2011

ANNUAL REPORT
MCC
A GATEWAY TO OPPORTUNITY

Millennium Challenge Corporation
United States of America

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October 1, 2010 to September 30, 2011

"I think it's important for people to know that foreign aid accounts for less than 2 percent of our budget. And if you defined it just narrowly as the kind of foreign aid to help feed people and what we think of classically as foreign aid, it's probably closer to 1 percent. So sometimes people have an exaggerated sense that we spend 25 percent of the federal budget on foreign aid. It's a tiny amount that has a big impact. And I think America, to be a leader in the world, to have influence, to help stabilize countries and create opportunity for people so that they don't breed terrorists or create huge refugee flows and so forth, it's smart for us to make a very modest investment in foreign aid. It's a force multiplier and it's something that even in tough fiscal times America needs to continue to do as part of our role as a global leader."

— PRESIDENT BARACK OBAMA,
JULY 6, 2011

By taking a results-driven, reform-centered approach to foreign assistance, the U.S. Government's **Millennium Challenge Corporation** (MCC) is a **gateway to opportunity** for both the world's poor and the American people.

By focusing on the singular mission of **reducing poverty through economic growth,** MCC raises the incomes of the poor, which is the best way to break the cycle of aid dependency and help families and communities seize new opportunities and prosper. By **partnering with carefully selected countries** that respect the rule of law, practice good governance, fight corruption, invest in their own citizens, and expand economic opportunities, MCC works in policy environments best suited for growth. By **investing in local, homegrown development strategies,** MCC creates a powerful incentive for partner countries to build their own capacity for delivering solutions to their citizens. By holding ourselves and our partners **accountable,** MCC rigorously plans for, tracks and monitors results to determine the long-term impact of our investments.

In these ways, MCC embodies a bipartisan consensus on the principles both Democrats and Republicans agree are essential for aid effectiveness: **economic growth as a pathway to self-sufficiency, selectivity, country-owned solutions, results,** and **accountability.** While first launched during the Bush Administration, MCC practices the principles that are central to the Obama Administration's *Presidential Policy Directive on Global Development,* including *Partnership for Growth.*

By strengthening economies worldwide through MCC partnerships, we ultimately cultivate the next generation of emerging markets **that will trade and do business with American companies, creating jobs across the United States.** MCC is fundamental to unlocking new opportunities for growth that advance the American economy and enhance competitiveness. When emerging economies prosper, they also become more stable and secure, which explains why development, alongside diplomacy and defense, is key to America's national security interests.

MCC's pursuit of opportunity around the world and at home comes with a **fiduciary responsibility.** As stewards of taxpayer resources, we continue to implement the principles of effective development with transparency and efficiency. We have a track record of ending partnerships when the conditions for success no longer exist. Through our steadfast commitment to **results, partnerships** and **policy reform,** we are making every development dollar count, maximizing impact and sustainability. Explore the 2011 Annual Report to discover just how MCC is a gateway to opportunity for individuals and businesses in our partner countries and in the United States.

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Message from Secretary of State Hillary Rodham Clinton,

Chair of the MCC Board of Directors

To successfully compete in the 21st century, the United States relies on an innovative portfolio of tools to grow our economy and create American jobs. U.S. global engagement is one such valuable tool, not just to improve the human condition for the world's poorest and most vulnerable, but also to advance our own national security and economic interests. I am proud of how the work of the Millennium Challenge Corporation reduces global poverty through economic growth, contributes constructively to America's global engagement, and creates new opportunities for people around the world.

MCC's approach to foreign assistance is transforming how the entire U.S. government practices the principles of effective and sustainable development. MCC partnerships around the world are policy-grounded, country-driven, and results-centered. These partnerships require countries to reform their policies to combat corruption, strengthen the rule of law, invest in health and education, and enact new commercial codes to overcome the bureaucratic red tape that stifles entrepreneurship.

MCC puts countries in charge of their own development. For example, in Indonesia a new $600 million compact is helping to boost household income through reduced energy costs and expanded renewable energy, improved childhood nutrition, and better public sector growth-enhancing goods and services. As champions of their own development, MCC's partners are investing in various projects that increase productivity—such as building roads and ports, modernizing agricultural processes, or improving land and natural resource management—to become more competitive in the global economy and to attract greater trade and investment. And to ensure that every investment is well-placed, MCC is making impressive strides to monitor and evaluate long-term impact and to compile a body of evidence that will inform future efforts by looking at what works best in promoting development.

MCC also played a leading role in creating whole-of-government initiatives like the *Partnership for Growth* that allow us to coordinate development efforts to optimize impact. At the Fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea, CEO Yohannes joined USAID Administrator Shah and me in highlighting the U.S. approach to development, including MCC's consistently strong focus on results, joint work, and inclusiveness.

Because of MCC's approach, developing countries are becoming self-sufficient, stronger, and more secure. They are adopting policies and practices that make them smart places to invest, trade, and do business. In Tanzania, for example, I visited an MCC project where two American companies are expanding access to electricity, creating jobs for Tanzanians and for Americans. Let there be no mistake about it: The growth of the developing world presents a major economic opportunity for American workers and businesses today and into the future.

U.S. foreign policy is a force for good in the world. Just as we are helping people live up to their God-given potential through our smart investments around the globe, we are contributing to our renewal here at home. With ongoing support from Congress, development experts and the American people, I am confident that MCC's innovative approach to development will build on the progress we have achieved and will continue to play a defining role in advancing a more peaceful and prosperous planet.

Hillary Rodham Clinton, Chair

Message from Daniel W. Yohannes,

Chief Executive Officer

During these challenging economic times, the American people demand that their investment in international development be a smart use of their tax dollars. As an accountable steward and prudent custodian of taxpayer resources, the Millennium Challenge Corporation delivers on this fiduciary responsibility. We fulfill our mission of global poverty reduction through economic growth by funding cost-effective projects that raise the incomes of the world's poor. Our goal is not only to help poor countries rise out of poverty, but to create stable trading and investment partners for the United States, which means more jobs here at home.

As a development thought leader committed to putting aid effectiveness principles into practice, MCC intensified the focus on results during this past fiscal year. Compacts with four more countries came to a close, delivering impact along an entire continuum of results. From improving energy security in Georgia, to building local capacity for long-term road maintenance in Vanuatu, to attracting follow-on private sector investment in Nicaragua, to boosting agricultural productivity in Armenia through the first major refurbishment of that country's irrigation network in 30 years, MCC is embracing a disciplined, transparent and accountable approach to tracking program impact. We look for ways to improve the quality of the data we use to evaluate ongoing program progress. Because results are not always good, such transparent monitoring and evaluation is risky but absolutely essential for improving what we do and assuring that we get the best return on investments. When we can measure and know for sure what works and what does not work, we can make well-informed investment decisions with American tax dollars.

MCC understands that we can leverage scarce resources for maximum impact when we partner for results. That's why we further refined our approach to country ownership, grounding it in a partnership of mutual accountability. While partner countries determine their development priorities and exercise ownership of projects that reduce poverty through economic growth, they do so within MCC's standards for economic return, fiscal accountability, environmental and social impacts, gender integration, and transparency. And when countries own their projects, they focus on delivering the results their citizens expect and American taxpayers demand from their investment. In addition, we contribute to better results by partnering with other U.S. Government agencies. MCC is particularly proud of the driving and integral role we played this fiscal year in advancing streamlined and efficient whole-of-government initiatives, such as *Partnership for Growth,* to deliver maximum impact through effective collaboration.

We also know that making our investments successful and sustainable requires focusing more and more on sound policy reforms and strong governance. MCC's approach continues to create powerful incentives for reform because we are willing to say "no" both to partnering with countries that do not meet MCC's eligibility criteria and to funding projects that do not have promising returns. This supports our work to foster good governance, achieve results and maximize a return on our investments.

The accountability MCC demands of our partners we also demand of ourselves as a U.S. Government agency. We instituted a number of cost-saving measures during the fiscal year, including controlling salary and benefits costs, launching energy-saving initiatives and adopting practical steps to keep travel costs down. We continue to invest in our human capital: MCC professionals deliver first-class service—performing with a can-do attitude, creativity, flexibility, and adaptability—to meet the rising expectations of managing a robust portfolio of programs in the face of limited resources.

In all these ways, MCC delivers returns on development investments as cost-effectively as possible. This is why MCC is a wise investment. Together with input from all our key stakeholders—Members of Congress, the development community, the private sector, nongovernmental organizations, other U.S. Government agencies, and the American people—MCC is well-positioned to deepen our focus on results, partnerships and policy reforms in order to find innovative, efficient ways to create tangible opportunities for the world's poor *and* the American people.

Daniel W. Yohannes, Chief Executive Officer

MCC's Board of Directors

The Secretary of State (Chair), the Secretary of the Treasury (Vice Chair), the U.S. Trade Representative, the U.S. Agency for International Development Administrator, MCC's CEO, and four individuals from the private sector appointed by the President with the advice and consent of the U.S. Senate make up MCC's public-private Board of Directors. The private sector component of the Board is one of MCC's most distinctive features.

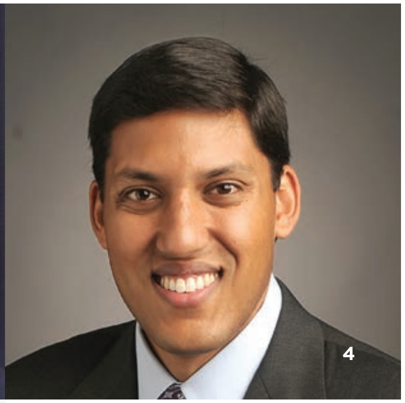
1 *Hillary Rodham Clinton, Chair*
Secretary of State

2 *Timothy F. Geithner, Vice Chair*
Secretary of the Treasury

3 *Ambassador Ron Kirk*
U.S. Trade Representative

4 *Dr. Rajiv Shah*
Administrator, U.S. Agency for International Development

3



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5 *Daniel W. Yohannes*
MCC Chief Executive Officer

6 *Mark Green*
Senior Director, U.S. Global Leadership Coalition

7 *Alan J. Patricof*
Founder and Managing Director, Greycroft, LLC

MCC's Senior Management

Cassandra Q. Butts, Senior Advisor
Office of the Chief Executive Officer

T. Charles Cooper, Vice President
Department of Congressional and Public Affairs

Patrick C. Fine, Vice President
Department of Compact Operations

Sheila Herrling, Vice President
Department of Policy and Evaluation

Steven M. Kaufmann, Chief of Staff
Office of the Chief Executive Officer

Frances Reid, Senior Investment and Risk Officer
Office of the Chief Executive Officer

Melvin F. Williams, Jr., Vice President
General Counsel and Corporate Secretary

Chantale Yokmin Wong, Vice President and Chief Financial Officer
Department of Administration and Finance

The Professionalism and Passion of MCC's Staff

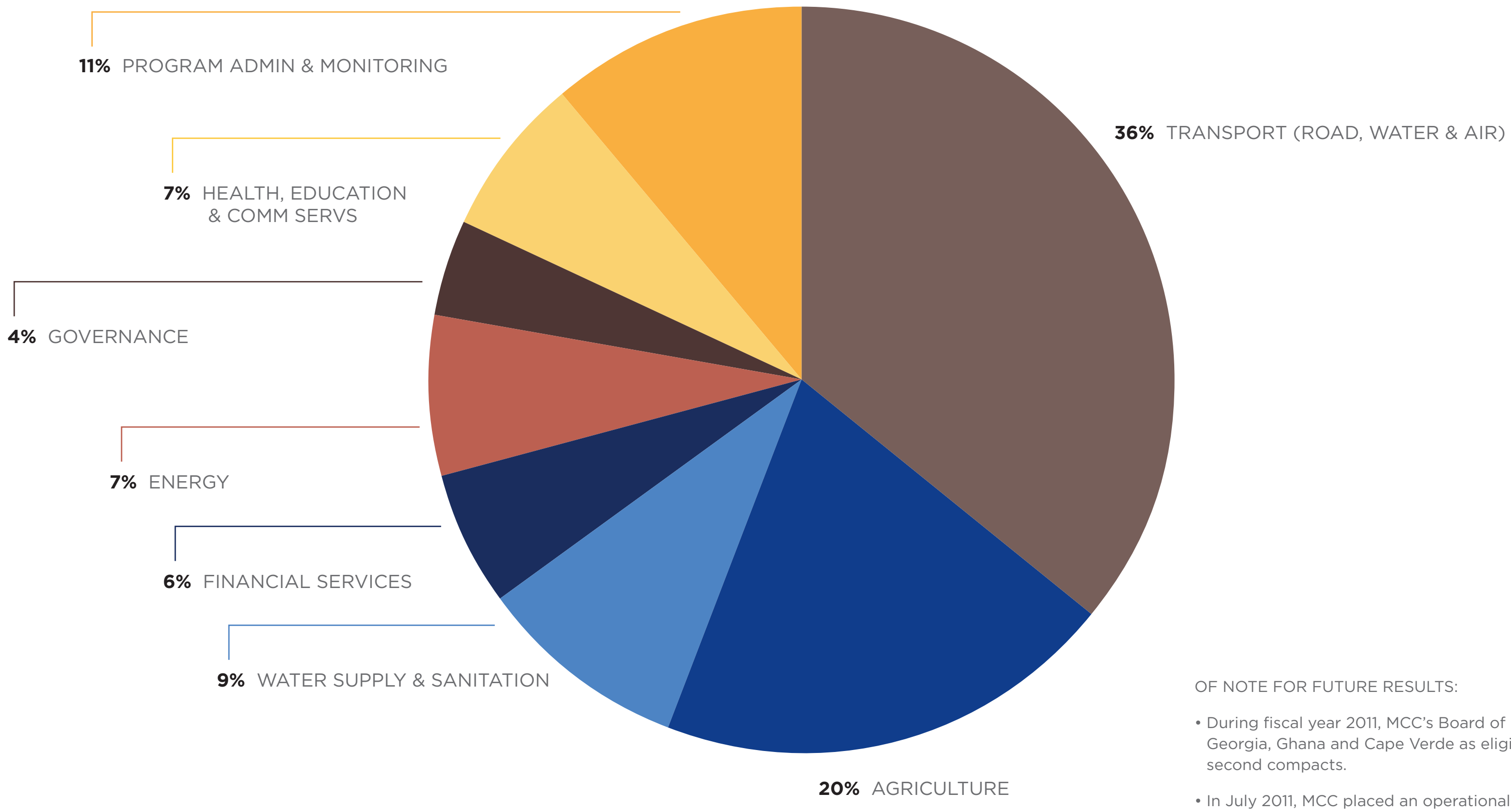
The success of MCC partnerships worldwide depends, in large part, on the unparalleled professional expertise and dedication of MCC's staff. MCC, which has less than 300 federal employees at headquarters, values the individual strengths that each professional brings to work each day. As a learning organization, we recommitted ourselves during this fiscal year to investing in our staff, who are key to achieving MCC's mission of global poverty reduction through economic growth.

CREATING OPPORTUNITY THROUGH *results*

MCC makes a tangible difference in the lives of the world's poor by creating new opportunities. With the right country-determined and country-driven investments, MCC creates the right conditions for the seeds of economic growth to take root and flourish in partner countries worldwide. This ultimately raises the incomes of the poor and pulls families and communities toward a life of greater opportunity and prosperity. That is why MCC is committed to delivering income-raising results throughout the entire lifecycle of our investments. Our robust and comprehensive results continuum works to measure, collect and report policy reforms, direct and indirect outcomes, preliminary and interim benefits, and near-term and long-term impacts on local incomes from the start of MCC investments to the end of those investments and beyond.

Results at a Glance: Compact Investments by Sector

(as of September 2011)



OF NOTE FOR FUTURE RESULTS:

- During fiscal year 2011, MCC's Board of Directors selected Georgia, Ghana and Cape Verde as eligible to develop second compacts.
- In July 2011, MCC placed an operational hold on the Malawi Compact, which was signed on April 7, 2011. Events in Malawi raise deep concerns about the country's commitment to good governance, political pluralism, human rights, and the rule of law.
- MCC's Board of Directors approved a $600 million compact with Indonesia.

Compact Portfolio Financial Performance

In Millions of Dollars

Country	EIF Date	Months remaining	Time Elapsed	Compact Amount	Cumulative Commitments	% of Compact Committed	Cumulatine Expenditures	% of Compact Expended
	Compact Information				Cumulative Progress			
MADAGASCAR	Jul-05	0	100%	84.4	85.6	101%	85.6	101%
HONDURAS	Sep-05	0	100%	205.0	204.0	100%	204.0	100%
CAPE VERDE	Oct-05	0	100%	110.1	108.5	99%	108.5	99%
GEORGIA	Apr-06	0	100%	395.3	387.2	98%	387.2	98%
VANUATU	Apr-06	0	100%	65.7	65.5	100%	65.5	100%
NICARAGUA	May-06	0	100%	113.5	112.7	99%	112.8	99%
ARMENIA	Sep-06	0	100%	235.7	174.8	74%	176.2	75%
BENIN	Oct-06	0	100%	307.3	299.7	98%	284.8	93%
GHANA	Feb-07	4	93%	547.0	537.3	98%	460.1	84%
EL SALVADOR	Sep-07	11	82%	460.9	418.7	91%	303.4	66%
MALI	Sep-07	11	82%	460.8	410.3	89%	311.5	68%
MOROCCO	Sep-08	23	62%	697.5	499.7	72%	219.2	31%
LESOTHO	Sep-08	23	62%	362.6	247.3	68%	125.9	35%
MOZAMBIQUE	Sep-08	23	62%	506.9	386.7	76%	109.3	22%
TANZANIA	Sep-08	23	62%	698.1	621.0	89%	271.6	39%
MONGOLIA	Sep-08	23	62%	284.9	139.2	49%	71.1	25%
BURKINA FASO	Jul-09	33	45%	480.9	133.6	28%	80.8	17%
NAMIBIA	Sep-09	35	42%	304.5	168.7	55%	60.1	20%
SENEGAL	Sep-10	45	25%	540.0	9.8	2%	7.1	1%
MOLDOVA	Sep-10	45	25%	262.0	18.0	7%	8.2	3%
PHILIPPINES	May-11	56	7%	430.2	26.8	6%	12.0	3%
JORDAN	TBD	60	0%	275.1	0.1	0%	1.4	0%
MALAWI	TBD	60	0%	350.7	0.0	0%	0.0	0%
GRAND TOTAL				8179.0	5055.1	62%	3466.2	42%

Cumulative Disbursements	% of Commitments Disbursed	% of Compact Disbursed	Commitments Oct'10 to Mar'11	Targets Oct'10 to Mar'11	Performance against Targets	Disbursements Oct'10 to Mar'11	Targets Oct'10 to Mar'11	Performance against Targets
			Year-to-date Performance					
85.6	100%	101%	-0.0	0.0	0%	0.0	0.0	0%
204.0	100%	100%	0.2	1.3	18%	17.7	7.5	235%
108.5	100%	99%	5.5	3.5	157%	17.2	7.3	236%
387.2	100%	98%	17.6	17.5	101%	122.9	59.0	208%
65.5	100%	100%	1.2	1.9	63%	5.4	2.9	187%
112.7	100%	99%	1.9	3.8	51%	9.1	7.9	114%
155.5	89%	66%	13.6	14.7	92%	69.9	81.5	86%
262.6	88%	85%	96.9	98.8	98%	153.9	187.3	82%
391.3	73%	72%	99.5	52.2	191%	177.7	177.6	100%
295.1	70%	64%	60.6	89.6	68%	134.4	146.2	92%
288.7	70%	63%	71.1	54.4	131%	152.6	141.8	108%
196.4	39%	28%	196.4	141.0	139%	116.8	177.4	66%
111.5	45%	31%	28.6	70.5	41%	70.2	61.7	114%
96.8	25%	19%	293.1	270.2	109%	64.3	84.5	76%
215.3	35%	31%	85.6	100.2	85%	148.0	204.8	72%
66.8	48%	23%	34.6	80.8	43%	39.5	80.6	49%
74.7	56%	16%	45.1	228.9	20%	24.3	36.9	66%
52.5	31%	17%	108.3	102.7	105%	30.3	47.5	64%
5.5	56%	1%	8.9	354.4	3%	5.3	14.5	37%
7.2	40%	3%	17.9	25.0	72%	7.2	7.9	92%
8.5	32%	2%	26.8	0.0	0%	8.5	11.1	76%
0.0	0%	0%	0.1	0.0	0%	0.0	2.1	0%
0.0	0%	0%	0.0	0.0	0%	0.0	0.0	0%
3192.1	63%	39%	1213.5	1711.4	71%	1375.0	1548.0	89%

Estimating Compact Beneficiaries and Benefits

Under MCC's results framework, beneficiaries are defined as an individual and all members of his or her household, who will experience an income gain as a result of MCC interventions. We consider that the entire household will benefit from the income gain and counts are multiplied by the average household size in the area or country. The beneficiary standard makes a distinction between individuals participating in a project and individuals expected to increase their income as a result of the project. Before signing a compact, MCC estimates the expected long-term income gains through a rigorous benefit-cost analysis. MCC may reassess and modify its benficiary estimates and/or the present value of benefits when project designs change during implementation.

NOTES:

1. These estimates do not include the projected beneficiaries of projects or activities that have been terminated or suspended by MCC (Madagascar, Honduras, Nicaragua and Armenia). In the case of Madagascar, the estimates account for the compacts's early termination.

2. The Present Value (PV) of Benefits is the sum of all projected benefits accruing over the life of the project, typically 20 years, evaluated at a 10% discount rate. Estimates are reported in millions of US$ in the year that the ERR analysis was completed. Because the PV of benefits uses a discount rate, these figures cannot be compared directly to the undiscounted financial costs of MCC compacts, but must be compared to the PV of costs instead.

3. The benefit/cost ratio is calculated by dividing the PV of benefits by the PV of costs. The PV of costs is the sum of all projected compact costs evaluated at a 10% discount rate.

