

**MEMORANDUM OF UNDERSTANDING**  
**BETWEEN**  
**THE MILLENNIUM CHALLENGE CORPORATION OF THE UNITED STATES**  
**AND**  
**THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT OF THE UNITED KINGDOM**

The Millennium Challenge Corporation (MCC) and the Department for International Development (DFID) share the objective of helping developing countries reduce poverty, increase growth and improve the lives of their people. Both put country ownership at the center of their assistance and support lower income countries in their efforts to improve governance, to adopt policies that support sustainable development, and to achieve the Millennium Development goals.

In the spirit of the Paris Declaration on Aid Effectiveness, MCC and DFID hereby endeavor to set forth ways to reinforce ongoing cooperation and to open new avenues for making their assistance more effective through greater collaboration.

MCC and DFID will seek, wherever possible, to:

- share analyses and ideas,
- understand and complement each other's programs,
- continue efforts to promote country leadership and to strengthen institutional capacity of mutual partners in a coherent, collaborative, complementary manner,
- work together to improve the predictability and visibility of MCC and DFID financing to the governments of recipient countries,
- where applicable and useful, promote and take part in codes of conduct of donor behaviour, which promote predictability, transparency, alignment with national plans, and rigorous and transparent performance monitoring, and
- work in country to improve the quality and availability of data for monitoring development policies, efforts and effectiveness.

**Areas of Cooperation and Collaboration**

Specific efforts to strengthen collaboration will focus on the areas set forth below and described in more detail in the Annex to this memorandum.

**Increasing Country Specific Cooperation:** In countries in which they both have active programs, MCC and DFID will seek out opportunities for greater cooperation, such as the following:

- **Ghana:** help improve the education sector and strengthen the national statistical service.
- **Malawi:** undertake joint analytical work, share information as Malawi develops its Compact proposal, and continue anti-corruption and governance activities started in Malawi's MCC Threshold Program.
- **Mozambique:** undertake parallel programs and policy work in land rights; pursue alignment and support capacity building and policy reform in the water and roads sectors.

- **Tanzania:** collaborate on governance issues, including the Construction and Transparency initiative (COST); work together in the transport, energy and water and sanitation sectors.
- **Zambia:** align and coordinate anti-corruption initiatives.

**Increasing Technical and Sector Collaboration:** MCC and DFID will seek to identify where collaboration has the potential to improve development results, increase staff knowledge, and pilot new approaches, such as in the following areas:

- **Environment:** help countries develop the capacity to protect their environment and ensure that funded activities do not have adverse environmental impacts.
- **Infrastructure:** improve the capacity for transparent procurement of major projects and augment current infrastructure investments.
- **Growth Diagnostics:** help countries identify constraints to their growth and explore harmonization of approaches to growth diagnostics.
- **Impact evaluations:** jointly contribute to a body of knowledge about what works in development.
- **Statistics:** assist countries in developing their statistical capacity, help speed the availability of data, and allow comparison of various statistical data sources.

**Staff Exchanges:** To provide staff training and better transfer knowledge between the two organizations, MCC and DFID propose to:

- Explore the potential for staff exchanges both long and short term, including at headquarters and in the field.
- Increase the opportunities for technical discussion among staff, especially when they are visiting each others' capitals. Areas targeted for discussion which could lead to further cooperation include private sector partnerships, indicators of country performance in areas such as governance, education and health, support for policy reform, strengthening country systems, and new aid modalities, such as progress-based aid.

## **Review of Progress**

Senior management of MCC and DFID will meet semi-annually to review progress and identify new opportunities for cooperation and collaboration. The first meeting is scheduled to be held in Washington in September or October 2008.

## **Points of Contact**

The offices of donor coordination in each agency will act to coordinate and facilitate activities: for MCC, the Managing Director for Donor and Multilateral Relations and for DFID, the Head of the Donor Relations Department will serve as the primary points of contact for purposes of this memorandum.

This Memorandum of Understanding constitutes an expression of the mutual good faith intent of each of MCC and DFID and does not constitute a legally binding offer or contract. Cooperation between MCC and DFID is subject to their respective policies, procedures and funding constraints.

