increase the tally of obligated funds for 2005.[5] Political motives on the Honduran side may have played a role as well. Facing the end of his term, President Maduro was probably eager to prove his capacity to secure $215 million in development assistance. The short-term political gains of early EIF have been completely eclipsed by the programmatic risks it has created.

What the MCC could have known

The MCC could have known the risks of starting a new program at the cusp of a change of government. Other donors did. Both IADB and World Bank have experienced significant stoppages to their programs, even those that had been running for some time, in past political transitions in Honduras. One World Bank official explained that disruptions in Honduras are among the worst in the region because the country has yet to pass a civil service law that guarantees continuity of professional staff between administrations. This means that everyone from ministers to entry-level technocrats turns over every four years.

One particularly clear example of this is the case of the National Fund for Sustainable Rural Development (Fonaders). Fonaders, an independent unit within the Ministry of Agriculture, was initially selected to be the procurement entity for the rural development program. But in the aftermath of the elections, Fonaders lost most of its staff, including staff that had been assessed as capable of meeting MCC's high standards for procurement. A new evaluation had to wait six months for new Fonaders staff members to get up to speed in their jobs, and then ultimately found Fonaders unfit to play this role. This process unfortunately left some bad blood between the MCAH and the Ministry of Agriculture.

This is just one illustration among many of the implications of premature EIF and not preparing for the foreseeable problems that it could cause. Now the MCAH is left to make the most of the remaining compact time in an enormously constrained, pressured and risky environment.

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[5] In 2005 the MCC was under enormous pressure from Congress to prove that it could move money in order to justify increased budget requests. Full compact funds are "obligated" when the compact enters in force (not at signing).

Compressed time line

In the words of one GOH official, “Time is the number one enemy of the MCAH.” For example, MCAH and Honduras-based MCC describe the transportation project as “very tight” and argue that they have no more than two or three months for slippage. Given the notoriety of delays in major infrastructure projects, this buffer seems very thin. Add to this the complications of a diligent resettlement process, and the situation becomes very tenuous. The test will come if and when the MCAH has to choose between keeping road construction on time versus completing the resettlement process as promised. The MCAH could technically request an extension on the compact, but this would require approval by the US Congress which already has a very low tolerance for MCC delays.

A side effect of the compressed time line is that, according to a number of respondents, “The MCAH is so worried about making up lost time on execution that they are not looking at the bigger picture.” In this case, the “bigger picture” includes fostering better civil society engagement and sharing information more effectively with government ministries.

Weak government buy-in

The MCAH compact is designed so that policy and planning milestones trigger program disbursements. Transparent selection of rural roads, funding of the Fondo Vial, passage of the access to credit law, and creation of a legal framework for a vehicle weight control system are all examples of this. These stipulations are good in that they create a foundation for sustainability and impacts beyond the life of the compact. But these factors, combined with the reliance on Sefin, means that the MCAH is “knee deep in the government framework,” and “can only run as fast as the government is running.” This would be okay if the government were fully on board, as in Madagascar where the government has the reputation of accelerating reforms necessary for MCA programs. But in Honduras, where the current government inherited the MCAH from the previous administration, weak government buy-in can cause significant delays. In addition, little institutional depth within government ministries means that each legal, regulatory, planning or budgetary step requires the leadership of ministers or vice ministers.

Examples of this weak government buy-in include: the Fondo Vial, for which it has been like pulling teeth to get the Minister of Finance to come up with the remaining $5 million to meet the 2007 funding level; a reluctance of the new Ministry of Agriculture to engage with MCAH, partly due to the Fonaders situation; and some GOH foot-dragging on legal reforms for the vehicle weight control program (partially due to political pressure from cargo companies opposed to the changes) and the resettlement plan (partly due to fear of precedent). In contemplating these delays, one GOH official exclaimed, “Imagine if we can’t make it happen to take their money! Our government is inefficient!”

The good news is that MCAH is working hard to strengthen relations with the government. It recently hired a communications and outreach specialist who not only aims to increase awareness among the public, but also among government officials. The campaign is apparently starting to work. In the period since interviews were conducted for this report, the President has accepted an MCAH invitation to visit program beneficiaries, and the Ministry of Agriculture has begun to reach out to the MCAH. These are good signs of improving relations, but the real test will be if the GOH steps up to the plate on moving the policy reforms that are conditions for program progress and disbursement.