4. Column totals may not equal the sum of the individual rows due to rounding.

Projected Beneficiaries and Income Benefits by Compact.[1]

Compact	Estimated Number of Beneficiaries	Estimated Long Term Income Gain Over the Life of the Project (PV of Benefits)[2]	Benefit/ Cost Ratio[3]
Armenia	426,000	$295,500,000	1.7
Benin	8,792,000	$409,600,000	1.8
Burkina Faso	1,181,000	$186,900,000	0.6
Cape Verde	385,000	$149,500,000	1.8
El Salvador	795,000	$366,700,000	1.0
Georgia	143,000	$301,300,000	1.0
Ghana	1,217,000	$690,300,000	1.7
Honduras	1,705,000	$237,300,000	1.5
Jordan	3,657,000	$800,300,000	4.1
Lesotho	1,041,000	$376,000,000	1.5
Madagascar	480,000	$123,200,000	1.7
Malawi	5,900,000	$2,300,000,000	9.6
Mali	2,837,000	$457,100,000	1.3
Moldova	427,000	$259,900,000	1.5
Mongolia	2,058,000	$336,500,000	1.8
Morocco	845,000	$860,400,000	1.7
Mozambique	4,565,000	$632,700,000	1.7
Namibia	1,063,000	$240,500,000	1.1
Nicaragua	120,000	$83,500,000	0.9
Philippines	125,822,000	$675,900,000	2.3
Senegal	1,662,000	$862,900,000	2.2
Tanzania	5,425,000	$1,335,800,000	2.6
Vanuatu	39,000	$73,800,000	1.4
Total for All Compacts[4]	170,586,000	$12,055,600,000	2.0

Results in Agriculture and Irrigation

	Feasibility and/or Detailed Design Includes EIAs, EMPs, and RAPs, as applicable (Months 0-24)	Construction/Capacity Building/Other Support to Farmers and Enterprises (Months 12-48)		Increasing Capacity and Resources Use (Months 24-60)	Growth in the Agricultural Sector (Months 48+)
	Process	**Process**	**Output**	**Outcome**	**Objective**
Progress Indicators	1. Value of irrigation feasibility and/or detailed design contracts signed 2. Percent of irrigation feasibility and/or detailed design contracts disbursed	3. Value of irrigation construction contracts signed 4. Percent of irrigation construction contracts disbursed	5. Number of farmers trained 6. Number of enterprises assisted 7. Hectares under improved or new irrigation	8. Hectares under production 9. Value of agricultural and rural loans 10. Number of farmers that have applied improved techniques 11. Number of enterprises that have applied improved techniques	Increase in agricultural value-added or income
Totals	$47.8M in design contracts, 78.4% disbursed	$318.8M contracts, 68.8% construction disbursed	188,846 farmers trained, 3,074 enterprises assisted, 9,047.4 ha	146,170.1 ha, $74.1M loans, 72,980 farmers with new techniques, 759 enterprises with new techniques	Expected upon completion of works
Currently Implementing	**Armenia** ($4.6M, 93.4%) **Burkina Faso** ($5.9M, 28.5%) **Ghana** ($5.2M, 87.4%) **Georgia** ($1.2M, 53.4%) **Mali** ($9.1M, 67.6%) **Morocco** ($18.9M, 100%) **Nicaragua** ($0.7M, 100%) **Senegal** ($2.3M, 26.5%)	**Armenia** ($106.7M, 78.1%) **Cape Verde** ($5.2M, 97%) **Ghana** ($14M, 38%) **Mali** ($142.3M, 78.1%) **Morocco** ($50.8M, 29%)	**Armenia** (45,639 farmers, 227 ent) **Cape Verde** (553 farmers, 13.44 ha) **El Salvador** (14,345 farmers, 143 ent) **Georgia** (291 ent) **Ghana** (64,708 farmers, 1,597 ent) **Honduras** (7,265 farmers, 464 ent, 4,844 ha) **Madagascar*** (31,366 farmers, 324 ent) **Mali** (1,199 farmers, 4,190 ha) **Morocco** (12,167 farmers) **Mozambique** (9,765 farmers, 28 ent) **Nicaragua** (9,104 farmers)	**Armenia** ($8.4M, 21,741 farmers, 178 ent) **Cape Verde** ($.6M, 106 farmers) **El Salvador** (17,415 ha, $10.2M, 7,881 farmers, 47 ent) **Georgia** ($19.88M) **Ghana** (45,729.1 ha, $16.7M, 25,260 farmers, 533 ent) **Honduras** (20,204 ha, $17.1 M, 6,996 farmers) **Madagascar*** ($1.1M, 1,892 farmers, 1 ent) **Mali** ($.02M, 2,109 ha) **Morocco** (42,440 ha) **Mozambique** (2,374 ha) **Nicaragua** (18,008 ha, 9,104 farmers)	Income increase attributable to MCC activities will be measured by impact evaluations MCC investments in agriculture aim to raise incomes by increasing program participants' capacity, productivity, and access to markets and credit; strengthening management capabilities; and creating jobs in the agricultural sector.
Pending Implementation		Burkina Faso Mozambique Senegal	Burkina Faso Morocco	Burkina Faso Moldova Senegal	

All program data are as of September 2011. Data are preliminary and subject to adjustment. *These values represent a decline from values previously recorded due to the final reconciliation of performance data following termination of the Madagascar Compact.

188,846
farmers trained

3,074
enterprises assisted

146,170.1
hectares under production

$74.1
million in agricultural and rural loans

Results in Roads

5,118.9
kilometers of roads under design

2,717.3
kilometers of roads under works contracts

1,162.9
kilometers of roads completed

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (12 to 36 months)		**Procurement for Construction Contractors** (6 to 9 months)		**Construction** (1 to 3 years)		**Expected Outcomes** (up to 15 years)
Indicator Type	Process	Process	Process	Process	Process	Output	Outcome
Progress Indicators	Value of signed contracts for feasibility, design, supervision, and program mgmt contracts	% disbursed for contracted studies km of roads under design	Value of signed contracts for road work	Kilometers (km) of roads under works contract	% of contracted roads works disbursed	Kilometers (km) of roads completed	IRI: International Roughness Index (IRI)
Totals	$109.8 million in studies contracted	64.3% of contracted studies disbursed, 5,118.9 km of roads under design	$1,553.7 million in works contracted	2,717.3 km of roads under works contracts	58.1% of contracted roads works disbursed	1,162.9 km of roads completed	IRI
Currently Implementing	**Armenia** ($3.1 M) **Burkina Faso** ($8.3 M) **Cape Verde*** ($3.5 M) **El Salvador*** ($16.9 M) **Georgia** ($12.0 M) **Ghana** ($5.5 M) **Honduras** ($9.5 M) **Mongolia** ($6.1 M) **Mozambique** ($13.4 M) **Nicaragua** ($6.9 M) **Senegal** ($2.4 M) **Tanzania*** ($16.9 M) **Vanuatu** ($5.3 M)	**Armenia** (90%, 892 km) **Burkina Faso** (13%, 536 km) **Cape Verde** (90.2%, 63.4 km) **El Salvador** (73.4%, 196.1 km) **Georgia** (99%, 220.2 km) **Ghana** (100%, 775.8 km) **Honduras** (75.4%, 671.8 km) **Moldova** (93 km) **Mongolia** (26.4%, 20.9 km) **Mozambique** (30%, 253 km) **Nicaragua** (100%, 376 km) **Senegal** (23%, 406 km) **Tanzania*** (49%, 465 km) **Vanuatu** (100%, 149.7 km)	**Armenia***** ($4.7 M) **Cape Verde** ($24 M) **El Salvador** ($220.5 M) **Georgia** ($197.3 M) **Ghana** ($211.8 M) **Honduras** ($184.5 M) **Mali** ($42.9 M) **Mongolia** ($24.1 M) **Nicaragua** ($56.5 M) **Tanzania** ($402.1 M) **Vanuatu*** ($54.7 M)	**Armenia***** (24.5 km) **Cape Verde** (40.6 km) **El Salvador** (196.1 km) **Georgia** (220.2 km) **Ghana** (446 km) **Honduras** (671.8 km) **Mongolia** (176.4 km) **Mozambique** (253 km) **Nicaragua** (74 km) **Tanzania** (465 km) **Vanuatu** (149.7 km)	**Armenia** (100%) **Cape Verde** (100%) **El Salvador** (60.6%) **Georgia** (100%) **Ghana** (67.8%) **Honduras** (69.6%) **Mongolia** (32%) **Mozambique** (9.5%) **Nicaragua** (100%) **Tanzania** (22.5%) **Vanuatu** (96.6%)	**Armenia** (24.5 km) **Cape Verde** (40.6 km) **El Salvador** (43.8 km) **Georgia** (220.2 km) **Honduras** (610.1 km) **Nicaragua** (74 km) **Vanuatu** (149.7 km)	**Armenia** (3.5 IRI) **Cape Verde** (2.0 IRI) **Georgia** (1.5 IRI) **Nicaragua** (2.3 IRI) **Vanuatu** (3.0 IRI)
Pending Implementation			Burkina Faso Moldova Senegal	Burkina Faso Moldova Senegal	Burkina Faso Moldova Senegal	Burkina Faso Ghana Mali Moldova Mozambique Senegal Tanzania	

All program data are as of September 2011. Data are preliminary and subject to adjustment. *Additional studies associated with compacts have been funded by the governments in El Salvador and Tanzania, and by another donor in Cape Verde. **Design-Build contract, where the value of design work is included in the value of the works contract. Contract amount listed in first column is a supervision contract only. ***Due to the operational hold on the roads project in the Armenia and Honduras compacts, MCC will no longer be funding additional works contracts that were previously reported. Design numbers for Ghana have decreased due to a rescoping of the roads project.

Results in Property Rights and Land

*These activities may be implemented in this order but often overlap and extend throughout the compact period.

	Regulatory, Legal and Other Work	Public Outreach	Institutional Upgrading and Capacity Building	Clarification and Formalization of Land Rights	Expected Objectives (up to 20 years)
Indicator Type	Output	Output	Output	Output	Outcome
Progress Indicators	Preparatory studies completed; Legal and regulatory reforms adopted	Stakeholders Reached	Buildings built or rehabilitated; Equipment Purchased; Stakeholders trained	Rural hectares (ha) mapped/formalized; Urban parcels mapped/formalized	Effective property rights system
Totals	65 studies completed; 56 legal and regulatory reforms adopted	201,334 stakeholders reached	138 buildings built/rehabilitated; $16.6M in equipment purchased; 18,600 stakeholders trained	2,462,507.5 rural hectares mapped; 353,293 rural hectares formalized; 71,578 urban parcels mapped; 25,837 urban parcels formalized	Reduced transaction costs Increased tenure security Improved allocation of land Increased transactions and investment in land and property Increased land productivity and value
Currently Implementing	**Benin** (16 studies; 0 reforms) **Burkina Faso** (7 studies; 40 reforms) **Ghana** (5 studies; 2 reforms) **Lesotho** (1 study; 3 reforms) **Madagascar** (8 studies; 4 reforms) **Mali** (0 studies; 2 reforms) **Mongolia** (8 studies; 4 reforms) **Mozambique** (16 studies; 1 reform) **Nicaragua** (4 studies; 0 reforms)	**Benin** (53,697 stakeholders) **Burkina Faso** (41,840 stakeholders) **Ghana** (4,796 stakeholders) **Lesotho** (5,235 stakeholders) **Mongolia** (26,666 stakeholders) **Mozambique** (75 stakeholders) **Nicaragua** (69,035 stakeholders)	**Benin** ($5.5M; 60 trained) **Burkina Faso** ($2.2M; 682 trained) **Ghana** (1 bldg; $0.5M; 427 trained) **Lesotho** ($.1M, 675 trained) **Mali** (1 bldg; $.1M) **Madagascar*** (115 bldgs; $4.8M; 12,216 trained) **Mongolia** (2 bldgs, $0.8M, 2,716 trained) **Mozambique** (11 bldgs; $0.9M; 214 trained) **Nicaragua** (8 bldgs; $1.7M; 1,610 trained)	**Benin** (117,021 rural ha formalized) **Burkina Faso** (36,403 rural ha formalized) **Ghana** (3,807.5 rural ha mapped, 261.7 rural ha formalized) **Lesotho** (4,305 urban parcels mapped and formalized) **Madagascar*** (30,047 rural ha mapped and formalized) **Mali** (4,309 rural ha mapped) **Mozambique** (19,083 urban parcels formalized) **Mongolia** (2,393,455 rural ha mapped; 67,273 urban parcels mapped; 166,272 rural ha formalized) **Nicaragua** (30,889 rural ha mapped; 3,288 rural ha formalized; 2,449 urban parcels formalized)	
Pending Implementation	Senegal	Namibia Mali Senegal	Senegal	Namibia Senegal	

All program data are as of September 2011. Data are preliminary and subject to adjustment.
*These values represent a decline from values previously recorded due to the final reconciliation of performance data following termination of the Madagascar Compact.

56
legal and regulatory reforms adopted

18,600
stakeholders trained

2,462,507.5
rural hectares mapped

353,293
rural hectares formalized

25,837
urban parcels formalized

Results in Water and Sanitation

$38.08
million in feasibility and/or detailed design contracts signed

$141.82
million in construction contracts signed

5,185
persons trained in hygiene and sanitary best practices

300
water points constructed

	Feasibility and/or Detailed Design Includes EIAs, EMPs, and RAPs, as applicable (Months 6 to 24)	Construction and Persons Reached (Months 12 to 48)		Expected Outcomes (Months 24 to 60)	Expected Objectives (Months 48+)
Indicator Type	Process	Process	Output	Outcome	Objective
Progress Indicators	1. Value of feasibility and/or detailed design contracts signed 2. Percent of contracted feasibility and/or design studies disbursed	3. Value of construction contracts signed 4. Percent of contracted construction works disbursed	5. Persons trained in hygiene and sanitary best practices 6. Water points constructed 7. Sanitation systems constructed	8. Volume of water produced 9. Access to improved water supply 10. Access to improved sanitation	11. Water consumption (domestic/commercial) 12. Incidence of water-borne diseases
Totals	$38.1M in design contracts, 44.2% disbursed	$141.8M in construction contracts, 79.5% disbursed	5,185 persons, 300 water points	1,448 households with improved water supply, 1,376 households with improved sanitation	**El Salvador** () **Lesotho** () **Tanzania** () **Mozambique** () **Ghana** ()
Currently Implementing	**El Salvador** ($5.9M, 69%) **Georgia** ($.27M, 100%) **Ghana** ($1.6M, 85%) **Tanzania** ($8.9M, 48%) **Mozambique** ($21.4M, 32%)	**El Salvador** ($9.2M, 58.3%) **Georgia** ($54.3M, 94%) **Ghana** ($14.6M, 60%) **Lesotho** ($16.1M, 30%) **Tanzania** ($47.6M, 20%)	**Mozambique** (3,840 persons, 150 water points) **Ghana** (87 persons, 150 water points) **El Salvador** (1,258 persons)	**El Salvador** (1,448 hh water, 1,376 hh sanitation)	
Pending Implementation		Mozambique	Georgia Lesotho Tanzania	Ghana Lesotho Tanzania Mozambique	

Indicators in this Results Framework may be added or removed as MCC's investments in WS evolve over time.
All program data as of September 2011. Data are preliminary and subject to adjustment.

Results in Education

	Construction and Institutional Strengthening (Months 0-36)	Improved Access, Quality and Relevance (Months 12-48)	Expected Outcomes (Months 12-60)	Expected Objectives‡ (Months 48+)
Indicator Type	Process	Output	Outcome	Objective
Progress Indicators	1. Value of signed contracts ($US) for MCC-supported educational facility construction / rehabilitation and/or equipping 2. Percent of contracted construction / rehabilitation / and/or equipping works for educational facilities disbursed 3. Legal, financial, and / or policy reforms adopted	4. Educational facilities constructed / rehabilitated and / or equipped through MCC-supported activities 5. Number of instructors trained or certified through MCC-supported activities	6. Number of students (any educational level) participating in MCC-supported education activities. 7. Additional primary / secondary / tertiary school female students enrolled in MCC-supported educational facilities	8. Primary / secondary / tertiary / vocational school graduates in MCC-supported educational facilities 9. Employed graduates of MCC-supported training programs
Totals	$89.6M in construction contracts, 51.7% disbursed	451 facilities, 2,603 instructors	155,513 students participating, 31,400 additional female students	2,761 graduates of MCC-supported educational facilities
Currently Implementing	**Burkina Faso** ($22.5M, 67%) **El Salvador** ($10.2M, 99.7%) **Ghana** ($18.7M, 79%) **Mongolia** ($12.5M, 9%) **Morocco** ($.2M) **Mongolia** ($25.5M, 20.4%)	**Burkina Faso** (285 facilities, 557 instructors) **El Salvador** (22 facilities, 515 instructors) **Ghana** (143 facilities) **Mongolia** (1 facility, 272 instructors) **Morocco** (1,259 instructors)	**Burkina Faso** (31,335 students, 4,983 additional females) **El Salvador** (21,104 students, 1,644 additional females) **Ghana** (36,986 students, 651 additional females) **Morocco** (41,528 students, 24,122 additional females) **Namibia** (24,560 students)	**Burkina Faso** (1,487 graduates) **El Salvador** (1,274 graduates) **Mongolia** () **Morocco** () **Namibia** () **Ghana** ()
Pending Implementation		Namibia	Mongolia	

*All program data as of September 2011. Data are preliminary and subject to adjustment. Indicators in this Results Framework may be added, removed, or modified as MCC's investments in education evolve over time.
‡ All MCC education programs have as their long-term end goal an increase in individual or household income and a corresponding decrease in poverty.

451
educational facilities constructed, rehabilitated and/or equipped through MCC-supported activities

2,603
instructors trained or certified through MCC-supported activities

155,513
students (any educational level) participating in MCC-supported educational activities

31,400
additional female students enrolled in MCC-supported educational activities

Understanding What Starts When a Compact Ends

MCC compacts with Georgia, Vanuatu, Nicaragua, and Armenia closed during fiscal year 2011, joining compact closeouts in Honduras and Cape Verde in fiscal year 2010.

The compact closeout period marks the end of program implementation and the wrap-up of projects and activities. Although provisions may be made to continue some activities under the supervision of the partner country's government or other implementation arrangement, closeout marks the end of MCC funding. The closeout period is a time to take stock of results achieved during the five-year compact and how those results compare to program targets for outputs and medium-term outcomes. These initial results—such as the number of kilometers of roads completed, the number of farmers trained, the number of farmers adopting new techniques, and the value of loans issued—offer an important early look at a compact's successes and challenges, and indicate where program performance was strong and where implementation may not have gone as expected.

Because MCC embraces a continuum of results, those initial outputs and outcomes are only the first chapters in the story of a compact's results. During the closeout period and beyond, additional results become available. These demonstrate not only whether key institutional policy reforms and program deliverables were met, but also whether the activities affected beneficiaries' income and welfare throughout the term of our investment and beyond it. In particular, MCC conducts performance and impact evaluations to quantify these changes in income and well-being and to assess how much of that impact can be attributed to MCC-funded activities. Evaluations also look at the cost-effectiveness of investments and the sustainability of results over time, and examine their long-term impact on increasing household income, reducing poverty and breaking through economic barriers. MCC will aggressively apply all lessons learned from our investments—positive and negative—and will share our evaluation results widely with external partners to promote global learning.

Compact Closeouts Create Opportunities

Georgia

EIF Date: 04/07/2006		Compact End Date:04/07/2011								($ in Millions)
Compact Closeout										Compact Level
Other Infrastructure Rehabilitation	Long-Term Results	Estimated Long-Term Income Benefits (on discounted costs)								$224.8 Million
		Estimated Long-Term Beneficiaries								125,994
			2006	2007	2008	2009	2010	2011	
	Financial Progress	Sector Cumulative Commitments	$0.97	$17.26	$134.90	$209.83	$249.26	$258.92	$260.25
		Sector Cumulative Disbursements	$7.42	$15.64	$40.32	$83.20	$172.64	$258.76	
	Select Performance Indicators						Planned	Actual	Performance
		Kilometers of roads completed					220	220	100%
Regional Infrastructure Development Activity	Long-Term Results	Estimated Long-Term Income Benefits (on discounted costs)						Part of Infrastructure Rehabilitation	
		Estimated Long-Term Beneficiaries							
			2006	2007	2008	2009	2010	2011	
	Financial Progress	Sector Cumulative Commitments	$1.66	$6.21	$40.00	$56.49	$53.91	$50.98	$53.99
		Sector Cumulative Disbursements	$0.15	$0.74	$4.82	$11.82	$30.18	$51.14	
	Select Performance Indicators						Planned	Actual	Performance
		Gas Pipeline Sites Rehabilitated					22	22	100%
Enterprise Development	Long-Term Results	Estimated Long-Term Income Benefits (on discounted costs)							$76 Million
		Estimated Long-Term Beneficiaries							17,275
			2006	2007	2008	2009	2010	2011	
	Financial Progress	Sector Cumulative Commitments	$3.31	$10.15	$22.17	$41.50	$46.00	$52.04	$52.04
		Sector Cumulative Disbursements	$0.40	$3.76	$16.23	$34.11	$41.86	$52.04	
	Select Performance Indicators						Planned	Actual	Performance
		Number of Enterprises Assisted - Agribusiness Development Activity					296	291	98%
		Number of Beneficiaries Agribusiness Development Activity					3,800	3,585	94%
			2006	2007	2008	2009	2010	2011	
Program Administration*	Financial Progress	Sector Cumulative Commitments	$2.02	$14.72	$16.62	$20.63	$24.29	$25.24	$29.02
		Sector Cumulative Disbursements	$2.14	$9.90	$11.79	$15.84	$19.59	$25.24	

Projected Long-Term Income Benefits to 143,219 beneficiaries: $ 301.3 million of increased income on discounted project costs of $296.1 million.
Program administration includes program admin funds, Monitoring and Evaluation funds and Non allocated funds

PROBLEM:

Lack of reliable infrastructure and the slow development of businesses, including agribusinesses, were main barriers to economic growth.

SOLUTION:

Repairing roads, water supply systems and the country's main natural gas pipeline, and investing in the development of agribusinesses and other private enterprises, create opportunities for growth.

Georgia
(continued)

IMPACT

Key Results:

- **A rehabilitated road becomes a gateway to economic opportunity:** The *Samtskhe-Javakheti Road Rehabilitation Project* repaired 220 kilometers of road, improved access to markets in Tbilisi, provided a key regional transport corridor and border crossings with Turkey and Armenia and reduced travel time from more than eight hours to less than three. This represents significant savings in vehicle operating costs for local farmers and citizens, estimated at $13 million in 2011. To sustain the impact, Georgia increased road maintenance funds from $33.6 million in 2006 to $56 million in 2010.

- **Improved water infrastructure is key for community development:** The regional infrastructure development activity improved water supply systems in five communities and sewage systems in three communities, resulting in approximately 70,000 people having reliable access to drinking water and eliminating the need to purchase, haul, store, or pump drinking water to homes.

- **Improved gas pipeline bolsters Georgia's energy security:** The rehabilitation of 22 sites of the country's main gas pipeline has improved regional and municipal service delivery, providing increased energy reliability and security throughout Georgia.

- **Investing in stronger businesses boosts wages and revenues and opens opportunities for Georgians:** The *Agribusiness Development Activity* provided grants to improve the economic performance of 290 agribusinesses and farm production projects, resulting in the creation of 3,264 jobs as of July 2011. Businesses have already reported an increase in wages of almost $3.2 million. In addition, the *Georgia Regional Development Fund*, a ten-year investment fund now in its fifth year, invested in small and medium-sized enterprises primarily in the agribusiness and tourism sectors, realizing gross revenue increases of $16.8 million among the companies in the portfolio.

Vanuatu

EIF Date: 04/28/2006	Compact End Date:04/28/2011								($ in Millions)
Compact Closeout									Compact Level
Transport Infrastructure	Long-Term Results	Estimated Long-Term Income Benefits (on discounted costs)							$73.8 Million
		Estimated Long-Term Beneficiaries							39,200
	Financial Progress		2006	2007	2008	2009	2010	2011	
		Sector Cumulative Commitments	$-	$0.00	$56.15	$59.67	$59.62	$60.08	$60.09
		Sector Cumulative Disbursements	$-	$0.00	$0.19	$35.92	$56.44	$60.08	
	Select Performance Indicators						Planned	Actual	Performance
		Kilometers of Efate ring road completed					92.5	92.5	100%
		Kilometers of Santo East Coast road completed					57.2	57.2	100%
		Kilometers of Efate ring road under cyclical maintenance community contracts					92.5	52.9	57%
		Kilometers of Santo East Coast road under cyclical maintenance community contracts					57.2	14.4	25%
Program Administration*	Financial Progress		2006	2007	2008	2009	2010	2011	
		Sector Cumulative Commitments	$1.52	$2.11	$5.12	$3.76	$4.21	$5.44	$5.60
		Sector Cumulative Disbursements	$1.57	$2.00	$21.65	$2.65	$3.72	$5.44	

Projected Long-Term Income Benefits to 39,200 beneficiaries: $ 73.8 million income gain from discouted costs of $52.6 million.
* Program administration includes program admin funds, Monitoring and Evaluation funds and Non allocated funds

PROBLEM:

Vanuatu's poor transportation infrastructure was a main barrier to economic growth.