Signed at London, United Kingdom this 18th day of February, 2008:

**THE DEPARTMENT FOR  
INTERNATIONAL DEVELOPMENT**

**MILLENNIUM CHALLENGE  
CORPORATION**

By: \_\_\_\_\_ / s / \_\_\_\_\_

By: \_\_\_\_\_ / s / \_\_\_\_\_

Honorable Douglas Alexander

Ambassador John J. Danilovich

Secretary of State

Chief Executive Officer

## **Annex to the Memorandum of Understanding between MCC and DFID Details on Areas of Cooperation**

### **Country Specific Collaboration**

**Ghana:** The MCC Compact in Ghana provides the Ghanaian accountable entity funds to rehabilitate and construct schools in the MCC-focus districts. DFID provides sector and general budget support to the education sector to improve the quality of education. Through the operation of the Education Sector Group, MCC and DFID will identify opportunities for collaboration and complementarity.

DFID Ghana and MCC, with others, are also interested in strengthening the capacity of the Ghana Statistical Service. The secondment of a DFID statistician to the World Bank's office in Ghana will create a further opportunity for local debate and discussion to establish opportunities to collaborate in this area.

**Malawi:** As the MCC develops its Compact program in Malawi, MCC and DFID will seek opportunities to:

- Undertake joint analytical work or share the products of work of interest. MCC will review the option of drawing on the World Bank Country Economic Memorandum which is being supported by DFID and the African Development Bank.
- Identify most promising options for continuing anti-corruption efforts and governance activities between Threshold and Compact programmes.

Furthermore, DFID will seek to keep MCC informed of developments in sectors of joint interest, in particular public financial management/ capacity building (building on the on-going Public Expenditure Financial Accountability Assessment - PEFA - and development of a joint donor programme of support) where DFID is currently the joint donor lead.

### **Mozambique:**

- Land Sector: MCC and DFID have agreed to implement parallel programmes to support communities' access and use of their land rights under the framework of one "National Oversight Committee" for land.
- Water Sector: DFID and MCC agree to work together under the framework of the Mozambican government's plans and performance framework in the water sector to support the government scale-up of rural and urban water and sanitation.
- Roads Sector: DFID and MCC agree to support the Mozambican government's new National Roads Programme (known as "PRISE") by working with other donors and the Mozambican government to monitor overall sector performance against the government's targets and share key diagnostic work, such as the annual procurement audit which is part of PRISE and the regular fiduciary updates.

**Tanzania:** DFID and MCC projects focus on transport; energy and infrastructure; water and sanitation. DFID and MCC will explore possibilities of joint work to support increased transparency in the construction sector through the COST initiative. In addition, DFID and MCC will continue to share information and experience in governance, private sector development and other key policy areas through the development partners group and directly.

**Zambia:** MCC is now looking at a second Threshold programme for Zambia focusing intensively on anti-corruption. DFID, as the anti-corruption lead in the governance sector, will work with MCC on a joint presentation to the donor group on initiatives, with the aim of fostering further coordination and coherence.

## Technical and Sector Collaboration

**Environment:** To assist countries to develop the capacity to protect their own environment and to ensure that funded activities do not have adverse environmental impacts, MCC and DFID propose to:

- Share lessons learned and case studies regarding Strategic Environmental Assessment, where DFID has more experience than MCC.
- Collaborate, at the country level when MCC environmental teams visit, and at headquarters on environmental baseline information, impact analysis, assessments and understanding of institutional capacity.
- Explore ways of collaborating on environmental aspects or assessments of projects, particularly the links between environment and poverty reduction strategies.

**Infrastructure:** To improve the capacity for transparent procurement of major projects and to augment current infrastructure investments, DFID and MCC propose to:

- Cooperate on the development of the COST initiative by working together in a pilot country, such as Tanzania, which signed on to the COST initiative and will be making large infrastructure procurements as part of its MCC program.
- Explore the potential use of DFID Capital Funds to augment MCC infrastructure investments where MCC has fully developed technical plans.

**Growth Diagnostics:** To help countries identify constraints to their growth and to explore harmonization of approaches to growth diagnostics, MCC and DFID propose to:

- Exchange information on their guidelines and approach to growth diagnostics, including through presentation of the constraints and sector analysis conducted by the government of Moldova using MCC guidelines, and through the terms of reference for the Rwanda growth diagnostics which DFID and other donors are funding with the Rwanda government.
- Explore the possibilities for a common approach in Malawi, which is preparing to undertake a constraints analysis as part of its MCC proposal development process and a pilot candidate for a growth diagnostic sponsored by DFID and other donors.