Weak civil society outreach

In many countries the primary mechanism for ongoing engagement with civil society (after compact development) is the country-level MCA board of directions. The theory is that civil society members of the board will foster exchange of information between broader civil society and the MCA country programs. In most countries this is easier said than done, and Honduras is no exception. Partly because it is so focused on making up for delays, the MCAH has not taken the time to think through how to improve ongoing outreach, nor have board members taken it upon themselves to do so. This is due to several factors. First, the MCC and MCAH did not initially set clear expectations about the role of the board, and what responsibilities, if any, the civil society representatives have to forge continued exchange with the public. Second, there is little clarity about who (MCAH or civil society groups) is expected to provide resources for outreach. And third, it seems like the MCAH just has some of the wrong groups on the board. For example, one of the groups, the *Foro Nacional de Convergencia* (FONAC) does not represent civil society at all. It is a government-initiated group designed to foster dialogue between the government and civil society. The executive director is appointed by the national president and all operating costs are covered by the government. This is a lost opportunity to fill a board seat with a more legitimate representative of civil society concerns.

One civil society leader asserted that the MCAH is missing opportunities for engagement with civil society by not using existing local structures to disseminate information and gather input. For example, Honduras has five regional forums that convene civil society and local authorities in development planning and oversight. Originated to develop regional poverty reduction strategies to complement the national Poverty Reduction Strategy (PRS), several non-governmental organization (NGO) leaders argued that these forums are strong, coordinated and a credible resource for public dialogue.

As with government relations, there are some signs of progress here too. The communications and outreach campaign will presumably complement the board's role and help spread information to those who want it. In addition, the MCAH director has recently scheduled a meeting with a highly respected NGO leader (not currently represented on the MCAH board) who is full of ideas for how the MCAH can improve relations with civil society. But these steps are just a beginning. There is still a lot of room for improvement in this aspect of the Honduran MCA program.

Honduras is not alone in struggling with ways to foster ongoing outreach with civil society. All countries covered by the MCA Monitor (with the notable exception of Nicaragua) are experiencing the same challenges. Honduras is yet another reminder that the MCC should offer MCA country programs clearer standards, guidance and support for managing ongoing relations with civil society.[6]

[6] This issue is discussed in detail in the Madagascar and Nicaragua MCA Monitor field reports.

Overzealous MCC risk management

While the MCC has been fairly bold and risk-tolerant in terms of its big investments (especially infrastructure), it tends to be rather risk-averse when it comes to program implementation. This translates into overzealous oversight of country programs by Washington MCC staff, and ultimately, to slower progress toward program goals. This is very much at play in Honduras, but the country is far from alone in this regard.

Excessive Washington oversight in the procurement approvals process has come up in all three of the implementing countries covered by MCA Monitor (Madagascar, Nicaragua and Honduras). The MCC has been working with a seven-step approvals matrix for procurements that requires approval from at least three different Washington-based MCC staff in each of the seven steps. This means that every procurement takes months. Not only does this cause delays, it undermines ownership among MCAH staff and the authority of the MCC resident country director (RCD). One MCAH official exclaimed, "They play a role in everything. It feels like they are working with us here in the office!" And in the words of one private sector respondent, it is a "shameful waste of resources to have an MCC RCD in Honduras and not empower him to approve anything!"

Thankfully, the MCC is well-aware that the cumbersome approvals process has delayed program progress and disbursements in MCA countries across the globe. The MCC is on the verge of implementing a new approvals matrix which will hopefully strike a better balance between risk management and program efficiency. Ideally it will delegate more authority and discretion to the MCC officials in the field on lower-risk steps in the procurement process (such as initial expressions of interest) while keeping MCC oversight where necessary to avoid major errors (such as technical reviews).

While procurement is on track to be more efficient, the MCC retains approval rights on program design, hiring decisions and other operational details. This kind of meticulous oversight has led MCA staff in several countries to say that Washington-based MCC staff tend to lose sight of the forest for the trees. This is partly because so many individuals (sectoral, monitoring and evaluation, financial management, etc.) are focused on oversight and accountability for their particular aspects of the compact, and there is insufficient emphasis on keeping the big-picture vision in mind. One astute MCC official made the comment that, "The problem prevents the problem from being solved." This is because so many decisions are made by consensus, or at least require approval from a wide variety of MCC staff, and naturally no one votes to relinquish their own power of approval. Therefore even the decision to streamline decision-making is impossible to make.