SOLUTION:

Strengthening road infrastructure and government capacity to maintain Vanuatu's roads creates opportunities for growth.

Vanuatu
(continued)

IMPACT

Key Results:

- **Major road rehabilitations create opportunities for economic and community development:** 149.7 kilometers of Vanuatu's roads have been rehabilitated—92.5 kilometers of the Efate Ring Road and 57.2 kilometers of the Santo East Coast Road—bolstering economic development by decreasing the cost of vehicle repairs and maintenance, creating more local income opportunities in villages, promoting investment in tourism, and providing better access to markets, health and education services. Preliminary reductions in average travel time range from 50 to 75 percent on Efate and Santo Islands, respectively. The number of days extreme weather closed the Efate Ring Road dropped from nine days in 2006 to zero in 2011. According to traffic counts from July 2011, the Efate Ring Road and the Santo East Coast Road exceeded end-of-compact targets in increased daily traffic by 311 percent and 154 percent, respectively, directly benefitting an estimated 28,268 people and 622 formal and informal roadside businesses.

- **Economic activity intensifies along rehabilitated roadways:** New market stalls opened along the Efate Ring Road in association with local villages and women's groups. Villagers are planting more cash crops because it is easier to transport their goods to market. Several new tourist and hospitality businesses have already opened along the roads.

- **Government and local efforts toward road maintenance help ensure sustainability:** To help ensure the roads' sustainability, Vanuatu set up a new maintenance fund of $5 million in 2006, which increased to $5.5 million in 2011. These funds are in addition to the Public Works Department's ongoing road maintenance funds. The Public Works Department entrusted local communities to organize teams, including women's organizations and youth groups, to regularly clear vegetation and sight lines. Those involved are compensated for their work, generating additional income for the community, as well as ownership, pride and respect for the roads. The Public Works Department committed $1.6 million for community-based routine maintenance contracts, which will directly impact approximately 5,931 households.

- **Road safety becomes an integral part of road rehabilitation projects:** Road safety awareness events were conducted in communities and schools along the Efate Ring Road and the Santo East Coast Road. Children were trained in road safety awareness in all the schools along both roads.

- **MCC-funded road rehabilitation is a springboard for policy reforms vital to long-term growth:** Vanuatu used MCC's eligibility criteria to promote policy reform in several key areas, including: increasing resources for child immunizations; implementing the free school policy at basic education levels (years 1-8); establishing a utility regulatory authority to protect consumer prices and maintain quality and reliability of regulated services; implementing a long-term land reform program; and establishing a law reform commission and human rights commission. Additional reforms focused on trade promotion and foreign direct investment, including efforts to streamline processes in the areas of business startup, regulatory quality, trade policy, state-owned enterprises, and deregulation of monopolies.

Nicaragua

EIF Date: 05/26/2006		Compact End Date:05/26/2011					($ in Millions)
Compact Closeout							**Compact Level**
Transport	Long-Term Results	Estimated Long-Term Income Benefits (discounted costs of $32.4 million)					$32.40
		Estimated Long-Term Beneficiaries					97,110
	Financial Progress		2008	2009	2010	2011	
		Sector Cumulative Commitments	$44.66	$50.17	$56.75	$56.74	$58.00
		Sector Cumulative Disbursements	$8.90	$37.93	$56.89	$56.74	
	Select Performance Indicators				Planned	Actual	Performance
		Kilometers of roads completed			67	74	110%
Rural Development	Long-Term Results	Estimated Long-Term Income Benefits (discounted costs of $27.2 million)					$51.10
		Estimated Long-Term Beneficiaries					45,510
	Financial Progress		2008	2009	2010	2011	
		Sector Cumulative Commitments	$17.95	$27.45	$31.83	$31.36	$32.87
		Sector Cumulative Disbursements	$11.26	$20.64	$27.43	$31.36	
	Select Performance Indicators				Planned	Actual	Performance
		Numbers of manzanas, by sector, harvesting higher-value crops (actuals only)				25,767	
		Number of beneficiaries implementing business plans			5774	6,476	112%
		Number of Manzanas with trees planted			10000	10,233	102%
Property Regularization	Long-Term Results	Estimated Long-Term Income Benefits					Pending final report
		Estimated Long-Term Beneficiaries					
	Financial Progress		2008	2009	2010	2011	
		Sector Cumulative Commitments	$6.37	$7.18	$7.18	$6.69	$7.18
		Sector Cumulative Disbursements	$4.63	$7.42	$5.39	$6.69	
Program Administration*	Financial Progress		2008	2009	2010	2011	
		Sector Cumulative Commitments	$11.60	$13.73	$13.92	$17.94	$15.44
		Sector Cumulative Disbursements	$9.28	$9.74	$13.96	$17.94	

Projected Long-Term Income Benefits to 119,870 beneficiaries: $ 83.5 million with a discounted cost of $59.5 million. Does not include information from the Property regularization project
* Program administration includes program admin funds, Monitoring and Evaluation funds and Non allocated funds

PROBLEM:

Underdeveloped infrastructure, insecure property rights and low-value agricultural production became barriers to economic growth.

SOLUTION:

Improving access to markets, reducing transportation costs, strengthening property rights, and increasing incomes for farmers and rural businesses create opportunities for economic growth.

Nicaragua
(continued)

IMPACT

Key Results:

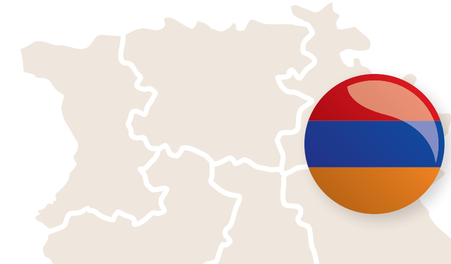
- **Buy-in from business and civic leaders promotes continuity and sustainability:** For the first time in Nicaragua's history, the government fully empowered local departmental councils to determine the components of a major development program. Participation by political, business and civic actors in designing the MCC compact helped ensure continuity of implementation, despite a change in government and the partial compact termination.

- **Gender equality and integration matter:** Gender integration began with the consultation of women's organizations during compact design and included setting specific gender-related targets in contracts to ensure widely shared ownership. Almost half of the beneficiaries of the *Rural Business Development Project* are women.

- **Improved roads mean greater regional integration and improved access to markets:** MCC is supporting key transportation corridors in Nicaragua, Honduras and El Salvador that are increasing access to national, regional and global markets. MCC invested $58 million to upgrade 74 kilometers of roads in Nicaragua, benefitting more than 97,000 people living within five kilometers of those roads. These improved roads significantly reduce travel time and are expected to decrease vehicle operating costs by $3.2 million annually. For sustainability, Nicaragua's National Assembly approved a law in 2005 that created a gas tax to finance road maintenance. While Nicaragua maintained 500 kilometers of road prior to 2005, it now maintains more than 3,000 kilometers of roads annually, with more than $31 million allocated to road maintenance. MCC also rehabilitated part of the Pan American Highway, connecting Nicaragua to the rest of Central America and promoting greater regional trade. Crops assisted through Nicaragua's *Rural Business Development Project* are being exported to regional markets and the United States, making use of MCC-funded transportation corridors and taking advantage of the Dominican Republic-Central America-United States Free Trade Agreement.

- **Training and technical assistance are building blocks for higher wages:** To increase sales and wages for farmers and non-farm businesses by supporting high-value agriculture and business enterprises in León and Chinandega, 8,638 people received technical assistance and grants, and more than 43,000 people are expected to benefit over the life of the investment.

- **Follow-on investments will mean more economic activity and job opportunities:** Preliminary data shows that eight private international companies have invested a total of $35.9 million in León and Chinandega, including U.S. companies Algaoil, Futuro Forestal and Maya Pack. Hortifruti/Wal-Mart, Parmalat, DelCampo, and CentroLac are buying products, including milk, plantains, cassava, and rice, from farmers trained through the MCC compact.



Armenia

EIF Date: 05/26/2006		Compact End Date:05/26/2011						($ in Millions)
		Compact Closeout						Compact Level
Rural Road Rehabillitation	Long-Term Results	Estimated Long-Term Income Benefits (on discounted costs)						$10.00
		Estimated Long-Term Beneficiaries						6,216
	Financial Progress		2007	2008	2009	2010	2011	
		Sector Cumulative Commitments	$3.60	$47.12	$9.13	$8.44	$8.44	$67.10
		Sector Cumulative Disbursements	$0.91	$5.35	$7.53	$7.87	$7.62	
	Select Performance Indicators					Planned	Actual	Performance
		Road sections rehabilitated-pilot roads				24.4	24.4	100%
		International Roughness Index for pilot roads				4.0	3.47	87%
Irrigated Agriculture (Infrastructure)	Long-Term Results	Estimated Long-Term Income Benefits (on discounted costs)						$264.50
		Estimated Long-Term Beneficiaries						420,000
	Financial Progress		2007	2008	2009	2010	2011	
		Sector Cumulative Commitments	$8.61	$3.34	$59.58	$110.99	$119.97	$121.72
		Sector Cumulative Disbursements	$0.00	$2.91	$6.97	$40.92	$104.10	
	Select Performance Indicators					Planned	Actual	Performance
		Pumping stations renovated				17	17	100%
		Primary canals rehabilitated (kilometers)				41.8	42	100%
		Tertiary canals rehabilitated (kilometers)				220	217.8	99%
Irrigated Agriculture (Water to market)	Long-Term Results	Estimated Long-Term Income Benefits (on discounted costs)						$22.80
		Estimated Long-Term Beneficiaries						28,831
	Financial Progress		2007	2008	2009	2010	2011	
		Sector Cumulative Commitments	$18.48	$25.86	$27.56	$29.94	$32.28	$32.25
		Sector Cumulative Disbursements	$3.54	$8.34	$16.74	$25.68	$30.49	
	Select Performance Indicators					Planned	Actual	Performance
		Number of enterprises using improved techniques				112	178	159%
		Total training/technical assistance provided for on-farm water management				45,000	45,639	101%
Program Administration*	Financial Progress		2007	2008	2009	2010	2011	
		Sector Cumulative Commitments		$10.10	$11.26	$12.77	$14.07	$14.58
		Sector Cumulative Disbursements	$3.47	$6.27	$8.48	$11.16	$13.31	

Projected Long-Term Income Benefits to 426,000 beneficiaries: $ 295.5 million of increased income on discounted costs of $ 174.9 million
* Program administration includes program admin funds, Monitoring and Evaluation funds and Non allocated funds

PROBLEM:

Dilapidated irrigation infrastructure and limited knowledge of effective and efficient farming and irrigation practices limited agricultural production.

SOLUTION:

Strategic investments in irrigation infrastructure, transportation, farmer training, and access to finance for agribusinesses create opportunities for poverty reduction and economic growth in Armenia's agriculture sector.

Armenia
(continued)

IMPACT

Key Results:

MCC's investment in Armenia's irrigation and agricultural sectors is critical to the growth of the country's economy and the livelihoods of farmers and agribusinesses. MCA-Armenia led the single largest refurbishment of the country's irrigation infrastructure in the last 30 years, rehabilitating 17 irrigation pumping stations and constructing five gravity-fed irrigation systems, including almost 50 kilometers of canals. More than 45,000 farmers—32 percent of whom are women—benefited from training in on-farm water management techniques. More than 35,000 farmers—34 percent of whom are women—also received revenue enhancing training in high-value agriculture techniques. Initial results show that farmers are adopting improved water management practices and growing high-value crops. Given our institutional commitment to rigorously measuring results, these compact activities will be independently evaluated and the results independently assessed. MCC's investments are expected **to increase rural incomes by nearly $300 million over 20 years,** benefiting more than 420,000 Armenians. For every $1 invested, MCC expects rural beneficiary incomes to increase by $1.69, amounting to a rate of return of 22 percent.

- **Reliable irrigation fuels more productive agriculture:** Improving the water supply and increasing farmer know-how through training are expected to incentivize farmers to transition from low-value crops such as wheat, to high-value crops like apricots or tomatoes. **Farmers' annual agricultural income is expected to increase by 150 percent over 20 years, from a baseline of $310.** The irrigation infrastructure improvements will result in about 9,000 hectares of newly irrigated land, more reliable water supply for approximately 38,000 hectares of currently irrigated agricultural land and improved drainage for about 10,000 hectares. In all, the MCC-financed investments will benefit approximately 37 percent of all land under irrigation. In addition, MCC's investment to rehabilitate five gravity systems throughout the country is expected to result in annual energy savings of 9.3 megawatt hours, worth $525,000 in present value. The 17 improved pumping stations include new more energy efficient pumps.

- **Access to capital creates opportunities for local investments:** Financial institutions loaned more than $8.5 million to 760 farmers to make capital improvements in greenhouses, freezing facilities, orchards, and vineyards. The repaid loan funds are currently being lent again and so far an additional $4 million has been lent to over 260 farmers. In 20 years, it is expected that over 3,000 farmers will receive loans through this program.

- **Better roads facilitate greater trade and market access:** MCC-funded improvements on 24.5 kilometers of roads (out of 332 kilometers originally planned but placed on operational hold) resulted in a 78 percent reduction in road roughness and an increase of 15 percent in average daily traffic from approximately 640 to 740 vehicles, a 4 percent increase in traffic over MCC's original projection of 706 vehicles. Improved road conditions are expected to generate a $9.2 million savings in transportation costs and a decrease in travel time valued at $800,000.

The Results Continuum: Honduras

The road to lasting results

Honduras's MCC compact, the first of all MCC's compacts to reach completion, aimed at transforming the agricultural economy from reliance on basic staples to higher-value crops. Specific activities worked to increase private investment and the adoption of more sophisticated agricultural techniques and marketing practices. More than a year after the successful completion of the Honduras Compact, MCC's work continues to have an impact.

MCC's $121 million investment in road improvements leveraged an additional $130 million from the Central American Bank for Economic Integration for additional works on the CA-5 Highway, to be completed by September 2012.

After compact completion, MCC continued to engage the government on budget transparency and public financial management to improve efforts to control corruption. In April 2011, the government began implementing a plan to promote fiscal openness and tighten controls over public spending as part of a broader anti-corruption strategy. MCC sponsored independent organizations to assess the government's progress using two internationally recognized assessment tools: the public expenditure and financial accountability framework and the open budget index survey. MCC's Board will look at these evaluation results to inform its assessment of Honduras's eligibility for a second compact.

The compact also trained more than 7,000 farmers and transitioned 400 hectares to new drip irrigation. The program took an integrated approach to agricultural credit, infusing millions in financing through more than 10,000 loans and developing a broad array of credit products. This made it easier for thousands of farmers to get a loan and address the bottleneck to private investment. These farmers benefit also from the rehabilitation of over 500 kilometers of roads that will bring more than one million people closer to markets, social services and economic opportunities.

At compact closeout, MCC economists prepared a benefit-cost analysis of the Honduras farmer training activity. The analysis compared actual project costs to the project implementer's estimates of income increases among participants; the estimated economic rate of return to the activity was 14.6 percent.

According to the model, farmers and the workers they employed gained to date approximately $3.7 million (in discounted terms) relative to the income they would have likely earned in the absence of the program.

More important, their investments in irrigation and other improved practices are expected to realize an additional $22 million in discounted income gains over the next 10 years. MCC's investments total approximately $19.6 million in discounted terms (including administration and evaluation costs). In other words, for every $1 MCC invested, $1.3 dollars in benefits are expected to accrue to Hondurans.

Impact evaluations will use survey data to rigorously measure and verify income gains associated with the farmer training activity, the transportation project and other components of the Honduras Compact. The public can access the results of all completed evaluations at **www.mcc.gov.**

The Results Continuum: Cape Verde

The road to lasting results

Cape Verde's MCC compact worked to increase agricultural productivity, build vital infrastructure and develop a robust private sector to transform agriculture into a productive, competitive business sector.

Toward this, MCC funded the first phase of the modernization and expansion of the Port of Praia and designed Phase 2 works during the five-year term of the compact. Upon compact closeout, the government secured over $100 million in financing for Phase 2. Once complete in 2013, the port modernization and expansion will lead to reduced shipping costs and expanded capacity to handle projected traffic growth over the next 20 years.

MCC's support for Cape Verde's financial sector also continues to yield progress. Following the passage of legislation, microfinance institutions are offering poor households savings and micro-insurance services. Legal reform financed under the compact supported the launch of a securities platform that will give domestic investors, including individuals and corporations, access to the primary market for government securities.

COUNTRY-BY-COUNTRY DETAILS ARE A CLICK AWAY

Visit **www.mcc.gov** and look for "Quarterly Status Reports" under the "Results" tab to view the latest progress in each MCC partner country.

Moreover, MCC's commitment to strengthening government systems continues to have an impact in Cape Verde and beyond. Procurement reforms based on MCC practices are becoming standard for public procurement in Cape Verde, and the e-government system partially supported by MCC has become a model for e-governance in Africa. Cape Verde presented the system at several international forums and provided technical assistance on it to several African governments.

Practicing the Principle of Delivering Results

MCC's focus on results is motivated by some of the basic questions of aid effectiveness, such as, *"Do the expected results of this program justify spending scarce aid dollars?"* MCC's results framework reflects a commitment to technically rigorous, systematic and transparent methods of projecting, tracking and evaluating the impacts of our programs. When countries turn away from good governance and program performance, MCC has a track record of stopping our funding to protect our resources. Coupled with transparency, this approach is the distinctive cornerstone of MCC's commitment to accountability and aid effectiveness and the centerpiece of efforts to expand opportunities for the world's poor in sustainable ways.

MCC's singular mission of poverty reduction through economic growth translates into one central goal: to increase incomes of program beneficiaries. Higher incomes improve the lives of the poor and open up new opportunities. Our results framework, centered on five key questions, is designed to provide the information both MCC and partner countries need to reach that goal.

1. **Which investments proposed to MCC will best support economic growth and poverty reduction?** MCC and partner countries use constraints analysis to identify the main barriers to economic growth and private investment, benefit-cost analysis to estimate the expected increase in local incomes of proposed projects and economic rates of return to assess whether the expected income gains of a proposed project justify the costs.

2. **Who will the investments benefit, and by how much?** MCC and partner countries use beneficiary analysis to assess how the total income gains of proposed projects will be distributed across different income and gender groups in a country or targeted program region.

3. **How do we know investments are on track to reach the intended impact of income gains?** MCC and partner countries use monitoring and evaluation (M&E) plans to track program performance against specific implementation targets that act as drivers of income gains.

4. **Did investments achieve the projected impact?** MCC uses independent evaluations to understand the impact of our investments on local incomes.

5. **What did we learn to help us improve our investments and better achieve our goals?** Information collected through M&E reports and impact evaluations help us implement approaches that work best in development, revise current implementation plans and inform future project design at MCC and throughout the development community.

Embracing Mixed Results: Key to Accountability

Results are not always good news. MCC's commitment to impact evaluations means that we want to know whether or not investments achieve their original goals. Our commitment to transparency means that MCC will make our findings public even if we discover that we have not reached those goals. This practice is an important part of accountability and learning.

For example, MCC's impact evaluation of the schools project under the Burkina Faso Threshold Program indicated that the package of interventions raised enrollment rates and test scores for both girls and boys. Impact evaluations for Threshold Programs in Malawi, Tanzania and Zambia tell a more mixed story. Initial findings point to the overall achievement of output-level goals—the establishment of a financial intelligence unit or a tax fraud investigation unit—but less success on meeting outcome-level goals—such as the reduction of corruption in the customs sector or increased efficiency in land administration. Lessons learned from these evaluations are informing future MCC threshold programs. Other donors also are applying these lessons to their governance programs.

During compact implementation, MCC makes necessary changes in our investments if projects are re-scoped, adjusted based on lessons learned from monitoring data or refined because of MCC's approach to measuring long-term impact. MCC discloses these changes and the reasons behind them, even when it can be uncomfortable to do so. As our first compacts come to a close, MCC is committed to comprehensive and transparent coverage of program achievements, challenges and lessons learned. Our learning allows us to contribute effectively to global development efforts and is at the heart of how we hold ourselves accountable in the pursuit of our goal to reduce poverty through economic growth in partner countries. How we manage learning, transparency and revising our own approach in the face of challenges and mixed results is an important part of MCC's success.

Informing U.S. Development Policy

The *Presidential Policy Directive on Global Development* embraces country-led plans, good governance, focus on results, and broad-based economic growth as fundamental to supporting sustainable development. MCC has contributed technical expertise and lessons learned to the overall formation of this policy as well as specific presidential initiatives, including the results framework for *Feed the Future* and gender integration approaches for both *Feed the Future* and the *Global Health Initiative*. In addition, MCC joins the Department of State and the U.S. Agency for International Development as a co-lead for *Partnership for Growth (PFG)*.

PFG is an inter-agency effort that seeks to put into practice the principles of the *Presidential Policy Directive on Global Development*. It is driven by a deliberate strategy to create the next generation of emerging markets by fostering broad-based economic growth in select low-income countries. PFG is grounded in six key principles: (i) focus on broad-based economic growth; (ii) focus on select countries with demonstrated commitment and performance; (iii) joint decision-making and prioritization through rigorous analysis across the U.S. Government and between the U.S. Government and PFG countries; (iv) focus on catalytic policy change and institutional reform; (v) leveraging tools of engagement, including assistance, diplomacy and non-assistance policy tools, for maximum impact; and (vi) partnership and country ownership.

MCC contributes significant expertise to PFG, including to the inter-agency team that managed selection of El Salvador, Ghana, Philippines, and Tanzania as the first set of PFG countries, which also are MCC partner countries. MCC led the inter-agency groups that conducted the constraints to growth analyses that serve as the basis for PFG engagement. MCC is sharing lessons learned about operating in step with key PFG principles, such as the focus on growth, selectivity, country ownership, and decision-making based on rigorous analysis.

"Through the MCC, the US has shown that it can deliver development co-operation that is in line with the principles on effective aid. In particular, ownership, predictability, untying, unearmarked funding, and a strong emphasis on results are key characteristics of MCC's approach. MCC also provides an incentive model that supports partner countries in their reform: it allocates aid based on a country's policy performance, employing objective indicators to determine a country's eligibility for funding."

— THE UNITED STATES (2011) DAC PEER REVIEW
MAIN FINDINGS AND RECOMMENDATIONS, AUGUST 2011

CREATING OPPORTUNITY THROUGH *partnerships*

"The MCC model holds great potential to bring transformative change, reduce poverty and support sustainable economic development. In particular, the focus on partnership with developing nations and host government buy-in is critical to achieving long-term results."

— REPRESENTATIVE NITA LOWEY,
March 15, 2011

During these challenging budgetary times, leveraging finite development dollars through strategic partnerships is a smart way to maximize impact. By partnering with developing countries, the private sector, nongovernmental actors—including foundations and not-for-profit organizations—and other U.S. Government agencies, we are able to do more with less to deliver opportunities for the world's poor.

Partnering with Countries

Development investments are more effective and sustainable when they reflect countries' own priorities and strengthen governments' accountability to their citizens. This is the starting point for MCC's approach to country ownership; but for us, country ownership is more than this. Country ownership is a partnership. Partner countries exercise ownership because, in close consultation with their citizens, they take the lead in setting priorities for MCC investments, implementing MCC-funded programs and being accountable to domestic stakeholders for decision-making and results. This ownership is a partnership with MCC because it takes place within the framework of our focused mission of poverty reduction through economic growth and must be consistent with MCC's standards for accountability, transparency and impact.