**Impact Evaluations:** To contribute to a body of knowledge about what works in development, MCC and DFID propose to coordinate their impact evaluation agendas by:

- Consulting with each other and participating actively in the 3IE initiative and NONIE to coordinate design standards and targets of impact evaluation.
- Establishing a means of sharing information on ongoing evaluations, the methods used, and field experiences.
- Identifying sectors where MCC and DFID could co-fund or otherwise support impact evaluations that provide evidence on the effectiveness of specific poverty reduction interventions
- Identifying opportunities with developing country partners for supporting capacity building on impact evaluation within national governments, to promote demand for high quality IE studies among policy makers

**Statistics:** To assist countries in developing statistical capacity, help speed the availability of data, and allow comparison of various data sources, MCC and DFID propose to:

- Explore the potential for populating and using a DFID developed data portal.
- Explore opportunities for greater coordination of assistance for statistical capacity building, including through the Paris 21 initiative.



- The Mafia Island Airport activity will provide aviation and public safety related facilities at the airport, which is located off the east coast of Tanzania.

## Energy Sector Project (\$206 million)

Currently in Tanzania, industry, businesses, and households suffer from either a lack of energy services or unreliable service. Where electricity is available, the quality of supply is poor, and blackouts and other service interruptions are common. The Energy Sector project will improve electricity service and coverage in Tanzania through the addition of new power generation, transmission and distribution capacity, as well as through much needed reinforcement of the existing network. The project will also extend service to communities and businesses receiving electricity for the first time. The components of the Energy Sector project include:

- The Zanzibar Interconnector activity includes laying a submarine electric transmission cable from the mainland to Unguja Island, along the path of the existing submarine cable that is reaching its limits in both capacity and lifespan. This activity is expected to provide a reliable and non-polluting power supply to Unguja Island, the largest island in the Zanzibar archipelago, which is entirely dependent on power supply from the mainland.
- The Malagarasi Hydropower and Kigoma Distribution activity includes the construction of a small hydropower plant on the Malagarasi River, and the extension of a mini-grid system in the Kigoma region. This activity seeks to replace costly, inefficient, and polluting diesel power generation with affordable, reliable, and clean renewable small-scale hydropower. The expanded distribution system will also facilitate the electrification of rural villages and towns.
- The Distribution Systems Rehabilitation and Extension activity will rehabilitate distribution infrastructure to unserved areas in six regions that were identified by the Government of Tanzania as priority areas for investment. This activity will address the growing demand and the corresponding strain on the network to deliver reliable and quality power to industrial and commercial users, as well as to households, in these regions.

## Water Sector Project (\$66 million)

MCC's compact with Tanzania addresses a serious shortage of access to clean and safe water, which impacts the health and productivity of Tanzanians, particularly children. Designed to increase the quantity and reliability of potable water for domestic and commercial use, the Water Sector project focuses on improving water supply infrastructure in the two cities of Dar es Salaam and Morogoro. The project is expected to reduce the prevalence of water-related disease, increase time available for productive activities such as education, and promote greater investments in physical capital. The components of the Water Sector project include:

- The Lower Ruvu Plant Expansion activity will expand of the capacity of the Lower Ruvu water treatment plant from about 180 million liters per day to approximately 270 million liters per day and better serve Dar es Salaam, Tanzania's largest city and commercial center.
- Currently, approximately 60 percent of Dar es Salaam water is lost due to physical leakages and commercial losses. The Non-Revenue Water activity aims to improve the system efficiencies by determining the locations and volumes of physical losses through leaks, and commercial losses as a result of deficiencies in billing and collection and theft. This activity will substantially reduce water resource waste and the need to develop new water sources through reduction of physical and commercial losses.
- The Morogoro Water Supply component will improve the water supply in Morogoro, a city that, due to a growing population coupled with its aging water infrastructure, faces water supply deficiencies and increased health risks for its population. MCC assistance will be used to rehabilitate water intake and water treatment plants, and improve the existing distribution network.

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*Millennium Challenge Corporation, a U.S. government corporation designed to work with developing countries, is based on the principle that aid is most effective when it reinforces sound political, economic, and social policies that promote poverty reduction through economic growth. For more information about MCC, visit [www.mcc.gov](http://www.mcc.gov).*