CONCLUSION

The MCAH is operating in a very risky environment. The disbursement delays, weak government buy-in, poor civil society relations, and intense MCC oversight will make it hard for this program to meet its goals within the five-year timeline of the compact. But despite these formidable challenges, the core MCAH program interventions and policy and planning work are excellent. This combination of factors in Honduras offers a number of lessons that apply broadly to MCC policy and practice.

Entry into force should await establishment of key program structures. The indisputable major lesson from the Honduras experience (which is backed by the Madagascar and Nicaragua experiences) is that the MCC and MCA countries should avoid rushing entry into force. They should instead favor the early establishment of key program structures (such as complete program designs, a baseline staff level, a set of standard operating documents, identification of fiscal and procurement entities, baseline data and evaluation measures, etc.). The MCC is learning this lesson. In the recent cases of Ghana and El Salvador, for example, periods between compact signing and EIF have been longer, and the MCC stuck to its guns on tough conditions precedent in Ghana that Ghana wanted to change. But the MCC will continue to be under pressure from the US Congress to obligate and disburse funds. The Honduras case serves as a reminder of the detrimental implications of bowing to pressures to get programs running too quickly. The MCC can buffer against some of these pressures by having clearer guidance about what, beyond country-specific conditions precedent, countries must have in place before EIF. The MCC should complement this by utilizing available resources to finance design, feasibility, evaluation and limited operational needs critical to operational effectiveness before entry into force in order to fully use the compact time period to deliver program results. The MCC, for instance, allocated a small portion of signed and committed compact funds to Georgia, Armenia and Nicaragua before EIF to help with staffing, legal services, and the conclusion of other activities necessary for entry into force. Resources obligated for compact development to facilitate baseline surveys and project assessments in the months before signing have also proved helpful for countries like Madagascar, Nicaragua, Ghana, Cape Verde and Mali, not only for compact development, but also for making headway toward required pre-EIF steps.

Disbursement is not the only measure of progress. While disbursement delays in Honduras are worrisome, they should not be the only, or even the primary, measure of progress. In fact, the excellent program achievements discussed in this report (that have parallels in other MCA countries) are evidence that the MCC and country programs have a lot to show for themselves despite low disbursement rates. While the MCC will never escape some focus on disbursements as a key measure of progress, the discussion of progress should be wider. MCC observers, including the U.S. Congress, should also consider how much MCA programs have accomplished even before major expenditures have begun. For its part, the MCC could be doing a much better job of measuring and communicating these early accomplishments.

Working through governments is worth it. It would be tempting, in light of the delays in Honduras, to argue that the MCA programs should not work through existing country mechanisms or government structures. This would be a mistake. Some argue that Sefin's prominent role in the Honduras MCA program has slowed some things down, and the initial selection of Fonaders made it especially hard to manage the political transition. It is also true that in Nicaragua the MCA program sailed through a political transition unscathed partly because it is administered by an independent foundation and the fiscal entity is a consulting firm. But if the MCC is going to live up to its goal of being transformational, it cannot make a practice of skirting government mechanisms. National capacity building and institutional strengthening will be an important part of the MCC legacy. The point here is not that the MCC should *always* work through existing government entities, though it should always try to partner with them. The MCC should have the flexibility to design program structures according to country conditions and capacities and make these choices based on priorities other than just speed of implementation. The MCC also tries to strengthen government systems by setting policy and planning reforms as triggers for disbursement. This can slow progress in even the most efficiently governed countries. But the unquestionable upside of taking time for these reforms is the improved practices that will yield benefits long beyond the life of MCA compacts.

So, just as disbursement is not the only measure of progress, neither is speed. Again, the MCC could be doing a much better job of measuring and communicating “intangible” achievements, especially in the first year of compacts. The MCC got caught off guard in the first round of countries, not anticipating the need for so much capacity building. By now it should know what to expect in this regard, and be explicit about its interest in supporting government systems and capacities. The MCC now has the opportunity to better define, measure and communicate compact activities that include capacity building, institutional strengthening, improved planning processes, and other intangibles that underlie the success of compact investments.