Indonesia, for example, appointed the deputy minister of its National Planning Agency to guide the country's compact development process. The government embraced MCC's challenge to organize an inclusive and representative process, taking into account Indonesia's great diversity and the wide-ranging perspectives of the private sector, government and civil society. A steering committee made up of high-ranking Indonesian officials, private sector leaders and civil society leaders coordinated the MCC compact development process, supported by three technical teams. These teams produced a document describing constraints to economic growth that should be considered for MCC investment. Using this document, Indonesian authorities managed an in-depth, first-of-its-kind consultative process in several regions to formulate initial project concept proposals. Nongovernmental organizations, foundations and local governments from across the country submitted more than 400 proposals, which the steering committee distilled into 13 project concept papers. These were presented to MCC in June 2010, which led to the development of compact investments in three thematic areas: green prosperity to support low-carbon strategies for economic growth, access to basic services to address chronic malnutrition and governance focused on procurement modernization.

The MCC model embraces the approaches necessary to support strong and mutually accountable country partnerships, including:

Selectivity. MCC partners with poor countries that have a proven track record in good governance and policies that support economic growth and the effective use of development assistance. With this as the starting point, MCC can pursue an aggressive approach to country ownership—giving partners the responsibility of prioritizing investments, implementing programs and delivering results.

Focused mandate. MCC's mandate is clear—poverty reduction through economic growth. This puts parameters around the country ownership principle, empowering MCC partners to set priorities for their MCC investment as long as proposed projects meet our standards for cost-effective investments that raise incomes for beneficiaries.

Flexibility. MCC is not subject to sector earmarks. This means MCC is able to invest in sectors that matter most for a country's growth and to support investments that are priorities for partner governments, citizens, civil society, and the private sector.

Five-year funding. MCC has the authority to commit five years of funding up-front. This is important for country ownership because it makes funding predictable. MCC partner countries know how much MCC is committing over a five-year period. As a result, governments can better plan their own development strategies and budgets. Five-year funding also allows us to support the long-term growth investments that countries prioritize and gives partner governments the time necessary to implement tough policy reforms that support impact and sustainability.

Transparency. MCC's commitment to transparency promotes accountability, giving our partners the information they need to plan complex projects and make development assistance more effective. For all compact programs, MCC publishes five-year budgets, economic analyses that inform investment decisions, expected results, data on ongoing program progress, and the findings of independent impact evaluations for completed programs. MCC expects transparency from its partners as well, and each publishes information on implementation progress and procurement opportunities. This transparency empowers citizens to hold governments and donors accountable for how development resources are spent and what results they achieve.

Country	MCA Name	Website
Armenia	MCA-Armenia	http://www.mca.am/en/home/
Benin	MCA-Benin	http://www.mcabenin.bj/
Burkina Faso	MCA-Burkina Faso	http://www.mcaburkina.org/
Cape Verde	MCA-Cape Verde	http://www.mca.cv/
El Salvador	FOMILENIO	http://www.mca.gob.sv
Georgia	Millennium Georgia Fund	http://www.mcg.ge/
Ghana	MiDA	http://www.mida.gov.gh/
Honduras	MCA-Honduras	http://www.mcahonduras.hn
Jordan	MCA-Jordan	http://www.mca-jordan.gov.jo/
Lesotho	MCA-Lesotho	http://www.mca.org.ls/
Madagascar	MCA-Madagascar	http://www.mcamadagascar.org/

Country	MCA Name	Website
Mali	MCA-Mali	http://www.mcamali.org/
Moldova	MCA-Moldova	http://mca.gov.md/?site=0
Mongolia	MCA-Mongolia	http://www.mca.mn
Morocco	Agence du Partenariat pour le Progrès	http://www.app.ma/
Mozambique	MCA-Mozambique	http://www.mca.gov.mz/en/
Namibia	MCA-Namibia	http://www.mcanamibia.org/
Nicaragua	MCA-Nicaragua	http://www.cuentadelmilenio.org.ni/
Philippines	MCA-Philippines	http://www.mcap.ph
Senegal	MCA-Senegal	http://www.mcasenegal.org/
Tanzania	MCA-Tanzania	http://www.mca-t.go.tz/
Vanuatu	MCA-Vanuatu	http://www.mcavanuatu.gov.vu/

Partnering with the Private Sector

"Many aspects of the MCC's innovative model, in such areas as country ownership, transparency and accountability, and managing for results, are already being adopted by other foreign affairs agencies as a result of the QDDR. Yet the MCC has not been content to sit on its laurels; it is continually proposing ways to improve and strengthen its effectiveness, including a new initiative to expand partnerships with the private sector."

— REPRESENTATIVE HOWARD BERMAN, March 16, 2011

One of the core goals of the *Presidential Policy Directive on Global Development* is to create the next generation of emerging markets in order to open up new opportunities for businesses, including U.S. businesses, promote democratic governance and create partners to advance mutual interests. By focusing on broad-based economic growth and democratic governance, MCC works to create the next generation of emerging markets. We do this by providing incentives for policy reform, investing strategically, delivering assistance that encourages trade, and strengthening regional markets.

Market-friendly policies. MCC incentivizes policy reform from the beginning through our selection process. We select partners that perform well on independent, publicly available indicators aimed at assessing a country's commitment to ruling justly, promoting economic freedom and investing in people. As part of this assessment, we look at such factors as inflation, fiscal policy, ease of starting a business, trade policy, regulatory quality, and land rights and access. MCC specifically considers a country's track record on public sector corruption, a key impediment to investment.

Targeted investments. MCC compact investments target constraints to growth in order for the private sector to invest and flourish. This entails incentivizing policy reforms to maximize impact and sustainability, building critical infrastructure or investing in key sectors, such as agriculture, health or financial services. In the Philippines, for example, uncertainty around taxation impedes foreign direct investment, and low collection rates result in fewer resources for building infrastructure and delivering social services. To remedy this, MCC is assisting the Philippines's Bureau of Internal Revenue with policy and procedural reforms in order to increase tax revenue and reduce losses. In Benin, a long-term concession to a private company to manage the new MCC-funded port resulted in additional investments by the company to expand the port's capacity. In Ghana, MCC is helping farms grow their businesses by improving agricultural production and post-harvest facilities. As a result, MCC-assisted farmers in Ghana are better positioned to sell their agricultural products, including to international agribusinesses that distribute to European and other major markets. These investments are building a foundation for increased business activity and sustainable, private sector-led economic growth.

Aid for trade. Because we are a principal source of funding for infrastructure projects in developing countries, MCC literally connects emerging economies to the global economy through seaports, airports, roads, and power systems. Approximately $4.65 billion, or 65 percent, of total MCC assistance helps partner countries strengthen their capacity to trade by removing internal barriers to trade, strengthening institutional capacity in areas such as customs and national standards, developing workforce skills, and building infrastructure. These infrastructure investments create a better environment for businesses, including U.S. investors, since poor infrastructure is often cited as a roadblock to operating in developing countries.

Regional markets. MCC spurred the growth of regional markets in Central America, East Africa and the Caucasus. In Central America, we rehabilitated roads in Honduras, El Salvador and Nicaragua, including key sections of the Pan American Highway, the region's principal transport corridor. In East Africa, MCC is improving road linkages between Tanzania, Mozambique and Kenya, and internal Tanzanian roads are being upgraded to serve as a regional link to major ports like Mombasa. In the Caucasus, MCC improved transport linkages in Georgia and Armenia and rehabilitated Georgia's main gas pipeline, which serves as a conduit for the Eurasian energy trade.

INVITATION TO INNOVATE

In early 2011, MCC launched Invitation to Innovate (I to I), a new initiative aimed at enhancing private sector engagement and leveraging new investment and development practices. This new initiative seeks innovative ideas from private sector companies, nongovernmental organizations, social responsibility funds, foundations, other donors, and development-oriented investment funds to help enhance the impact of MCC compacts. I to I will focus initially on partnerships in a limited number of compact countries and priority sectors. I to I partnerships are expected to provide new funding opportunities, introduce new technologies and approaches for development, offer innovative project ideas, increase the sustainability of MCC investments, and enhance training and expertise in compact implementation.

A LEVEL PLAYING FIELD

Private sector firms already benefit from business-friendly policy reforms and MCC-funded projects that create commercial, trade and investment opportunities in MCC partner countries. Firms also benefit from MCC procurement opportunities. To ensure a level playing field for commercial firms from all countries, we amended MCC's procurement guidelines in October 2010 to exclude government-owned enterprises.

MCC AND OPPORTUNITIES FOR U.S. COMPANIES

Over the next 18 months, $1.2 billion in procurements are expected, and reaching out to American businesses to inform them of MCC-funded procurements, which are transparent and competitively bid, is a priority for us. MCC helps to create the conditions and opportunities that give American companies a reason to invest in next-generation emerging markets, which works both to reduce poverty in developing economies and support jobs in American hometowns. Companies that ultimately do business with MCC gain a foothold in markets that are expected to see significant growth in the coming decades. In 2011 alone, MCC hosted four business delegations, participated in four public events on procurement and held multiple one-on-one meetings with representatives from private sector companies. MCC's outreach is paying off.

- So far, American companies continue to be the top recipients of all MCC-funded contracts, amounting to more than $616 million.

- After a competitive bidding process, Symbion Power of Washington, D.C. and Pike Electric of Mount Airy, North Carolina won more than $100 million in contracts to build more than 20 power sub-stations and install about 1,000 miles of power lines in Tanzania, bringing electricity to more than 330 communities previously without power. Symbion and Pike also are implementing a unique training program for construction workers. They sent senior Tanzanian workers to Northwest Lineman College in Idaho for a "train-the-trainer" program on electrical systems, accident prevention and construction methods. Symbion and Pike are working with the college to establish a similar program in Tanzania to train 200 Tanzanians on constructing transmission lines. In addition, one of these American companies is now expanding its business in Africa. Symbion purchased a 120-megawatt power plant in Tanzania, one of the first private power producers in the country. Since then, Symbion has been contracted by the Tanzanian government to deliver another 200 megawatts. Recognizing Symbion as a strong partner, the Tanzanian government is discussing bringing additional power generation on-line as well. This would greatly increase Tanzania's total current generation capacity and enhance Symbion's investment in Tanzania beyond its initial MCC contract.

- El Salvador has attracted private sector financing and investment to complement funding from its MCC compact for rural electrification. A $33 million public-private partnership with a Virginia-based corporation will support 1,300 kilometers of rural electrification lines, benefiting an estimated 20,000 poor families who are currently without power.

To add to this, MCC launched new ways during the fiscal year to inform U.S. businesses of the opportunities available in partner countries.

- **MCC Inter-agency Working Group:** MCC is leading an inter-agency working group, which includes the Department of State, the Department of Commerce, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, the Export-Import Bank, and the U.S. Small Business Administration, whose goal is to alert U.S. companies about procurement and partnership opportunities available through MCC compacts.

- **Doing Business with MCC Web Chats:** Doing Business with MCC monthly web chats inform U.S. businesses nationwide about opportunities for work through MCC compacts, reaching out particularly to small- and medium-sized enterprises as well as women- and minority-owned businesses searching for new markets and consumers for their products and services.

Partnering with the Broader Development Community

MCC recognizes the value of working with other development actors in partner countries.

- MCA-Mongolia partnered with the **Building Energy Efficiency Project (BEEP) of the United Nations Development Program (UNDP)** and **XacBank** to reduce air pollution by providing financial incentives that make it easier for residents to move from traditional ger or yurt dwellings into more energy-efficient homes. MCA-Mongolia conducts a product review process on a variety of home designs, determines which of those to approve for financial incentives and provides funding for the incentives. UNDP/BEEP develops building codes, standards and energy-efficient home designs, pre-qualifies builders, oversees construction, conducts energy audits, and establishes a first loss facility with XacBank to provide mortgages to lower income consumers. MCA-Mongolia also contracted with XacBank and **KhanBank** for the distribution of energy-efficient and lower-emissions products, approved as a result of the product review process. MCA-Mongolia provides public awareness, social marketing and funding for the incentives. XacBank and KhanBank establish distribution channels in ger districts, provide financial intermediation between MCA-Mongolia and product producers and monitor delivery and installation in homes. They also offer loans to participating producers and consumers.

- In Lesotho, we are working on the Metolong Dam outside Maseru with a consortium of **Middle East donors,** including the **Kuwait Fund for Arab Economic Development, the Arab Fund for Economic Development in Africa, the OPEC Fund for International Development, the Abu Dhabi Fund for Development,** and **the Saudi Fund for Development,** which have provided $51 million to cover the shortfall for the Metolong Dam wall and primary pipeline to Maseru and the reservoir. MCC is funding a water treatment and a bulk water conveyance system for the Metolong Dam. The Metolong Authority signed the contracts for the dam wall and the primary pipeline/reservoir in August 2011, and the contractor for the MCC-funded water treatment works is already mobilized.

- In the Philippines, the Kalahi-CIDSS project expands and builds upon an earlier **World Bank** program to improve community-level infrastructure and social services for millions of poor Filipinos and strengthen the capacity of local communities to lift themselves out of poverty. The project empowers communities to participate fully in development activities, address the needs they have identified and manage assets in a sustainable way. As part of institutional strengthening, MCC partnered with the World Bank on a study to assist the Philippines in classifying factors that make projects more or less prone to failure and identify potential solutions for additional oversight to mitigate implementation risks.

Partnering with Other U.S. Government Agencies

MCC partners with other U.S. Government agencies to maximize impact.

- MCC and the **Peace Corps** expanded their efforts to share respective strengths, knowledge and resources in support of country-led development by engaging Peace Corps volunteers in compact implementation. Peace Corps volunteers worked with MCA-Armenia, for example, to inform the Armenian people of the benefits of their MCC compact, particularly from the opening of a tertiary canal and two pumping stations and the expansion of credit to rural areas.

- The Obama Administration's Presidential Policy Directive on Global Development embodies a set of principles and practices at the core of MCC's model. It puts accountability at the center, focusing on good governance among partner countries, a commitment to country-led plans and high standards of managing for results and transparency. As these principles are being adopted across the government, MCC is lending significant expertise to administration development assistance priorities. Together with the **Department of State** and the **U.S. Agency for International Development,** MCC participated in designing the overall PFG (Partnership for Growth) framework and helped manage the selection of El Salvador, Ghana, Philippines, and Tanzania as the first set of PFG countries. MCC has also led PFG's constraints to growth analysis and, in the case of El Salvador, co-chairs the working group that is developing the program action plan with that country's government. MCC's technical expertise also helped guide the gender integration approaches for both Feed the Future and the Global Health Initiative. MCC principles, especially around country ownership, helped inform Feed the Future's approach focused on global hunger and food security. In addition, MCC partners with the U.S. Agency for International Development, the **U.S Department of the Treasury,** and the **U.S. Department of Justice** on several current MCC threshold programs.

- MCC's Policy Improvement Process (PIP) is a structured mechanism through which we deepen dialogue with partner countries, raise concerns and promote reforms related to our eligibility criteria. The PIP frequently requires leveraging expertise and involvement from other **U.S. Government agencies and donors,** and MCC is devoting more resources to this coordination. For example, the PIP dialogue in El Salvador focuses on investing in the health and education of Salvadorans to increase the country's prospects of becoming eligible for a second MCC compact, which could eventually become a key element of the **inter-agency Partnership for Growth initiative** to remove binding constraints to growth.

CREATING OPPORTUNITY THROUGH *policy reform*

"I really would like to acknowledge the excellent work of the MCC and the work that it's doing really to incentivize policy reform and good government in a number of countries all around the world."

— REPRESENTATIVE DAVID CICILLINE,
March 16, 2011

MCC promotes policy reform through a targeted and purposeful approach. By selecting and partnering with countries committed to ruling justly, fighting corruption, investing in their people, and promoting economic freedom, MCC works in environments where our development dollars can deliver the greatest sustainable impact. By leveraging incentives for policy reform through our eligibility criteria, engaging in policy dialogues, implementing the Threshold Program, and integrating policy reforms into compacts, MCC generates sustainable opportunities for economic growth. And by incentivizing the right policy reforms, MCC also creates an environment where trade and investment can flourish, serving as a gateway to opportunity for local, U.S. and international companies eager to expand and grow in the next generation of emerging markets.

Why Sound Policies Matter

MCC's investments address fundamental barriers to growth and poverty reduction and aim to generate significant new income for beneficiaries. To ensure their full impact today and for years to come, MCC's investments cannot happen in isolation. That is why policy reforms are an important part of the continuum of results for every MCC investment. And that is why MCC and partner countries look closely at the conditions in which an investment will be made and plan reforms to maximize the impact and sustainability of MCC investments. These reforms can be changes to national policies, laws, regulations, or administrative procedures. In most cases, these reforms help unlock the full potential of MCC programs and improve the broader conditions for continued growth and investment in partner countries. The benefits of focusing on sound policies for partner countries are many, including:

- strengthening institutions to support effective and sustainable implementation of development investments;
- attracting additional financing to complete projects and meet initial objectives;
- creating the framework for the sustainability of results, including attracting private sector investment; and
- supporting governance reform initiatives as stand-alone activities that can lead to measurable, cost-effective impact.

SECOND COMPACTS: PUSHING THE ENVELOPE ON POLICY REFORMS

During fiscal year 2011, MCC's Board of Directors selected Georgia, Ghana and Cape Verde as eligible to develop second compacts, based on strong performance both on practicing sound policies and on implementing their first compacts. Results delivered under MCC's first compacts have created exciting opportunities to promote deeper reform in countries pursuing second compacts. MCC's credibility and the goodwill generated through successful country ownership have generated a keen desire among many to continue partnering with MCC.

The development of a second compact in **Cape Verde,** for example, targets improved water supply and sanitation in an island nation where water scarcity is a binding constraint to economic growth. Cape Verde's proposal combines institutional reform to improve accountability, governance and regulation of water and sanitation services at the national level with the consolidation and corporatization of water suppliers to overhaul service delivery at the municipal level. The program is expected to drive ongoing reform by featuring competitive access to MCC funding for capacity-building and investments in water supply and sanitation infrastructure.

The possibility of a second compact also creates additional leverage for policy reforms. **El Salvador** and **Honduras,** for example, are working to improve their prospects for second compact eligibility by undertaking new reforms and intensifying data collection efforts.

Tools to Support Policy Reforms

MCC's focus on policy reform grows out of the fundamental premise that poverty alleviation can be achieved most effectively in countries that rule justly, invest in their people and support economic freedom. It is also rooted in the *Presidential Policy Directive on Global Development,* which states, *"Where leaders govern responsibly, set in place good policies and make investments conducive to development, sustainable outcomes can be achieved."* MCC promotes policy, institutional and legal reforms through a variety of tools and across a spectrum of countries, including current and potential partner countries, by:

Leveraging incentives for policy reform through MCC's eligibility criteria. We use our eligibility criteria to go beyond country selection to foster an "MCC effect," support broader U.S. policy engagement and frame a policy dialogue with partner countries.

Promoting policy improvement. MCC engages more robustly with current or potential compact partners around policy reform related to MCC eligibility criteria through our Policy Improvement Process.

Supporting reform commitment through a revised Threshold Program. MCC is applying lessons learned from a review of the Threshold Program to ongoing programs and has developed a new concept for future threshold programs with a sharper focus on country-specific policy reforms linked to identified impediments to growth.

Integrating policy reforms into compacts. We increase the impact of MCC investments and development outcomes more broadly by addressing critical sector reforms as integrated elements of compact investments and by seeking opportunities to strengthen governance and accountability.

As a learning institution, MCC will continue to adapt and refine our approach to promoting policy reform based on hands-on experience, objective evaluation of results and international best practice.

INNOVATING THE COUNTRY SELECTION PROCESS

In September 2011, MCC's Board of Directors adopted changes to the country selection process. These changes were made after wide-reaching consultations with experts and stakeholders both inside and outside of MCC to develop an approach that would serve our mission well moving forward. New indicators measuring freedom of information, access to credit and the role of gender in the economy were added, bringing the total number of indicators to 20. A democratic rights hard hurdle, to accompany the existing corruption hard hurdle, was added. Countries must now pass half of all selection criteria, including at least one criteria in each of MCC's three hallmark categories of ruling justly, investing in people and economic freedom. The Board reaffirmed that it remains strongly committed to identifying countries for MCC eligibility that have demonstrated sound policies in each of these three policy categories. This new approach provides the selection system with greater predictability, stability, transparency, and credibility. It also allows policy performance to transcend technical and mechanical issues in the system. We believe these changes will maintain the rigor of our selection system and result in a pool of strong performers from which the Board can select MCC partners.

Policy Reforms Transform MCC Partner Countries

MCC's focus on policy reforms is transforming countries and key sectors within them.

- In the **Cape Verde** Compact, MCC supported the transparency-enhancing "e-procurement" system and reforms to incorporate microfinance institutions into the formal banking sector, expanding access to credit for borrowers and enabling them to build credit histories that can be shared across financial institutions.

- For the irrigation project in the **Armenia** Compact, MCC supported improved management and technical capacity of the 44 water user associations, whose principal function is to collect water user fees and operate and maintain the irrigation infrastructure. Enhanced capacity within these associations will improve irrigation service for all water user association members, even those not receiving training or improved infrastructure under the compact.

- In **Georgia,** MCC worked with the Georgian Oil and Gas Corporation (GOGC) for the energy rehabilitation project. GOGC, a young domestic institution at the time, was tapped to design and manage all pipeline repairs under the Georgia Compact. GOGC is now responsible for the operation and long-term sustainability of the MCC investment. MCC supported operational and financial improvements at GOGC before and during construction, and other donors are now relying on GOGC to implement their programs.

- Under the transportation project in the **Honduras** Compact, MCC and MCA-Honduras identified a potential budget shortfall resulting in part from increased costs for petroleum and construction inputs and revised technical plans. The Honduras government leveraged MCC's investment to access additional resources from the Central American Bank for Economic Integration (CABEI). Supported by technical designs funded by MCC, Honduras and CABEI reached an agreement to cover the shortfall and allow the country to fully implement the program. This situation is not unique: MCC's focus on projects with high returns on investment, grounded in a sound policy environment, has allowed MCC and partner countries to attract additional financing to help manage similar challenges in a number of compacts.

- In the **Philippines,** persistent fiscal deficits due to weak revenue generation constitute a binding constraint to growth, rooted in inefficient tax policy and administration. The *Revenue Administration Reform Project* under the Philippines Compact will re-engineer tax policies and practices, implement the electronic tax information system and strengthen the anti-graft investigation unit. Expected project outcomes include increased effectiveness in tax collections that leads, over time, to increased tax revenues for the government. This project reinforces the Philippines' commitment to sound policies and good governance and builds on the work originally implemented under the country's Threshold Program.

MAJOR POLICY REFORMS IN THE TRANSPORT SECTOR

Roads are lifelines in developing countries because they provide access to markets, schools, health services, and municipal centers. Understandably, roads are a top priority for many MCC partner countries. Out of 23 compacts, 17 include road projects. From inception to completion of a road project, MCC works with partner countries to ensure the sustainability of transportation investments. First, MCC ensures that the designs for roads and other transport works include necessary drainage and technical specifications to maximize their lifespan. Second, we condition our assistance on partner countries fully funding road maintenance. Third, MCC builds the capacity of countries to maintain their roads.

- MCC supported **Moldova's** decision to revise a road fund law, which is having a pronounced impact. The budget for road maintenance increased by 35 percent in fiscal year 2011, compared with 2010. With the Government of Moldova's continued commitment, the road maintenance fund is likely to reach a sustainable funding level in 2014.

- In **Nicaragua** and **Honduras,** MCC supported more robust monitoring and enforcement of axle weight limits to ensure that overweight trucks, a major cause of damage to road surfaces, would be controlled.
- In fiscal year 2011, MCC adopted a policy on road safety and implemented enhanced road safety measures in **Vanuatu, Nicaragua, Honduras, Moldova,** and the **Philippines.** MCC's efforts to improve road safety continues to raise standards in partner countries and draw attention to road traffic accidents, one of the top ten causes of death worldwide.
- MCC enforces better health and safety practices among contractors during road construction. MCC-sponsored trainings on maintaining and protecting traffic during construction led road agencies in **Nicaragua, Ghana, Honduras,** and **Vanuatu** to prioritize safety plans.

MAJOR POLICY REFORMS IN THE PROPERTY RIGHTS AND LAND SECTOR

Land and property rights play a central role in economic development. When land rights are not secure or well-understood, citizens and firms are less likely to make long-term investments in their property. Excessive barriers to land transfers inhibit productive uses. Eliminating these constraints can improve the investment climate, boost land productivity, enhance the functioning of land systems, and increase incomes over time. In most cases, the constraints to better use of land are of a policy, procedural and institutional nature. MCC commitments to date of nearly $250 million in 11 countries target several of the most common barriers to optimal land use.

- In February 2011, **Lesotho** enacted comprehensive regulations to implement *Land Act 2010.* These regulations, prepared with MCC support, streamline procedures for obtaining consents for transactions of land use rights, simplify the procedures to register a newly issued lease and better secure landholder rights from government takings. As a result, commercial banks in Lesotho have increased mortgage lending, reportedly making 200 percent more capital available for mortgage bonds. The government is also pushing the drafting and adoption of a sectional title law that will establish the rights to create condominiums, providing the legal and policy framework for developing much-needed housing in Lesotho.
- MCC supports the Mozambican Land Consultative Forum, a public-private body that works to assess land policy and recommend reforms. The forum supports three important land policy reforms in **Mozambique.** First, the forum is recommending procedures for the transfer of rural land estates, making it easier for farmers to acquire and transfer rights in agricultural land. Second, the forum seeks to improve community consultations that are required when investors seek access to community land for the use of natural resources. The forum's recommendations establish further safeguards to ensure that communities do not cede land without proper consultation among all their members and without appropriate compensation for the use of the land. Finally, the forum is developing recommendations to simplify the process of partitioning jointly-owned community land among individual members, who wish to separate their land from the community for personal use.
- **Benin's** adoption of the *Declaration of Policy for Landholding and the Domain,* developed with MCC's support, puts in place a unified structure of law in which all three of Benin's legal land regimes—custom, civil and domain—will be retained as sources of landholding rights. This unified and synthesized land tenure system will provide citizens with more secure land rights and improve the investment climate in rural and urban areas.
- In November 2010, **Burkina Faso** approved 25 standard legal forms for establishing land tenure rights and for improving land use management practice at local levels. These legal forms give municipal governments throughout the country the tools to more fully and consistently implement the *2009 Rural Land Tenure Law* and that law's 2010 implementing regulations, supported by MCC.

HOW MCC ADVANCES POLICY CHANGE IN THE PROPERTY RIGHTS AND LAND SECTOR

New and improved laws: MCC provides resources to amend existing laws and draft new laws to better govern land rights. Stakeholder consultations during the process serve to improve laws and generate public support for changes.

Implementing regulations: If laws are in place but regulations are inadequate, the law will be ineffective. Clearer procedures help public officials apply laws more consistently and allow citizens and the private sector to benefit more equitably from legal changes.

Local institutions: Many land users cannot enjoy secure tenure because land institutions are either too far away or do not respond to local needs. MCC works to empower municipal and village officials to provide core land services.

Information: Even with strong laws, regulations and institutions, people fail to fully benefit if they are not informed. MCC land investments enable communications and outreach to public officials, citizens and the private sector about legal and policy requirements, creating a two-way dialogue that also helps policymakers understand the people's needs.

New practices: Many of MCC's land investments enable public sector institutions to function better through new procedures or systems.

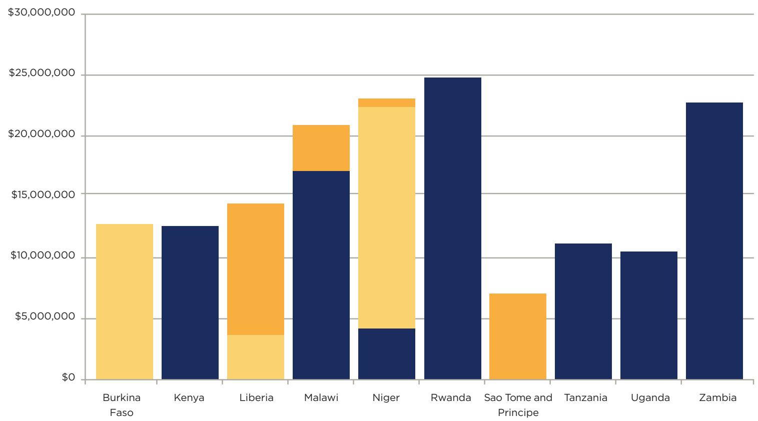
MAJOR POLICY REFORMS IN THE ENERGY SECTOR

Energy enables economic growth. It powers farms, factories and households, providing refrigeration for medicines and agricultural production, nighttime lighting for homes, schools and businesses and irrigation for fertile fields. MCC is working in Tanzania, Lesotho, Mongolia, El Salvador, and Ghana to improve the generation, transmission, distribution, and efficient use of electrical power, including introducing renewable sources of energy generation. MCC also works to improve the institutional framework for the power sector in order to increase reliability and energy use efficiency, improve technical capacity, enable cost recovery, and reduce costly subsidies that drain national budgets.

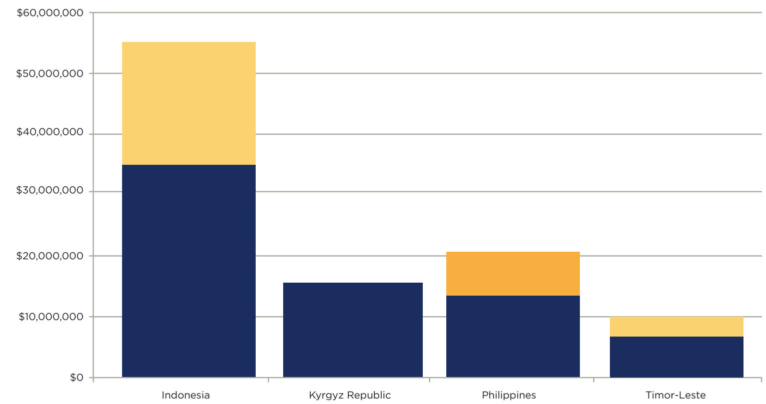
- The **Tanzania** Compact requires the government to support TANESCO's (the state-owned utility) efforts to become more financially self-sufficient and to improve the overall legal and regulatory environment to maximize MCC's $206 million investment in the country's energy sector. In 2008, Tanzania passed the *Electricity Act,* giving new independence and powers to the electricity regulator, encouraging private sector participation in the power sector by clarifying licensing requirements, improving tariffs and rules for connecting to the grid, and focusing on renewable and rural electrification. These policy reforms are beginning to spur private sector investment in the energy sector. U.S. companies, for example, have acquired generating assets and also bid on and won large power sector contracts in the country.

Next Generation Threshold Program and Threshold Program Results

Africa
(September 2011)

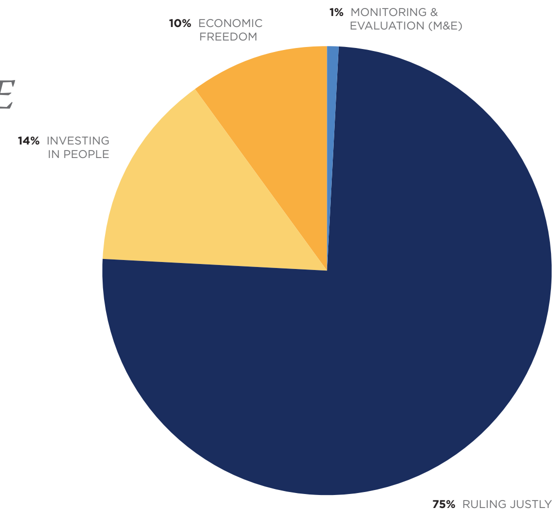


Asia
(September 2011)

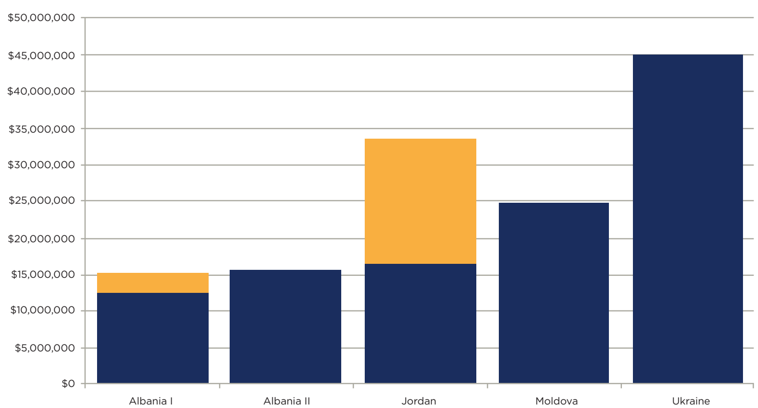


Threshold Program Funding by Policy Category Including M&E
(September 2011)

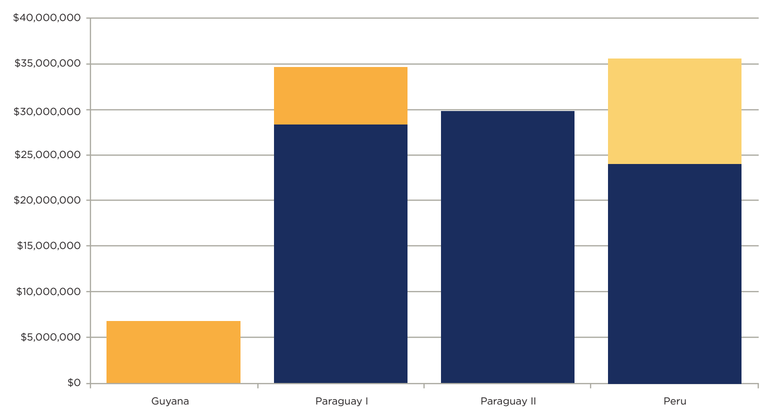
RULING JUSTLY
INVESTING IN PEOPLE
ECONOMIC FREEDOM
MONITORING & EVALUATION



Eastern Europe & the Middle East
(September 2011)



Latin America
(September 2011)



NEXT GENERATION THRESHOLD PROGRAM

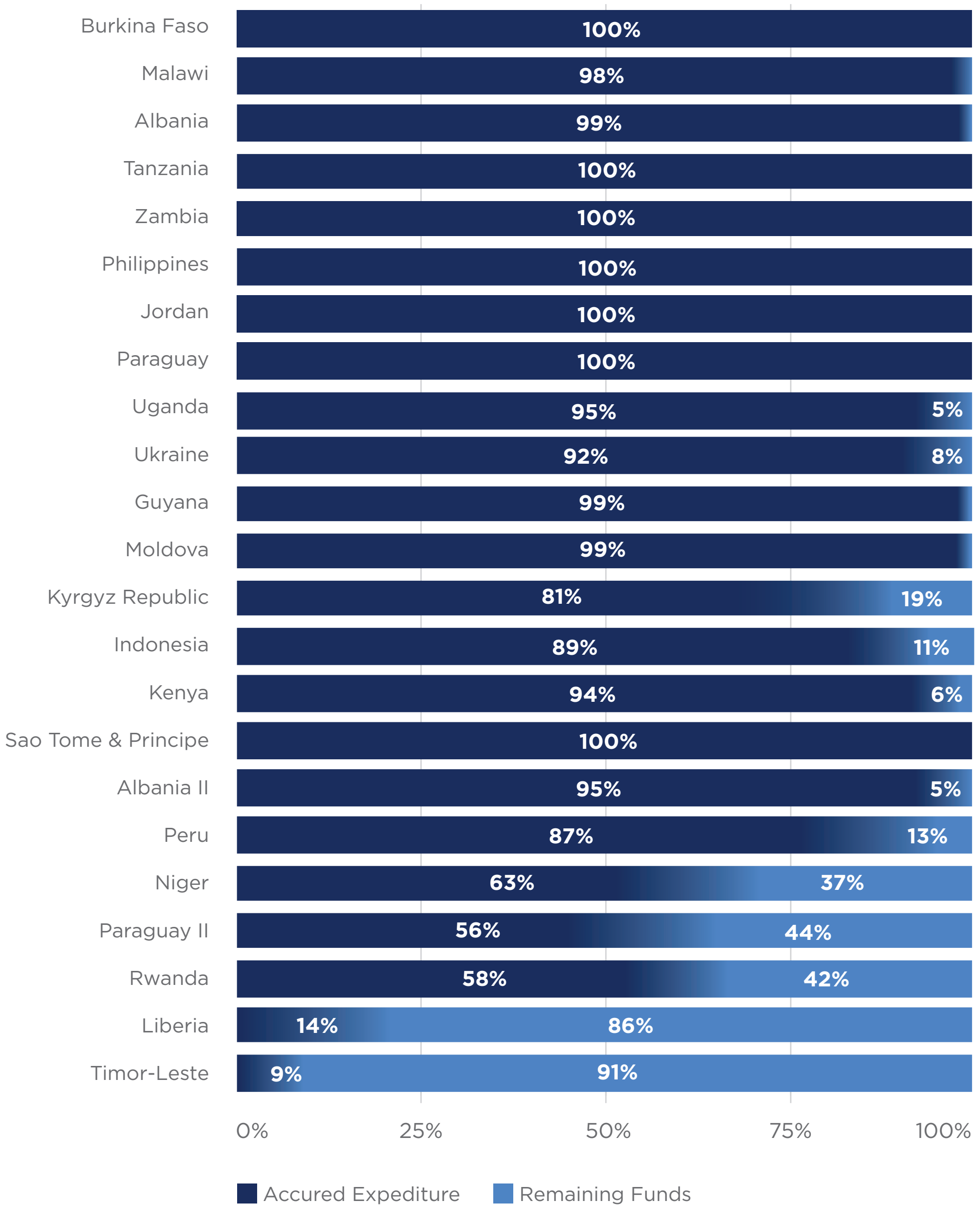
The next generation of MCC's Threshold Program will focus on policy reforms that partner governments can act upon within specified timeframes, more closely aligning the program with MCC's goal of creating policy environments conducive to reducing poverty through growth. Future threshold programs will enable countries to demonstrate their commitment to the broad policy areas underlying MCC's eligibility indicators, namely *Ruling Justly, Investing in People and Economic Freedom.* These programs will provide information to MCC's Board of Directors about a country's ability to implement critical reforms and MCC's opportunity to reduce poverty and stimulate long-term growth through a compact investment.

MCC'S THRESHOLD PROGRAM AT A GLANCE

- MCC has launched 23 threshold programs with 21 countries totaling nearly $495 million.
- Three-quarters of Threshold Program funding have been dedicated to reforms in the *Ruling Justly* category (such as anti-corruption and rule of law reforms), 14 percent toward *Investing in People* (girls' education and immunization) and 10 percent toward *Economic Freedom* (business, trade and land policy).
- 17 threshold programs have ended to date.
- Five threshold programs are ongoing in Liberia, Paraguay (II), Peru, Rwanda, and Timor-Leste.

Threshold Program Disbursement Pipeline

(as of 9/30/2011; % of Total Obligation)



- Niger's Threshold Program was reinstated in 2011 following a year-long suspension.
- During fiscal year 2011, MCC's Board of Directors selected Tunisia as eligible for a threshold program.
- Of the 21 threshold program countries, eight were selected as compact-eligible. Seven of these countries have signed compacts and one is developing a compact proposal.

THRESHOLD PROGRAM PROGRESS

- **Albania's** second Threshold Program concluded in July 2011 with a number of achievements that strengthen governance and the rule of law. These include: a United Nations award-winning e-procurement system that expanded competition and reduced costs and is now used for all government purchases over $4,000; a tax e-filing and payment system used by two-thirds of all taxpayers that has increased revenues while slashing opportunities for corruption; a one-stop-shop business registration system, which, according to the World Bank/IFC's Doing Business report, improved Albania's business climate by more than 70 places in its global ranking; a single-window licensing system used by most professionals and businesses to obtain licenses; and joint investigative units that investigate and prosecute dozens of organized crime and corruption cases. The Government of Albania is now sustaining all of these reforms. Albania moved to the upper middle income category in 2010, precluding it from consideration as an MCC candidate country.
- The World Customs Organization praised **Paraguay's** second Threshold Program for the implementation of a single-window system for imports, which has strengthened the capacity of Paraguayan customs to combat evasion and corruption while reducing the cost and time required to process import permits. In 2011, Paraguay's Threshold Program also rolled out a new, integrated logistic system for medicines and supplies, allowing officials to track medicines throughout the country's supply chain of warehouses, hospitals and clinics. The efficiency of the new system saves approximately $6.2 million per year and prevents shortages, waste and fraud. Paraguay's Ministry of Health is using its own budget and management resources to maintain the system, ensuring its sustainability when the Threshold Program ends in April 2012.

Creating Opportunity through Gender Integration

During fiscal year 2011, MCC released an updated *Gender Policy* and instituted new *Gender Integration Guidelines,* which established operational procedures and milestones for gender integration during both compact development and implementation. The guidelines are a significant step forward in making MCC's *Gender Policy* fully operational. Key guidelines include:

- requiring partner countries to hire, during compact development and implementation, key staff that are technically qualified in gender analysis;
- reviewing from the outset social and gender inequalities that present policy and institutional constraints to poverty reduction;
- requiring, linked to disbursements, a social and gender integration plan in each compact with an appropriate budget;
- requiring the collection, analysis and reporting of sex-disaggregated performance data; and
- requiring independent performance evaluations of virtually all MCC investments, and where possible, analyzing the differences in impacts between men and women.

"By increasing women's participation in the economy and enhancing their efficiency and productivity, we can bring about a dramatic impact on the competitiveness and growth of our economies. Because when everyone has a chance to participate in the economic life of a nation, we can all be richer."

— SECRETARY OF STATE HILLARY RODHAM CLINTON,
September 16, 2011

MCC elevated gender to one of the agency's top priorities and increased technical staff positions to support this key area.

Gender integration's priority at MCC headquarters is translating into increased attention and action in the field:

- MCC's compact with the **Philippines** includes a community development program (Kalahi-CIDSS) that works with local communities to address their needs. Within this program, MCC encouraged the development of a gender policy that will help staff better identify, understand and address the needs of women and promote women's paid employment and skills development. A pilot impact evaluation will assess the results of these efforts. MCC's work to incorporate best practices in gender integration will have a national impact, as these practices will be applied across the Philippines.

- Even though women in **Morocco** play an active role in agriculture, they face a number of barriers to actually benefit from agricultural improvement projects. A gender integration strategy in the Morocco Compact works to maximize women's participation across activities and raise gender awareness among policymakers, program implementers and contractors. In addition, a $2 million competitive grants fund was created specifically for women entrepreneurs and women's cooperatives to increase their participation in olive, date and fig production, including canning, drying and other value-added processing.

- Recognizing the need for a systematic approach to gender integration in the Alatona Irrigation Project, the MCA-**Mali** gender specialist, with support from MCC, organized a workshop to discuss gender equality in the project area and to identify stakeholder roles and responsibilities. A gender integration strategy resulting from this workshop provides direction for discrete and broad gender integration in the Alatona Irrigation Project that will expand opportunities for gender equality and women's empowerment in the area for years to come.

MCC puts institutional incentives and resources behind our commitment to gender integration through the annual *Gender Integration Award.* This award recognizes employees who best exemplify MCC's commitment to removing gender inequality as a constraint to economic growth.

Creating Opportunities through Better Environmental and Social Performance

By making environmental and social performance an integral part of MCC's investment decisions, MCC is able to enhance the quality of life for the people we invest in as well as ensure the sustainability of the natural resources upon which they depend for economic growth. MCC defines "environment" broadly to include the natural, social and cultural environment, including issues such as involuntary resettlement and human health and safety. Recognizing the importance of environmental stewardship to sustainable economic growth, MCC undertakes a comprehensive review of environmental and social impacts to ensure that projects undertaken are not likely to cause a significant environmental, health or safety hazard. We also design projects to operate in compliance with applicable regulatory requirements and standards, including international agreements to which a partner country is bound. MCC partner countries are expected to incorporate measures into compacts to mitigate adverse environmental and social impacts and enhance environmental performance.

- In **Indonesia**, for example, MCC worked with government officials and civil society to develop a *Green Prosperity Project* that responds to the country's commitment to a more sustainable future. The project aims to increase access to clean, reliable energy in rural areas and improve the stewardship of natural assets. It will involve communities, the private sector and local governments in low carbon development and will support the dissemination of green knowledge. A key element is ensuring greater certainty regarding spatial plans, administrative boundaries and natural resource use licensing as a prerequisite for safeguarding MCC investments while ensuring transparency and respect for community rights.

- In **Vanuatu,** Downer EDI Works Limited (DEW) won a citation for its excellent health and safety record in rehabilitating 149.7 kilometers of roads under Vanuatu's MCC compact. Between May 2008 and March 2011, the company achieved the enviable record of zero work-related fatalities and zero lost-time injuries. Its safety training had a long-term impact on work practices, especially on the 167 ni-Vanuatu recruited and trained by the company as full-time workers. DEW also provided health and safety training to MCA-Vanuatu's staff, the Public Works Department, the government, and MCC officials as a prerequisite to going on-site. Prior to the compact, it was rare to see any workers wearing protective clothing; now it is worn proudly. In addition, DEW sponsored road safety awareness training and poster contests in the schools and villages along the road. MCA-Vanuatu also worked with the Department of Agriculture to replace any small amounts of plants or crops lost because of the road works. Landowners could select new seedlings and training in recommended food and cash crops, like rice and coffee beans.

- MCA-**Benin's** Department of Environmental and Social Assessment held an eco-citizen contest for the Rural Landholding Beneficiary Communes. This initiative aims to foster environmental promotion and preservation in the targeted communes. Through this contest, local communities have become more aware of the area's environmental problems, and they are discussing positive, innovative and sustainable actions toward improvements that impact their welfare.

- With direct support from MCC, MCA-**Namibia** worked closely with the Ministry of Environment and Tourism to give the indigenous Hai||om San people access to their cultural sites within Etosha National Park. Previously, the Hai||om San were prohibited from visiting the culturally significant site of Gobaub or benefiting from the substantial tourism industry within and around the national park. Negotiations are ongoing between the Hai||om San and the ministry on the types of activities that will be allowed in the park, including a concession focusing on cultural and ecotourism at Gobaub and a potential partnership with a private sector tourism company to operate an eco-lodge on farmland adjacent to the park.

FINANCIAL STATEMENTS

Message from MCC's Chief Financial Officer

I am pleased to present the fiscal year 2011 financial statements of the Millennium Challenge Corporation. At MCC, we take seriously our responsibilities for stewardship of the resources entrusted to us and for reporting on MCC's budget and performance outcomes. So, while MCC is not subject to the requirements of the *Chief Financial Officers Act,* we choose to follow the professional standards it incorporates along with other good government reforms applicable to the Executive Branch. We believe this demonstrates our ongoing commitment to accountability and transparency to the American public. This financial section provides a comprehensive view of MCC's financial activities undertaken to advance MCC's mission of reducing poverty through growth.

Last December, MCC formed the Financial Integrity Task Force (FITF). This cross-functional team developed and implemented a comprehensive Corrective Action Plan toward addressing the underlying causes of the fiscal year 2010 qualified opinion. The FITF worked with our Millennium Challenge Account (MCA) partners to develop and report grant accrual and other financial data. Through sustained collaboration, MCC and the MCAs continuously improved the process to achieve complete and accurate reporting.

As a result, I am very pleased to report that MCC received an unqualified opinion for fiscal year 2011 from our independent auditor. A lot of hard work went into achieving this. The audit results of MCC's fiscal year 2011 financial statements are clear evidence of that progress. MCC's independent auditor reported that, in its opinion, MCC's financial statements present fairly, in all material respects, the net position of MCC as of September 30, 2011, and its net cost, changes in net position and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

We begin this new fiscal year with concentrated effort to resolve completely the material weakness in regard to our grant accrual methodology. As recommended by the auditor, MCC will develop a statistical model and validation process for grant accruals and look to develop this approach by the second quarter. We are also committed to improving the process with advances; while we don't have a complete corrective action plan finalized, we are already exploring alternatives. The auditor's report makes it clear that there is room for improvement in controls over financial reporting. We already are implementing the recommendations identified and are committed to correcting this situation in the near term. We also received other less serious findings of areas for improvement that will be incorporated into a master corrective action plan for resolution within the fiscal year.

In addition to activities related to financial reporting, these are exciting and busy times at MCC. When I joined the Department of Administration and Finance this October, it was apparent to me that fiscal year 2011 was a period of significant accomplishment. A major priority of the last year has been to launch and complete the first phase of the Automated Financial Information System to deliver an integrated set of solutions to meet the financial, procurement and human resource requirements of the agency. When MCC launches the second phase of the project in fiscal year 2012, implementation of a contract management system module will transform the way staff submit and monitor contract requests and will improve the compliance, reporting and overall management of MCC contract actions. The department also has worked closely with our program operations colleagues to define requirements for further improvements to the MCC Integrated Data Analysis System.

Achieving cost savings in all areas was a focus of the department and agency in fiscal year 2011 and will continue. MCC was able to realize significant efficiencies through ongoing improvements to travel practices, monitoring and intelligent management of communications tools and regular de-obligation of contracting actions. Finally, key changes implemented in fiscal year 2011 to MCC's performance management program have improved the entire agency's ability to define, monitor and reward excellent performance.

MCC's achievements in 2011 and the continued progress we plan for 2012 are made possible only by the exemplary dedication of our committed staff and partner countries. Ultimately, it is through the successful implementation of our programs that we achieve the results of sustainable poverty reduction through economic growth.

Chantale Yokmin Wong
Vice President for Administration and Finance
Chief Financial Officer

FISCAL RESPONSIBILITY STARTS AT HOME: MCC TAKES MEASURES TO MAKE EVERY ADMINISTRATIVE DOLLAR COUNT

In fiscal year 2011, MCC received an appropriation of $95 million for administrative expenses. This is the same level the agency has operated under since fiscal year 2009 and is a testament to our ability to control costs and manage within limited resources. MCC maintains a relentless focus on gaining efficiencies while making select investments in support systems that increase overall productivity and organizational effectiveness. MCC has sought to improve **staff productivity** through strategic investments in supervisory skills training and an improved performance management system. MCC also has restrained costs by **freezing salary** tables for calendar years 2011 and 2012 for all federal employees, in accordance with Presidential guidance, and has not issued across-the-board adjustments to rates of basic pay, awarding merit increases solely on individual performance. **Travel costs** have also been held nearly constant through strategies such as combining trips, reducing the number of MCC staff on mission-related visits, increasing the use of video teleconferencing, and applying airline mileage points.

MCC continues to observe and enforce strict travel guidelines, thereby eliminating most travel outside of coach class and controlling costs despite a growing portfolio of global investments and airfare increases of approximately 7 percent annually in recent years. We conducted a **lease audit** to ensure that MCC's headquarters office environment is efficiently managed and that any potential cost savings are identified. A careful process of renegotiating, recompeting and creatively pursuing **alternative procurement strategies** has delivered notable financial and operational benefits. Innovative procurement strategies have affected agency information technology platforms, the integration of systems and the automation of highly manual processes, all of which benefit MCC's administrative expenses bottom line.

Fund Summary

Data as of September 30, 2011 (Dollars in Millions)

Fund Groups	Obligations in FY 2011	Cumulative Obligations through FY 2011	Expenditures[1] in FY 2011	Actual Cumulative Expenditures through FY 2011	Projected Cumulative Disbursements through the end of FY 2012
609(g)[2]	26.4	133.1	29.0	98.7	89.1
614(g)	0.3	0.3	0.1	0.1	0.2
Administrative	95.2	560.2	88.1	524.6	518.8
Audit	3.9	20.2	4.1	19.3	20.5
Compacts[3]	412.7	7,564.6	1,462.6	3,466.4	18,335.0
Due Diligence	43.0	234.4	36.9	163.4	168.8
Threshold Program[4]	(7.2)	494.6	61.6	429.6	208.0
Total	574.3	9,007.4	1,682.4	4,702.1	2,651.7

[1] Expenditures are the sum of cash outlays and quarterly accruals for work completed but not yet paid or invoiced.

[2] The fund group "609(g)" includes funds under section 609(g) of the Millennium Challenge Act of 2003, as amended, other than Compact Implementation Funding.

[3] The fund group "Compacts" includes Compact Implementation Funding, Compacts, and other grants except those made using threshold program and 609(g) funds. groups.

[4] Data for the threshold program are provided by USAID, except for the Sao Tome and Principe threshold program, which is administered by U.S. Department of Treasury. USAID's data for this report are from its General Ledger by country rather than its Threshold Country Programs report. USAID is working to rectify discrepancies between these two data sources.

Detailed MCC Compact and Compact Related Projections

Data as of September 30, 2011

Country	Fund Group	Obligations pre-FY 2011	Obligations in FY 2011	Cumulative Obligations through FY 2011	Projected Obligations in FY 2012	Expenditures[1] pre-FY 2011	Expenditures in FY 2011	Cumulative Expenditures through FY 2011	Projected Disbursements[2]						
									FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	
Armenia [3]	609 (g)	-	-	-		-	-	-							
Signed, 3/27/2006	Compacts	235.7	-	235.7		95.3	80.9	176.2	22.1						176.2
EIF[4], 9/27/2006	Due Diligence	5.7	0.2	5.9		3.1	1.0	4.0							4.0
Benin	609 (g)	-	-	-		-	-	-							-
Signed, 2/22/2006	Compacts	307.3	-	307.3		120.0	164.8	284.8	44.7						284.8
EIF, 10/6/2006	Due Diligence	6.4	1.1	7.4		4.1	1.2	5.3							5.3
Burkina Faso	609 (g)	9.4	-	9.4		4.8	3.2	8.0							8.0
Signed, 7/14/2008	Compacts	478.9	-	478.9		52.0	26.8	78.8	117.9	170.3	117.8				78.8
EIF, 7/31/2009	Due Diligence	10.7	3.3	13.9		7.6	2.7	10.4							10.4
Cape Verde	609 (g)	0.2	0.1	0.3		0.2	0.1	0.3							0.3
Signed, 7/4/2005	Compacts	110.1	-	110.1		102.8	5.7	108.5	-						108.5
EIF, 10/17/2005	Due Diligence	4.5	2.7	7.1		2.9	1.7	4.6							4.6
Cape Verde II	609 (g)														-
Signed, TBD[6]	Compacts														-
EIF, TBD	Due Diligence	-	0.2	0.2		-	0.0	0.0							0.0
El Salvador	Compacts	460.9	-	460.9		165.4	138.0	303.4	160.9	4.8					303.4
Signed, 11/29/2006															
EIF, 9/20/2007	Due Diligence	7.7	1.2	8.8		5.8	1.1	6.9							6.9
Georgia[5]	609 (g)	4.2	-	4.2		4.2	-	4.2							4.2
Signed, 9/12/2005	Compacts	395.3	-	395.3		321.3	65.9	387.2							387.2
EIF, 4/7/2006	Due Diligence	10.8	2.3	13.0		8.2	1.4	9.6							9.6
Ghana	609 (g)	3.3	-	3.3		3.3	-	3.3							3.3
Signed, 8/1/2006	Compacts	547.0	-	547.0		234.7	225.4	460.1	157.4						460.1
EIF, 2/16/2007	Due Diligence	9.1	2.2	11.3		6.8	1.4	8.3							8.3
Honduras	614(g)	-	0.3	0.3		-	0.0	0.0							0.0
Signed, 6/13/2005	Compacts	205.0	-	205.0		197.5	6.5	204.0							
EIF, 9/29/2005	Due Diligence	5.3	(0.5)	4.8		2.9	1.3	4.2							4.2
Jordan	609 (g)	12.1	1.2	13.3		2.9	3.3	6.2							6.2
Signed, 10/25/2010	Compacts	-	2.1	2.1	273.0	-	1.4	1.4	24.5	101.7	73.8	60.1	4.1		1.4
EIF, TBD	Due Diligence	4.2	1.4	5.6		2.5	1.3	3.8							3.8
Lesotho	609 (g)	1.4	(0.4)	1.0		1.0	-	1.0							1.0
Signed, 7/23/2007	Compacts	362.6	-	362.6		44.3	81.6	125.9	123.5	127.4					125.9
EIF, 9/17/2008	Due Diligence	11.9	3.2	15.1		6.4	1.8	8.1							8.1
Madagascar[7]	609 (g)	-	-	-		-	-	-							-
Signed, 4/18/2005	Compacts	88.0	(3.6)	84.4		85.6	0.0	85.6							85.6
EIF, 7/27/2005	Due Diligence	2.9	(0.1)	2.7		2.6	0.0	2.7							2.7

Country	Fund Group	Obligations pre-FY 2011	Obligations in FY 2011	Cumulative Obligations through FY 2011	Projected Obligations in FY 2012	Expenditures[1] pre-FY 2011	Expenditures in FY 2011	Cumulative Expenditures through FY 2011	Projected Disbursements[2]						
									FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	
Malawi[8]	609 (g)	10.9	3.7	14.6		7.0	4.6	11.6							11.6
Signed, 4/7/2011	Compacts		9.1	9.1			-	-	0.0	0.0	0.0	0.0			-
EIF, TBD	Due Diligence	2.3	1.0	2.4		1.4	0.4	1.8							1.8
Mali	609 (g)	9.7	(0.0)	9.7		9.7	-	9.7							9.7
Signed, 11/13/2006	Compacts	460.8	(0.0)	460.8		148.6	163.0	311.5	148.9	21.4					311.5
EIF, 9/17/2007	Due Diligence	11.6	2.4	14.0		5.7	2.6	8.2							8.2
Moldova	609 (g)	12.2	0.5	12.7		5.4	4.9	10.4							10.4
Signed, 1/22/2010	Compacts	262.0	-	262.0		0.2	8.0	8.2	66.2	85.1	62.0	41.5			8.2
EIF, 9/01/2010	Due Diligence	1.6	1.1	2.7		0.4	0.7	1.1							1.1
Mongolia	Compacts	284.9	-	284.9		30.3	40.8	71.1	116.1	91.6	1.4				71.1
Signed, 10/22/2007	Due Diligence	7.9	3.2	11.1		4.9	1.3	6.2							6.2
EIF, 9/17/2008				-				-							-
Morocco	Compacts	697.5	-	697.5		98.8	120.4	219.2	263.0	229.0					219.2
Signed,8/31/2007	Due Diligence	11.5	3.1	14.6		7.0	2.4	9.4							9.4
EIF, 9/15/2008				-				-							-
Mozambique	609 (g)	9.5	-	9.5		9.5	-	9.5							9.5
Signed, 7/13/2007	Compacts	506.9	-	506.9		35.1	74.2	109.3	199.4	198.8					109.3
EIF, 9/22/2008	Due Diligence	10.8	1.8	12.5		4.7	1.6	6.3							6.3
Namibia	609 (g)	3.2	(0.0)	3.2		3.1	-	3.1							3.1
Signed, 7/28/2008	Compacts	304.5	(0.0)	304.5		23.0	37.1	60.1	74.1	111.9	66.0				60.1
EIF, 9/16/2009	Due Diligence	5.2	1.4	6.6		3.4	0.6	4.0							4.0
Nicaragua	609 (g)	-	-	-		-	-	-							-
Signed, 7/14/2005	Compacts	113.5	(0.0)	113.5		105.9	6.9	112.8							112.8
EIF, 5/26/2006	Due Diligence	4.1	(0.7)	3.4		2.3	0.3	2.6							2.6
Philippines	609 (g)	0.3	8.6	9.0		0.3	3.1	3.3							3.3
Signed, 9/23/2010	Compacts	25.1	405.1	430.2		0.1	11.9	12.0	52.1	116.2	121.3	101.1	34.2		12.0
EIF, 5/25/2011	Due Diligence	3.1	1.9	4.9		1.8	0.5	2.3							2.3
Senegal	609 (g)	18.1	-	18.1		7.5	4.6	12.1							12.1
Signed, 9/16/2009	Compacts	540.0	-	540.0		1.0	6.1	7.1	29.7	202.2	185.5	116.9			7.1
EIF, 9/23/2010	Due Diligence	2.5	2.0	4.6		1.2	1.1	2.3							2.3
Tanzania	609 (g)	9.8	-	9.8		9.7	(0.3)	9.4							9.4
Signed, 2/17/2008	Compacts	698.1	(0.0)	698.1		77.1	194.6	271.6	221.0	258.9	1.0				271.6
EIF, 9/15/2008	Due Diligence	12.9	1.1	14.0		8.2	2.4	10.6							10.6
Vanuatu	Compacts	65.7	-	65.7		62.8	2.7	65.5							65.5
Signed, 3/2/2006				-				-							-
EIF, 4/28/2006	Due Diligence	2.7	(0.0)	2.6		1.9	0.1	2.0							2.0
Zambia	609 (g)	2.4	9.9	12.3		-	4.1	4.1							4.1
Signed, TBD	Compacts			-	-			-	0.0	0.0	0.0	0.0			-
EIF, TBD	Due Diligence	1.3	1.6	2.8		0.2	1.5	1.7							1.7
Cross-Cutting	Due Diligence/ 609(g)/614(g)/Grants	35.1	4.5	39.6		31.8	5.4	37.2							37.2
Total		7,447.9	477.1	7,925.1	273.0	2,198.0	1,526.3	3,724.3	1821.5	1719.3	628.8	319.6		0.0	

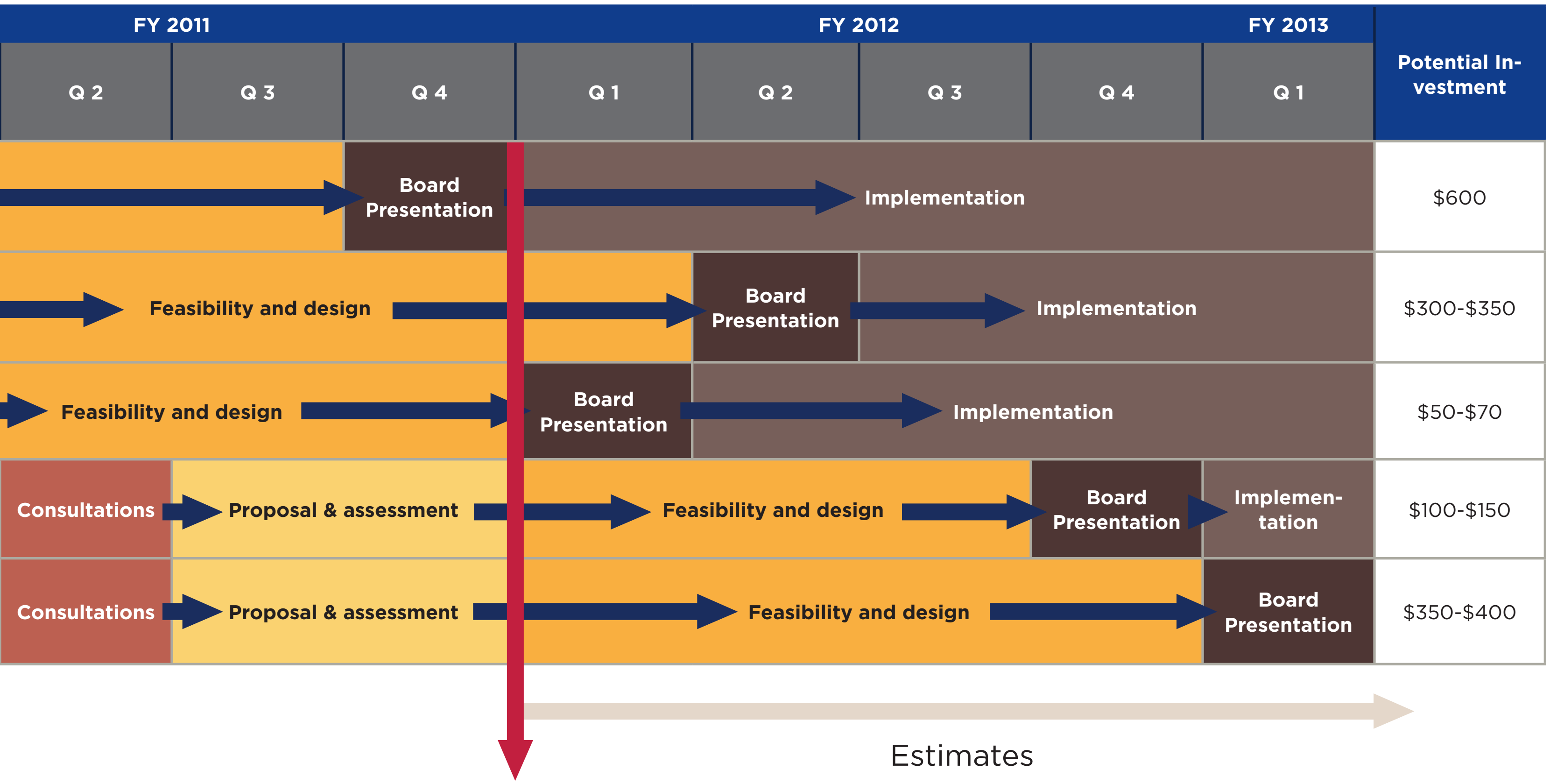
1 Expenditures are the sum of cash outlays and quarterly accruals for work in process and invoices received but not yet paid. **2** MCC anticipates FY 2011 disbursements to be within 10 percent of the projections. MCC assesses risks across the whole portfolio of compacts, and therefore, the sum of all compact countries' disbursements, as stated above, is expected to be lower than the sum of all work plan projections by compact countries. Projections for FY 2012 and beyond are based on general program plans and are subject to revision. Program implementation involves uncertainty associated with factors such as the procurement process, construction schedules, and the capacity of accountable entities and implementing entities. **3** MCC has placed an operational hold on disbursement of $58.6 million allocated in the Armenia compact for rural roads. **4** Entry into force. **6** To be determined. **7** The Madagascar obligation amount is underreported by $1.2 million due to an Oracle system error which will be resolved in early FY 2012. **8** The Malawi Compact was placed on an operational hold on July 27, 2011 due to actions by the country inconsistent with MCC's eligibility criteria.

Compacts in Development

Country	Threshold Program / 1st Compact completion dates	FY 2009		FY 2010				
		Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1
Indonesia	Threshold Program completed Dec 31, 2010		Consultations		Proposal & assessment		Feasibility and design	
Zambia	Threshold Program completed Jul 4, 2008		Consultations			Proposal & assessment		
Cape Verde	1st Compact completed Oct 15, 2010				Consultations		Proposal & assessment	
Georgia	1st Compact completed Apr 7, 2011							
Ghana	1st Com-pact ends Feb 16, 2012							

Keys:

Consultations	Country selects team, analyzes constraints to growth and poverty reduction, and initiates broad public consultations, defines projects
Proposal	Country prepares concept papers for each proposed investment, MCC conducts initial viability assessment
Feasibility & Design	Country and MCC conduct detailed feasibility and design studies, and environmental and social impact assessments, to determine scope and cost of Compact
Board Presentation	Final Compact terms negotiated, Board approval.
Implementation	Compact signing and Implementation of Compact commences


FY 2011
FY 2012
FY 2013
Q 2
Q 3
Q 4
Q 1
Q 2
Q 3
Q 4
Q 1
Potential In-vestment
Board Presentation
Implementation
$600
Feasibility and design
Board Presentation
Implementation
$300-$350
Feasibility and design
Board Presentation
Implementation
$50-$70
Consultations
Proposal & assessment
Feasibility and design
Board Presentation
Implemen-tation
$100-$150
Consultations
Proposal & assessment
Feasibility and design
Board Presentation
$350-$400
Estimates

Threshold Summary

Data as of September 30, 2011

			Cumulative Program Obligations by MCC[1]	Cumulative Expenditures[2] by U.S. Government Agencies
			2005 - Present	2005-Present
Approved Threshold Programs				
Country	Signing Date	Status		
Albania	4/3/2006	Completed	13.9	13.7
Albania II	9/29/2008	Completed	15.7	15.1
Burkina Faso	7/22/2005	Completed	12.9	12.9
Guyana	8/23/2007	Completed	6.7	6.6
Indonesia	11/17/2006	Completed	55.0	49.8
Jordan	10/17/2006	Completed	25.0	25.0
Kenya	3/23/2007	Completed	12.7	9.7
Kyrgyz Republic	3/14/2008	Completed	16.0	12.3
Liberia	7/6/2010	Ongoing	15.1	2.5
Malawi	9/23/2005	Completed	20.9	20.5
Moldova	12/15/2006	Completed	24.7	24.2
Niger[3]	3/17/2008	Reinstated	23.1	14.6
Paraguay	5/8/2006	Completed	34.6	34.5
Paraguay II	4/13/2009	Ongoing	30.3	23.8
Peru	6/9/2008	Ongoing	35.6	32.7
Philippines	7/26/2006	Completed	20.7	20.5
Rwanda	9/24/2008	Ongoing	24.7	16.7
Sao Tome & Principe	11/9/2007	Completed	7.4	7.4
Tanzania	5/3/2006	Completed	10.9	10.9
Timor-Leste	9/22/2010	Ongoing	10.5	1.6
Uganda	3/29/2007	Completed	10.5	9.9
Ukraine	12/4/2006	Completed	45.0	41.8
Zambia	5/22/2006	Completed	22.7	22.7
Assistance for Threshold Program Preparation[4]				
Cumulative to Other U.S. Government Agencies			2.0	
Fees for Administration of Threshold Programs[4]				
Cumulative to Other U.S. Government Agencies			36.0	
Total			532.6	429.6

1 Cumulative Program Obligations by MCC include MCC allocations and transfers of funds for obligation by other U.S. government agencies and reflect deobligations of funds returned to MCC. **2** Cumulative expenditures are based on USAID and U.S. Department of Treasury estimates. **3** Threshold Program assistance for Niger was reinstated in 2011 but is not yet active. **4** Assistance for Theshold Program Preparation and Fees for Administration of Threshold Programs reflect allocations and transfers of MCC funds to other U.S. government agencies, primarily USAID.

COMPLETE FINANCIAL AUDIT REPORT

OFFICE OF INSPECTOR GENERAL
For the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2011 AND 2010

AUDIT REPORT NO. M-000-12-001-C
November 15, 2011

WASHINGTON, DC

Office of Inspector General for the Millennium Challenge Corporation

November 15, 2011

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005-2203

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2011 and 2010

Dear Mr. Yohannes,

Enclosed is Williams, Adley & Company-DC, LLP's final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Williams, Adley & Company-DC, LLP to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2011. The contract required that the audit be performed in accordance with United States Generally Accepted Government Auditing Standards, Office of Management and Budget (OMB) Bulletin 07-04 as amended, Audit Requirements for Federal Financial Statements, and the GAO/PCIE Financial Audit Manual.

The Independent Auditors expressed an unqualified opinion on MCC's FY 2011 Financial Statements. The report stated that the financial statements referred to above present fairly, in all material respects, the net position of MCC as of September 30, 2011, and its net cost, changes in net position and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America. MCC's financial statements as of September 30, 2010 were audited by other auditors.

In its audit of MCC's fiscal year 2011 financial statements the auditors' identified two issues that were considered material weaknesses and two other issues that were considered significant deficiencies. These matters are listed below and are detailed in the auditor's report.

Millennium Challenge Corporation
1401 H Street N.W.
Suite 770
Washington, DC 20005
www.usaid.gov/oig

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Material Weaknesses

- MCC's Financial Reporting Process Needs Improvement
- MCC's Process for Calculating and Reporting Accrued Expenses, Retentions, and Advances Needs Improvement

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Significant Deficiencies

- MCA Required Documentation, Including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans Are Not Submitted, Reviewed, and/or Approved In A Timely Manner
- Reconciling Fund Balance with Treasury (USAID)

The auditors did not note any instances of material non-compliance with laws and regulations.

In carrying out its oversight responsibilities, the OIG reviewed Williams, Adley & Company-DC, LLP's audit reports and documentation. This review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards was not intended to enable the OIG to express, and we do not express, opinions on MCC's financial statements, or internal control; or on MCC's compliance with other laws and regulations. Williams, Adley & Company-DC, LLP is responsible for the attached auditor's report, dated November 10, 2011, and the conclusions expressed in the report. However, our review disclosed no instances where Williams, Adley & Company-DC, LLP did not comply, in all material respects, with applicable standards.

To address the material weaknesses and significant deficiencies in internal controls reported by Williams, Adley & Company-DC, LLP, we are listing below the findings with fifteen (15) recommendations to MCC's management:

Material Weaknesses

MCC's Financial Reporting Process Needs Improvement

Recommendations: We recommend that MCC's Administration and Finance (A& F) Division:

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1. Develop and document a financial reporting process that reduces the likelihood of errors, inconsistencies, and inaccuracies and results in efficiencies and effectiveness, consistency, and accuracy of financial data.
2. Enhance the quality control process to detect errors or improper closeout of accounts through additional check totals, training and involvement of additional A&F staff members.

MCC's Process for Calculating and Reporting Accrued Expenses, Retentions, and Advances Needs Improvement

Recommendations: We recommend that MCC:

3. Develop an appropriate MCC data store of MCA expense information as required by TR-12.
4. In the interim, perform similar data validation employed at year end for each quarter going forward.
5. Prepare a MCC developed estimate for accrued expenses based upon statistical modeling or an alternative that is based on MCC obtained data.
6. Record advances in accordance with generally accepted accounting principles.
7. Develop and implement a periodic reconciliation process for advances.
8. Develop and implement a quarterly certification for advance transactions processed by the MCAs as part of the quarterly data call submission.
9. Modify MCA audit requirements to include testing and reporting of advances transactions.

Significant Deficiencies

MCA Required Documentation, Including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans Are Not Submitted, Reviewed, and/or Approved In A Timely Manner

Recommendations: We recommend that MCC's Administration & Finance Division and Department of Compact Operations:

10. Collaborate with the OIG and provide the MCA auditors with a document discussing the issues/errors that have led to delays in processing and clearing audit plans and audit reports in a timely manner.
11. Provide comprehensive guidance to MCAs regarding the procurement of firms to perform the Fund Accountability Statement audits with a focus on timeliness and completeness of the audit deliverables and potential penalties.

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12. Continue to collaborate with the OIG to improve communications regarding audit status and solutions to moving individual audits to completion on a timely basis.

13. Reiterate the program requirements that Quarterly Disbursement Requests are to be accurate and complete and submitted within the required timelines and provide them with information about issues/things that cause delays.

14. Review the current guidelines for submission of Compact Closure Plans to determine if the timeline is reasonable and realistic. In addition, the Department of Compact Operations should work closely with MCAs to develop and compile a compact closure plan and resolve any outstanding items in advance of compact closure.

Reconciling Fund Balance with Treasury (USAID)

Recommendation: We recommend that MCC's Administration and Finance Division:

15. Continue to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing suspense account items in order to monitor MCC's risk of potential misstatements.

In finalizing the report, Williams, Adley & Company-DC, LLP evaluated MCC's response to the report and acknowledged that management decisions have been reached on all of the recommendations. Williams, Adley & Company-DC, LLP stated that MCC should provide OIG with a timeline to address the recommendations and report to the OIG when final action has been taken on the recommendations.

Subsequently, MCC provided target dates for when the final actions would be completed. Thus, OIG agrees with MCC's management decisions for all 15 recommendations. Please inform us when final action has been taken.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of Williams, Adley during the audit. Please contact Mark Norman at (202) 216-6961, if you have any questions concerning this report.

Sincerely,,

Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

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MILLENNIUM CHALLENGE CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

AND INDEPENDENT AUDITORS' REPORTS THEREON

WILLIAMS ADLEY

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WILLIAMS ADLEY

Independent Auditors' Report

Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

We have audited the accompanying Balance Sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2011, and the related Statements of Net Cost, Changes in Net Position and Budgetary Resources for the fiscal year then ended (hereinafter referred to as financial statements). These financial statements are the responsibility of MCC management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of MCC as of September 30, 2010 were audited by other auditors whose qualified report dated November 15, 2010, included an explanatory paragraph that described that the process for compiling accruals was not comprehensive enough to record accruals for material amounts of current-year expenses not paid or invoiced until the subsequent period. Fiscal year 2009 expenses were understated by accrual amounts, and FY 2010 expenses were overstated by those same amounts.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of MCC as of September 30, 2011, and its net cost, changes in net position and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

WILLIAMS, ADLEY & COMPANY-DC, LLP
Certified Public Accountants / Management Consultants
1030 15th Street, NW, Suite 350 W • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161
www.williamsadley.com

The introductory information and performance information are presented for additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 10, 2011, on our consideration of MCC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Williams, Adley & Company – DC, LLP /s/

Washington, D.C.
November 10, 2011

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WILLIAMS
ADLEY

Independent Auditors' Report on Internal Control

Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

We have audited the Principal Statements (hereinafter referred to as the financial statements) of the Millennium Challenge Corporation (MCC) as of and for the fiscal year (FY) ended September 30, 2011, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance.

MCC's management is responsible for establishing and maintaining effective internal control. In planning and performing our audits, we considered MCC's internal control over financial reporting by obtaining an understanding of MCC's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements but not to express an opinion on the effectiveness of MCC's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of MCC's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in the OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. We did not test all internal controls relevant to operating objectives broadly defined by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) such as those controls relevant to ensuring efficient operations.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects MCC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of MCC's principal financial statements that is more than inconsequential will not be prevented or detected by MCC's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

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As a result of our testing, we consider the findings included in Schedule A to be material weaknesses and those in Schedule B to be a significant deficiencies. The material weaknesses noted in Schedule A were not reported as material weaknesses by MCC in their FMFIA report. We noted other non-reportable matters involving internal control and its operations that we reported to management in a separate letter.

MCC's management comments are in an appendix to this report. We did not audit MCC's response and accordingly, we provide no opinion on it.

This report is intended solely for the information and use of management of the Millennium Challenge Corporation and its Office of Inspector General, Office of Management and Budget, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company – DC, LLP /s/

Washington, D.C.
November 10, 2011

Schedule A – Material Weaknesses

I. **MCC's Financial Reporting Process Needs Improvement**

MCC's financial reporting process needs improvement. In the draft annual financial statements provided to the auditors there were errors amounting to $180 million that were identified by the auditors and reported to MCC for correction. The June 2011 financial statements included an error of $596 million that MCC found prior to our review that required the financial statements to be reissued. MCC's heavy reliance on the manual compilation of financial reports, staffing limitations and tight compilation and reporting timelines resulted in an ineffective quality assurance process and thus the errors that were found.

The quarterly and annual financial reporting process is highly manual and requires several outside entities to provide materially significant financial information on a timely basis in order to prepare MCC's internal and external reports. Currently the time required to compile the financial statements from generation of the initial trial balance from the accounting system, receipt, review and recording of outside data, and the preparation and posting of adjusting entries significantly shortens the time available for the quality assurance process needed to ensure that material errors do not occur.

A summary of the errors we found in our testing of MCC's financial reporting is as follows:

- We noted an incorrect Fund Balance with Treasury balance on the Balance Sheet at June 30, 2011 and thus the financial statements did not total correctly. MCC reported $5,681 million but later revised that amount to $6,278 million, a difference of $596 million, due to a formula error in the Excel worksheet that MCC informed us of prior to our review of those statements.

- In the original submission of the September 30, 2011 draft financial statements, on the Statements of Changes in Net Position, the total financing sources for FY 2010 was overstated by $50 million and the unexpended appropriations beginning balance as adjusted was overstated by $130 million. We reported these errors to MCC who indicated that transposition errors had occurred.

In an effort to address various issues noted in prior year audits, including challenges with financial reporting, MCC established the Financial Integrity Task Force in FY 2011 that resulted in additional training and quality control tools for the Department of Administration and Finance (A&F).

OMB Circular A-123, Management's Responsibility for Internal Control states:

"Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:

- *All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);*
- *All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness);*

- *All assets are legally owned by the agency and all liabilities are legal obligations of the agency (rights and obligations);*
- *All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation);*
- *The financial report is presented in the proper form and any required disclosures are present (presentation and disclosure);*
- *The transactions are in compliance with applicable laws and regulations (compliance):*
- *All assets have been safeguarded against fraud and abuse; and*
- *Documentation for internal control, all transactions, and other significant events is readily available for examination."*

MCC's Financial Reporting, Financial Audits, and Agency Financial Reports Policy and Procedure Manual, section 8.1 states:

"Step 2: The Division of Finance, DCFO/ACFO, reviews, validates and conducts quality assurance on financial statements. If errors are found, the Division of Finance staff make necessary changes and reissue the revised financial statement package."

MCC's unqualified opinion was obtained through "heroic efforts" because the financial reporting by MCC requires extensive time and effort from MCC personnel. MCC's heavy reliance on manual compilation of financial reports and validation of the underlying data show that improvements are needed to ensure that systems, processes, and controls routinely generate reliable, useful, and timely financial information. This manual process and tight timelines reduces the time for quality control and thus increases the likelihood of misstatement due to human error. MCC does not currently have an effective review process in place to ensure accurate financial reporting. As a result, material errors in the financial statements could mislead readers as to the financial activities of MCC.

Recommendations: We recommend that MCC A&F:

1. Develop and document a financial reporting process that reduces the likelihood of errors, inconsistencies, and inaccuracies and results in efficiencies and effectiveness, consistency, and accuracy of financial data.

2. Enhance the quality control process to detect errors or improper closeout of accounts through additional check totals, training and involvement of additional A&F staff members.

II. Controls over MCC Accrued Expenses, Retentions, and Advances Need Improvement

The controls over the accrued expenses, retentions, and advances need improvement. MCC accrued expenses and retentions related to the Millennium Challenge Accounts (MCAs) are approximately $276 million or 92% of the accounts payable recorded and reported by MCC quarterly. MCA advances are approximately $185 million or 93% of the advances reported on MCC's financial statements. These balances are reported in the financial statements based upon a quarterly data call reporting process that began at the end of the prior fiscal year.

During FY 2011 in response to prior year audit recommendations, MCC provided quarterly instructions and templates to the MCAs regarding the advances, accruals, and retentions data

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call reporting. However, the instructions and templates changed between the first and second quarters of FY 2011.

Issues with advances have been noted in past financial statement audits as material misstatements that required a restatement of the FY 2009 financial statements and material audit adjustments to the FY 2010 financial statements. Initially, MCC records all advance transactions in the general ledger as an expense. Using the quarterly data call reporting workaround MCC records a journal voucher to move outstanding advances from expenses to advances.

Until the fourth quarter there was no other MCC review to ensure that these material transactions were accurate. Additionally, the timelines used for the majority of the fiscal year for MCA quarterly data call submissions were tight leaving little time for reconciliation and follow-up with the MCA.

Also, during FY 2011 MCC implemented Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR) 12 for estimating accruals for its grant program, i.e. Compacts. Because MCC does not have the historical data store to accurately estimate accrued expenses, MCC relied on the MCAs to act as a "proxy" to provide accurate, reliable, and complete data to produce the estimated accrued expense balances. During most of the year minimal quality assurance checks were performed on the MCA data before recording in the general ledger and quarterly financial statements. In the fourth quarter, however, the level of quality assurance performed by MCC changed and expanded significantly.

As a result of MCC's validation of prior data calls and special reports from MCA auditors, we noted that the quarterly data call reporting on which MCC was placing its reliance contained misstatements. Further, several MCAs did not have internally developed processes to ensure reliable, accurate, complete and consistent reporting to MCC. Due to the high level of audit risk, we performed on-site testing of the data call reporting for accruals, advances, and retentions at six MCAs covering the first, second, and third quarters. Although our primary focus was FY 2011, we did perform tests of the September 2010 balances given the prior year issues noted in the FY 2010 auditors' report. The results of our audit indicated errors in the data call information for advances, retentions, and accruals.

- We noted errors in the MCAs' data call reporting from the first quarter through the third quarter.
- We noted accrual errors at all six MCAs. Most errors involved work in process estimates. The errors caused misstatements ranging from $227 thousand to $10 million. Also, several accruals in each quarterly data call lacked supporting documentation or were duplicates.
- Five of six MCAs had problems in properly reporting retentions quarterly. Errors in retentions ranged from $2 thousand to $3 million. We also noted a lack of supporting documentation and inadequate controls over compliance with contract requirements related to retentions.
- We noted that advances ranging from $66 thousand to $939 thousand were not included in the data calls during the three quarters.
- We noted that two of six MCAs were not using the new Advance Payment Reporting Form (APRF) to report advances after April 1, 2011, as required. MCC implemented the

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APRF to serve as a secondary check on the reasonableness of the quarterly reported advances.

Technical Release 12 requires the agency to prepare reliable and timely accrual estimates for grant programs based upon historical data stores. Because MCC is at an interim stage in its implementation of TR 12 and lacks the in-house data stores, it is relying on the data obtained from the MCAs and monitoring of this estimation process.

Through the Financial Integrity Task Force, MCC employed a multi-pronged approach to ensuring data quality that included instructions, standardized reporting, one-on-one training and consultations, frequently asked questions, quarterly regional conference calls with the MCA finance teams and fiscal agents, and on-site assistance. MCC sent key staff to conduct hands on training at selected MCAs in May 2011 and also held multi-day working sessions with MCA finance teams and fiscal agents in May and June, 2011. Because of what was learned during this period MCC expanded training efforts by working with procurement personnel, finance and fiscal agent staff through the fourth quarter.

MCC implemented more extensive quality control procedures at year end to reduce the data quality risks related to completeness, accuracy and consistency. In the 4th quarter MCC's quality control procedures included obtaining MCA data quality certifications, sampling the data call's supporting documentation for completeness and accuracy, and a review of each submission for reasonableness. Because of the herculean efforts of MCC A&F and the Department of Compact Operations (DCO) and the MCAs our testing of the MCAs' fourth quarter data call submissions resulted in a net MCC overstatement of accounts payable of $4 million and an $886 thousand understatement of advances.

Technical Release 12 also requires that the agency assess the cost benefit of the controls over the data. It is unknown however the total cost of the efforts employed by MCC to ensure the data quality of the fourth quarter submissions.

Multiple causes exist for the advances, accruals, and retentions data call errors. They include:

- Insufficient guidance early in the year for development of an accrual methodology, process, and documentation,
- Inadequate review of data call prior to submission to ensure completeness, accuracy, and timeliness,
- Inadequate retention of supporting documentation,
- Lack of engagement of MCA program personnel and other persons with knowledge of the current work status,
- Incorrect use of exchange rates,
- Lack of a standardized system of electronic recording and reporting thereby resulting in a highly manual process,
- Insufficient MCA policies and procedures to ensure completeness, accuracy, timeliness, approvals, and consistency, and

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- Lack of a robust quality assurance process by MCC.

Also, for the majority of the fiscal year MCC did not have sufficient controls in place and did not request sufficient documentation from the MCAs to detect errors in data call reporting.

Statement of Federal Financial Accounting Standard Number 1, Accounting for Selected Assets and Liabilities, states:

> *"Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part of or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Examples include ... and cash or other assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee. "*

GAO Internal Control Standards for the Federal Government, GAO/AIMD-00-21.3.1 (11/90) states:

> *"Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes."*
>
> *"For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events."*
>
> *"Control activities help to ensure that all transactions are completely and accurately recorded."*

FASAB TR 12 *Accrual Estimates for Grant Programs* states in paragraph .11 that "preparing reliable and timely accrual estimates for grant programs must be a joint effort between the budget, financial, and program offices at each agency. It also provides that some agencies may not be able to effectively implement the procedures because they have not yet developed the necessary data stores and/or methods for preparing grant accrual estimates and thus should use the alternatives outlined in the TR."

Paragraphs 16-21 of TR 12 relate to preparing accrual estimates for new grant programs or changes to existing grant programs. "In the absence of sufficient relevant and reliable historical data on which to base accrual estimates, agencies should prepare estimates based upon the best available data at the time the estimates are made. Estimates can be based upon historical data, modeling capabilities or informed opinion, in limited instances."

The MCA data calls were inconsistently completed with varying degrees of reliability during the fiscal year. The ability for MCC to rely on the information provided was reduced, thereby, placing its financial reporting and adjustments to accounts payable and program expenses for the accrued MCA expenses ranging from $135 million to $276 million at risk for misstatements.

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During the year MCC recorded adjustments for new advances of $142 million and liquidation of FY 2010 and 2011 advances of $123 million based upon the data call information. According to MCC it is more cost beneficial to record advances as expenses first and use the MCA quarterly reporting mechanism to adjust the account balances as needed. Throughout most of FY 2011 MCC did not have sufficient quality assurance procedures related to the MCA quarterly data call to ensure completeness, accuracy, and consistency of the advance data.

The completeness and accuracy of advance amounts reported on the financial statements was a high risk because MCC was using an unreliable source as a secondary check, and relying on MCA data call information and insufficient quality assurance throughout the fiscal year. MCC's financial statements could have been misstated because of control weaknesses associated with recording and reporting advances, accruals, and retentions.

Recommendations: We recommend that MCC:

3. Develop an appropriate MCC data store of MCA expense information as required by TR 12.
4. Perform similar data validation employed at year end for each quarter going forward.
5. Prepare an MCC developed estimate for accrued expenses based upon statistical modeling or alternative that is based on MCC obtained data.
6. Record advances in accordance with generally accepted accounting principles.
7. Develop and implement a periodic reconciliation process for advances.
8. Develop and implement a quarterly certification for advance transactions processed by the MCAs as part of the quarterly data call submission.
9. Modify MCA audit requirements to include testing and reporting of advances transactions.

Schedule B – Significant Deficiencies

III. MCA Required Documentation, Including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans Are Not Submitted, Reviewed, and/or Approved in a Timely Manner

MCC's business is providing funding, supporting MCA activities, and reporting to others on the financial, programmatic and compliance aspects of those activities in order to reduce poverty in poor countries through economic growth. To perform these duties properly MCC requires various documentation and information from the MCAs. During the audit process we noted that audit reports, quarterly disbursement requests and compact closure plans were not always submitted, reviewed, and/or approved in compliance with MCC's own guidelines for various reasons.

Audit Reports
We reviewed the status of audit reports for the period ended December 31, 2010, which were due on March 31, 2011, to determine whether MCC complied with the audit requirements and had proper controls in place to ensure timely submission of audit reports.

Of the 17 MCA audit reports that should have been received by the OIG as of July 2011, our analysis revealed the following:

- 3 Audit Reports were received within the specified timeframe;
- 8 Audit Reports were received late; and
- 6 Audit Reports had not yet been received.

As of September 30, 2011 one draft audit report had still not been received by the Office of the Inspector General (OIG) and only seven reports had been finalized by the OIG. Therefore, approximately $68 million in project expenditures through December 31, 2010 have not been audited (no draft report issued) and final reports have not been issued for approximately $626 million in project expenditures.

A timely audit involves the timely engagement of an audit firm by the MCA, an agreed upon timeline that ensures that the deliverables are provided within the deadlines, quality deliverables from the audit firms, and timely responses from the MCA, and audit firms. MCC and the OIG have responsibilities to monitor the audit process, provide technical assistance, and hold the various organizations accountable for the timely completion of audits and resolution of findings. Because this condition was noted in previous years and in an effort to improve audit report timeliness, MCC and the OIG established monthly meetings to discuss audit status and delays. Also, MCC has also decided to move toward annual audits for more mature MCAs, which is compliant with the compact agreement, in an effort to simplify the contracting and organizational review process.

Further, audit planning documents are routinely reviewed and approved late which directly affects the timing of the MCA audits. For example, draft audit reports were due on March 31, 2011 for the period ended December 31, 2010; however, many audit planning documents were not received until February or March 2011 with an average of two months between submission and approval of planning documents by OIG. The MCA audit cannot begin until audit planning documentation is approved. MCC has instituted a variety of monitoring controls, and most delays are outside of their control, but MCC is ultimately accountable for ensuring that the funds are audited. On a positive note, for the FY 2009 expenses that had been audited MCC has experienced a less than 1% rate for sustained questioned costs.

More can be done to address the root cause of most delays, audit quality. Audit quality issues that can lead to delays include errors or incomplete audit planning documents; non-inclusion of required audit steps; and errors in the report.

Quarterly Disbursement Requests

MCAs did not submit Quarterly Disbursement Requests (QDRs) for all funds in accordance with MCC policy. According to MCC's Compact Management Policies and Procedures, Quarterly Disbursement Requests are due no later than 20 days before the beginning of the quarter (October 1st, January 1st, April 1st, and July 1st). This was previously noted as a prior year audit finding. We reviewed QDRs for all funds for a sample of 10 MCAs and noted that some MCAs were repeatedly failing to submit their QDRs by the required date. In our testwork, we noted that:

- Of the sixteen active compacts required to submit QDRs for the period July 1, 2011 to September 30, 2011, three QDRs were submitted late.
- Of the eighteen active compacts required to submit QDRs in December for the period January 1, 2011 to March 31, 2011, two were submitted late.
- QDRs for the period April 1, 2011 to June 30, 2011 were all submitted on time.

In several instances we noted that the MCAs cited for untimely QDRs may have sent in a portion of the required quarterly documentation for MCC review to ensure that it was being prepared accurately. However, the full package was not received prior to the due date.

Compact Closures

Monitoring MCAs is a key internal control for MCC to ensure the effectiveness and efficiency of operations including use of the entity's resources. One of the mechanisms employed by MCC is the review and approval of the compact closeout. The compact closure plan preparation is an extensive process that requires the time and effort of a significant number of MCA and MCC personnel to ensure its completeness and accuracy. The plan usually goes through several iterations before it is finalized.

MCC has established a standard that Compact Closure Plans (CCPs) be submitted 15 months pre-close and be finalized 12 months pre-close, which implies a three-month approval and revision period.

During our testing of five compact closures, we noted that:

- Three MCAs did not submit their CCP to MCC by the deadline established in the MCC guidance. The longest delay was 247 days past the due date.
- Similarly, according to MCC guidance CCPs should be approved 12 months prior to the compact end date. None of the five compact closure plans were approved within this timeframe. One CCP was not approved until 120 days after the compact closed.

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Office of the Inspector General for the Millennium Challenge Corporation's *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* (Revised August 3, 2007) states:

> *§1.5: "MCC standard audit provisions require that the Accountable Entity (hereafter referred to as MCA) ensures that an audit is contracted by MCA for itself at least annually in accordance with these Guidelines."*
>
> §2.3: ***"****The OIG must receive the audit report in accordance with the Compact, no later than 90 days after the first anniversary of the Entry into Force and* ***no later than 90 days*** *after the end of the audited period thereafter, or such other periods as the Parties may otherwise agree."*

MCC's Financial Management Policies and Procedures (FMPP) on Compact Management, Appendix E States: Appendix E

> *"Disbursement requests are due to MCC no later than the 10th day of the last month of each quarter. Country POCs are the process managers responsible for ensuring the appropriate approvals are received and comprehensive documentation including approvals is filed."*

Two versions of MCC's *Guidelines for Closure of Millennium Challenge Compacts* were applicable during the time of the condition:

Version 2.0., effective September 8, 2009, §5.1 states:

> *"No later than* ***15 months*** *prior to the Compact End Date the Accountable Entity will submit to MCC for approval a plan for the closure of the Program."*

The revised guidance (DCO-2011-1.1), effective May 9, 2011, §5.2.1 states:

> *"No later than* ***15 months*** *prior to the Compact End Date, the Accountable Entity will submit a draft Program Closure Plan to MCC for approval. MCC and the Accountable Entity will consult in good faith with a view to reaching agreement upon the Program Closure Plan at least* ***12 months prior*** *to the Compact End Date."*

Late receipt of audit information could negatively impact MCC's decision-making process. Audit reports containing outdated information are of limited use and do not allow MCC management to provide timely guidance to MCAs. Without timely audits of these funds, improper payments may not be detected and corrected by MCC. Additionally, neither the MCA nor MCC has established repercussions for late reports.

Untimely submission of QDRs does not provide MCC with timely financial information, including projected disbursements. If QDRs are submitted late, MCA cash flow may be impeded, or PRFs may not be processed timely or more work may be required on the part of MCC and/or NBC in order to process disbursement requests.

Untimely submission and approval of CCPs may not allow for the MCA to fully execute the agreed-upon closure activities. MCAs could close out with unresolved contracts, uncollected receivables, and outstanding questioned costs. As a result MCC is required to address the issue, collect the costs from the government or vendor, or accept the loss.

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Recommendations: We recommend that MCC A&F and DCO:

10. Collaborate with the OIG and provide the MCA auditors with a document discussing the issues/errors that have led to delays in processing and clearing the audit plans and audit reports in a timely manner.
11. Provide comprehensive guidance to MCAs regarding the procurement of firms to perform the FAS audits with a focus on timeliness and completeness of the audit deliverables and potential penalties.
12. Continue to collaborate with the OIG to improve communications regarding audit status and solutions to moving individual audits to completion on a timely basis.
13. Reiterate the program requirements that QDRs are to be accurate and complete and submitted within the required timelines and provide them with information about issues/things that cause delays.
14. Review their current guidelines for submission of CCPs to determine if the timeline is reasonable and realistic. In addition, DCO should work closely with MCAs to develop and compile a compact closure plan and resolve any outstanding items in advance of compact closure.

IV. **Reconciling Fund Balance with Treasury**

The United States Agency for International Development (USAID) administers the Threshold Program for MCC, and Phoenix is the accounting system of record. Many of USAID's cash balances at Treasury for individual appropriations are different from cash balances in the accounting system for those appropriations. During the review of internal controls, we noted that USAID was granted a waiver from Treasury to temporarily post transactions to the suspense account. However, USAID has not complied with Treasury's requirement that transactions be taken out of the suspense account and accurately posted within 60 days. Balances in the USAID suspense account are significant and are not cleared and recorded to the correct appropriation in a timely fashion. USAID's suspense aging report includes amounts from prior fiscal years.

The Treasury Financial Manual *Preparing FMS 224*, Paragraph 3330, states:

> *Agencies prepare the monthly FMS 224 based on:*
> - *Vouchers paid or accomplished by [Regional Finance Centers (RFC)];*
> - *Intra-governmental Payments and Collections (IPAC) transactions accomplished;*
> - *Cash collections received for deposit on SF 215s [Deposit Ticket]; and*
> - *Electronic payments/deposits such as those processed through the Automated Standard Application for Payments (ASAP) System or the Fedwire Deposit System.*
>
> *Agencies also should report transactions recorded in their [GL] that are not associated with an SF 215, SF 5515 [Debit Voucher], IPAC, or vouchers paid or accomplished by RFCs in Section I of the FMS 224 only.*

Paragraph V, Subsection C, *Adjustments*, of Part 2-5100, states:

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> *An agency may not arbitrarily adjust its FBWT account. Only after clearly establishing the causes of errors and properly documenting those errors, should an agency adjust its FBWT account balance.*

USAID cash balances recorded in Phoenix do not tie to balances reported by Treasury. These differences are caused by prior-year errors when USAID recorded outlays in a different appropriation than Treasury did, and by timing differences. The existence of old transactions that have not been cleared from the suspense account is caused by a lack of monitoring in prior years and an ongoing difficulty with matching incoming and outgoing suspense transactions. Untimely reconciliation of balances in the suspense account presents a risk of potential misstatements to the Fund Balance with Treasury line item.

Recommendation: We recommend that MCC A&F:

15. Continue to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risk of potential misstatements.

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WILLIAMS ADLEY

Independent Auditors' Report on Compliance

Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

We have audited the Principal Statements and Required Supplementary Information (hereinafter referred to as the financial statements) of the Millennium Challenge Corporation (MCC) as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated November 10, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance.

The management of MCC is responsible for complying with laws, regulations, contracts, and grant agreements applicable to MCC. As part of obtaining reasonable assurance about whether MCC's financial statements are free of material misstatement, we performed tests of MCC's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statements amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, including the requirements referred to in the Federal Managers' Financial Integrity Act of 1982 (FMFIA) We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts and grant agreements applicable to MCC. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of management of the Millennium Challenge Corporation and its Office of Inspector General, Office of Management and Budget, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company – DC, LLP /s/

Washington, D.C.
November 10, 2011

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Based upon our review of the FY 2011 Report on Internal Controls and Audit Report # M-000-011-001-C, we identified 17 recommendations related to FY 2010 and prior. These recommendations consisted of 14 related to material weaknesses and 3 related to significant deficiencies. We reviewed and assessed MCC corrective actions for each Notice of Finding and Recommendations (NFR) and have made the following determinations.

Prior Year Findings:

1. Reporting Advance Payments – Material Weakness
Recommendation: Modify the Payment Request Form (PRF) to specifically identify requests for advance payments to vendors.

Status: Closed; MCC created an Advance PRF form (APRF) to help distinguish between advance and expense payments. MCC also updated their policies and procedures to require the use of an APRF.

2. Reporting Advance Payments – Material Weakness
Recommendation: Provide training to Fiscal Agents and other in-country personnel to explain how to properly record each line of the PRF based on supporting documents and how MCC financial statements are affected by MCA activities and transactions.

Status: Closed. Training was provided by MCC.

3. Compiling Accruals (Proper Reporting period) – Material Weakness
Recommendation: Establish a comprehensive methodology and/or standard process for obtaining year end accruals which covers all MCAs and funds. Ensure that accruals include invoiced and rendered services which have not been recorded in the year end trial balance.

Status: Closed; MCC established a methodology for accrual reporting and distributed this methodology to MCAs in March 2011 as part of the revised data call procedures. However, there were problems and errors with the process and new recommendations were issued with the FY 2011 material weakness.

4. Compiling Accruals (Proper Reporting period) – Material Weakness
Recommendation: Establish consistent communication with NBC and the MCAs for understanding the process and methodology developed.

Status: Closed

5. Compiling Accruals (Proper Reporting period) – Material Weakness
Recommendation: Perform quality control procedures over amounts obtained and recorded. Review the amounts posted for reasonableness, accuracy, and completeness.

Status: Closed; MCC modified policies and procedures in this area; however, they were not effectively implemented. We noted a material weakness with this process in the FY 2011 internal control report.

6. Untimely Performance of MCA Audits – Material Weakness

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Recommendation: Implement a process for coordinating with MCAs, audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits and to ensure that MCA audits are completed in accordance with the compact.

Status: Closed; MCC has implemented a process; however, the audits are still untimely. Additional recommendations were made in the FY 2011 significant deficiency.

7. Untimely Performance of MCA Audits - Material Weakness

Recommendation: Establish and implement a process to ensure that MCAs prepare and make available for audit the status of advances to contractors, retention balances and data necessary for MCC to properly report its accruals.

Status: Open

8. Improper and Untimely Quarterly Reporting – Material Weakness

Recommendation: Establish and implement a process to ensure that all personnel responsible for QFRs to guide them to submit accurately prepared and properly approved QFRs and Disbursement Requests in a timely manner.

Status: Closed: MCC implemented a process that has reduced the number of untimely QFRs and Disbursement Requests. However, we noted additional untimely submissions in FY 2011. See the new FY 2011 significant deficiency and recommendations in this area.

9. Improper and Untimely Quarterly Reporting - Material Weakness

Recommendation: Establish and implement a process to ensure that funds are periodically reviewed to determine if MCAs should submit final QFRs to record deobligations for funds no longer needed.

Status: Closed

10. Inadequate Oversight of 609(g) Funded Transactions – Material Weakness

Recommendation: Coordinate with appropriate management levels to implement a formal process for administering 609(g) funds in all countries not managed by either MCC or an MCA.

Status: Closed; New policies and procedures were finalized and implemented in March 2011.

11. Inadequate Oversight of 609(g) Funded Transactions - Material Weakness

Recommendation: Monitor on a quarterly basis the cumulative obligations and disbursements of all countries that have received 609(g) funds and communicate with the MCAs to determine if there is still an immediate need to maintain excess 609(g) funds that have not been disbursed. The input from MCC Department of Compact Operations must be documented. Deobligate 609(g) funds that are no longer considered an immediate need to the MCA/Partnering Country.

Status: Closed

12. Inadequate Oversight of 609(g) Funded Transactions - Material Weakness

Recommendation: Strengthen the CPS Signature Card process to include a MCC authorizing signature, effective and termination dates, and to include an annual or other periodic review

process between MCC, its financial service provider, and the MCAs to ensure that signature cards are kept on file for only active users of its CPS payment requesting system.

Status: Open; We noted that the new CPS policies and procedures include a revised signature card. This revised signature card includes an MCC authorizing signature, effective dates, and termination dates. However, MCC has not developed a periodic review process for CPS Signature cards to ensure they are for active users only. Therefore we determine that this recommendation has been partially implemented.

13. Inadequate Processing of Closed Programs - Material Weakness

Recommendation: Develop policies and procedures for Program Closure of Compacts that have been suspended or terminated to ensure that programs, activities, and assets are properly accounted for, and final disposition is reported to MCC.

Status: Closed

14. Inadequate Processing of Closed Programs - Material Weakness

Recommendation: Establish guidelines for Fiscal Accountability Directors, Fiscal Agents, as well as personnel in the Division of Finance and MCC's financial services provider to make them fully aware of any restrictions to process payments made during a program or compact close-out period.

Status: Closed

15. Reconciling Fund Balance with Treasury - Significant Deficiency

Recommendation: Continue to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risk of potential misstatements.

Status: Closed; MCC has followed USAID's progress. However, a significant deficiency has been reissued in FY 2011 because USAID continues to have challenges in this area.

16. Control over Financial Reporting - Significant Deficiency

Recommendation: Strengthen quality reviews over financial statements to validate that information presented is accurate, complete, and complies with accounting standards and reporting guidance.

Status: Closed; MCC developed and documented revised policies and procedures in this area, but they have not been effectively implemented. We noted this issue in a new material weakness and recommendations on financial reporting in the FY 2011 audit report.

17. Control over Financial Reporting - Significant Deficiency

Recommendation: Establish quality control procedures to document during the review process any discrepancies, errors, and other anomalies that have occurred to provide an audit trail of issues that may require on-top adjustments.

Status: Closed

Management Comments and Our Evaluation

We received and evaluated MCC's management comments to the recommendations made in this report. Based upon MCC's comments, we acknowledge that management decisions have been reached on all of the recommendations. MCC should provide the Office of Inspector General with a timeline to address the recommendations and report to the Office of Inspector General when final action has been taken on the recommendations.

The following is a brief summary of MCC's management comments on the recommendations included in this report and our evaluation of those comments.

Recommendation 1 (Material Weakness 1)
MCC management concurs with this recommendation.

Auditor Evaluation:
We conclude that MCC management has adequately addressed this recommendation.

Recommendation 2 (Material Weakness 1)
MCC management concurs with this recommendation.

Auditor Evaluation:
We conclude that MCC management has adequately addressed this recommendation.

Recommendations 3 - 9 (Material Weakness 2)
MCC concurs with the conditions and recommendations, whereas MCC, in determining the appropriate handling of MCA advances, developed a methodology that records MCA disbursements as expenses and, on a quarterly basis, requests information to determine an accurate adjustment for the Advances balance presented in its financial statements. When developing this methodology, MCC evaluated several alternatives and determined that the adoption of this approach resulted in a more accurate way of compiling data used to prepare quarterly and annual financial statements.

We agree with the auditor documentation which notes that MCA information improved from the 1st to the 3rd quarters of FY2011. MCC's expanded quality control procedures significantly reduced the risks related to completeness and accuracy. The results of the fourth quarter provide the strongest evidence that the MCA submissions' completeness and accuracy were continually improved.

Auditor Evaluation:
MCC management provided one response to recommendations 3 – 9. We conclude that MCC management has adequately addressed this recommendation.

Recommendations 10 - 14 (Significant Deficiency 1)
MCC will adopt the recommendations as stated.

Auditor Evaluation:
We conclude that MCC management has adequately addressed this recommendation.

Recommendation 15 (Significant Deficiency 2)
MCC concurs with the recommendation to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risk of potential misstatements.

Auditor Evaluation:
We conclude that MCC management has adequately addressed this recommendation.

Appendix C

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

November 10, 2011

Mr. Alvin Brown
Assistant Inspector General
Millennium Challenge Corporation

Dear Mr. Brown:

MCC has reviewed the draft audit report received November 9, 2011. In response to audit findings characterized as material weaknesses and significant deficiencies, as well as the associated recommendations, MCC has the following comments:

Material Weakness: MCC's Financial Reporting Process Needs Improvement

Recommendations from the auditors:

1. Develop and document a financial reporting process that reduces the likelihood of errors, inconsistencies, and inaccuracies and results in efficiencies and effectiveness, consistency, and accuracy of financial data.
2. Enhance the quality control process to detect errors or improper closeout of accounts through additional check totals, training and involvement of additional A&F staff members.

Response from MCC:
MCC concurs with recommendations #1 and #2.

Material Weakness: Controls over MCC Accrued Expenses, Retentions and Advances Need Improvement

Recommendations from the auditors:

3. Develop an appropriate MCC data store of MCA expense information as required by TR-12.
4. In the interim, perform similar data validation employed at year end for each quarter going forward.
5. Prepare an MCC developed estimate for accrued expenses based upon statistical modeling or alternative that is based on MCC obtained data.
6. Record advances in accordance with general accepted accounting principles.
7. Develop and implement a periodic reconciliation process for advances.
8. Develop and implement a quarterly certification for advance transactions processed by the MCAs as part of the quarterly data call submission.
9. Modify MCA audit requirements to include testing and reporting of advances transactions.

Response from MCC:
MCC concurs with recommendations #3 - #9.

Significant Deficiency: MCA Required Documentation, Including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans Are Not Submitted, Reviewed, and/or Approved In A Timely Manner

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Recommendations from the auditors:

10. Collaborate with the OIG and provide the MCA auditors with a document discussing the issues/errors that have led to delays in processing and clearing the audit plans and audit reports in a timely manner.
11. Provide comprehensive guidance to MCAs regarding the procurement of firms to perform the FAS audits with a focus on timeliness and completeness of the audit deliverables and potential penalties.
12. Continue to collaborate with the OIG to improve communications regarding audit status and solutions to moving individual audits to completion on a timely basis.
13. Reiterate the program requirements that QDRs are to be accurate and complete and submitted within the required timelines and provide them with information about issues/things that cause delays.
14. Review their current guidelines for submission of CCPs to determine if the timeline is reasonable and realistic. In addition, DCO should work closely with MCAs to develop and compile a compact closure plan and resolve any outstanding items in advance of compact closure.

Response from MCC:
MCC concurs with recommendations #10 - #14.

Significant Deficiency: Reconciling Fund Balance with Treasury

Recommendation from the auditors:

15. Continue to follow USAID's progress toward elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risk of potential misstatements.

Response from MCC:
MCC concurs with recommendation #15.

MCC will be addressing each recommendation as part of a comprehensive corrective action plan beginning in the first quarter of FY 2012 with the intent to develop and implement necessary changes as soon as practicable.

Sincerely,

MILLENNIUM CHALLENGE CORPORATION

By:
Chantale Wong
Vice President, Administration and Finance and
Chief Financial Officer
Millennium Challenge Corporation

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Agency Financial Report: Reducing Poverty Through Growth

Financial Section

The Principal Financial Statements report on the financial position and the results of operations of the Millennium Challenge Corporation (MCC). The Statements have been prepared from the books and records of the Agency in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, Financial Reporting Requirements. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for FY 2010 have been included. MCC is presenting the following financial statements and additional information:

- Balance Sheets
- Statements of Budgetary Resources
- Statements of Net Cost
- Statements of Changes in Net Position
- Notes to Financial Statements
- Other Accompanying Information
- Audit Reports on the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2011 and 2010

Balance Sheets

	FY 2011	FY 2010
Assets		
Intra-Governmental		
Fund Balance with Treasury (Note 2)	$ 5,875,161,025	$ 6,554,088,712
Advances – Federal (Note 5)	5,861,151	8,778,900
Total Intra-Governmental	5,881,022,176	6,562,867,612
Accounts Receivable (Note 3)	65,098	49,409
General Property, Plant, and Equipment (Note 4)	4,612,820	5,857,213
Advances – Public (Note 5)	192,187,111	182,343,189
Total Assets	$ 6,077,887,205	$ 6,751,117,423
Liabilities		
Intra-Governmental		
Accounts Payable – Federal (Note 1F)	$ 10,290,179	$ 5,055,266
Contributions and Payroll Taxes Payable	527,333	476,667
Total Intra-Governmental	10,817,512	5,531,933
Federal Employee and Veteran Benefits Payable	12,604	12,443
Accounts Payable – Public (Note 1F)	290,366,872	208,104,353
Accrued Funded Liabilities	8,531,046	9,279,041
Total Liabilities	$ 309,728,034	$ 222,927,770
Net Position		
Unexpended Appropriations – Other Funds	$ 5,763,269,299	$ 6,522,071,077
Cumulative Results of Operations – Other Funds	4,889,872	6,118,576
Total Net Position	$ 5,768,159,171	$ 6,528,189,653
Total Liabilities and Net Position	$ 6,077,887,205	$ 6,751,117,423

The notes are an integral part of these financial statements.

AGENCY FINANCIAL REPORT
REDUCING POVERTY THROUGH GROWTH

Statements of Budgetary Resources

	FY 2011	FY 2010
Budgetary Resources		
Unobligated Balance – Beginning of Period	$ 944,204,120	$ 787,102,593
Recoveries of Prior Years Obligations	4,152,213	4,045,794
Budget Authority:		
Appropriations (Note 1C)	900,000,000	1,105,000,000
Non expenditure Transfers, Net, Anticipated and Actual	0	(2,377,922)
Permanently Not Available	(1,800,000)	(50,000,000)
Total Budgetary Resources	**$ 1,846,556,333**	**$ 1,843,770,465**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$ 581,848,132	$ 899,566,345
Unobligated Balance Available	671,745,269	451,137,424
Unobligated Balance Not Available	592,962,932	493,066,696
Total Status of Budgetary Resources	**$ 1,846,556,333**	**$ 1,843,770,465**
Change in Obligated Balance		
Obligated Balance, Net - as of October 1, 2010		
Unpaid Obligations, Brought Forward, October 1	$ 5,609,507,905	$ 5,868,196,304
Obligations Incurred	581,848,132	899,566,345
Gross Outlays	(1,577,749,645)	(1,154,208,950)
Recoveries of Prior Year Unpaid Obligations, Actual	(4,152,213)	(4,045,794)
Obligated Balance, Net - End of Period		
Unpaid obligations	$ 4,609,454,179	$ 5,609,507,905
Net Outlays		
Gross Outlays	$ 1,577,749,645	$ 1,154,208,950

The notes are an integral part of these financial statements.

Statements of Net Costs

Program	FY 2011	FY 2010
Program Costs (Note 7)		
Compact		
Gross Costs	$ 1,449,285,114	$ 1,020,176,345
Less: Earned Revenue	0	0
Net Program Costs	1,449,285,114	1,020,176,345
609 (g) Programs		
Gross Costs	28,825,091	19,551,450
Less: Earned Revenue	0	0
Net Program Costs	28,825,091	19,551,450
614 (g) Programs		
Gross Costs	50,614	0
Less: Earned Revenue	0	0
Net Program Costs	50,614	0
Threshold Programs		
Gross Costs	49,002,236	58,985,525
Less: Earned Revenue	0	0
Net Program Costs	49,002,236	58,985,525
Due Diligence Programs		
Gross Costs	37,628,706	28,555,929
Less: Earned Revenue	0	0
Net Program Costs	37,628,706	28,555,929
Audit		
Gross Costs	4,087,460	3,517,852
Less: Earned Revenue	0	0
Net Program Costs	4,087,460	3,517,852
Administrative		
Gross Costs	91,811,012	95,580,731
Less: Earned Revenue	0	0
Net Program Costs	91,811,012	95,580,731
Program Costs - Net of All Programs	$ 1,660,690,233	$ 1,226,367,832
Net Costs of Operations	**$ 1,660,690,233**	**$ 1,226,367,832**

The notes are an integral part of these financial statements.

Statements of Changes in Net Position

	FY 2011	FY 2010
Cumulative Results of Operations		
Beginning Balances	$ 6,118,576	$ 4,949,121
Adjustments	0	0
Beginning Balance, as Adjusted	6,118,576	4,949,121
Budgetary Financing Sources		
Appropriations Used	1,657,001,778	1,224,912,387
Other Financing Sources		
Donations and Forfeitures of Property (Note 1P)	236,486	269,514
Imputed Financing	2,223,265	2,355,386
Total Financing Sources	1,659,461,529	1,227,537,287
Net Cost of Operations	(1,660,690,233)	(1,226,367,832)
Net Change	(1,228,704)	1,169,455
Cumulative Results of Operations	**$ 4,889,872**	**$ 6,118,576**
Unexpended Appropriations		
Beginning Balance	$ 6,522,071,077	$ 6,694,361,386
Adjustments	0	0
Correction of errors	0	0
Beginning Balance, as Adjusted	6,522,071,077	6,694,361,386
Budgetary Financing Sources		
Appropriations Received	$ 900,000,000	$ 1,105,000,000
Appropriations Transferred In/Out	0	(2,377,922)
Other adjustments	(1,800,000)	(50,000,000)
Appropriations Used	(1,657,001,778)	(1,224,912,387)
Total Budgetary Financing Sources	(758,801,778)	(172,290,309)
Total Unexpended Appropriations	5,763,269,299	$ 6,522,071,077
Net Position	**$ 5,768,159,171**	**$ 6,528,189,653**

The notes are an integral part of these financial statements.

Notes to Financial Statements (As of September 30, 2011)

Note 1—Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position, results of operations and budgetary resources for MCC as required by OMB Circular A-136, Financial Reporting Requirements, in form and content and in accordance with Section 613 of the Millennium Challenge Act of 2003, as amended, and the Government Corporation Control Act (31 U.S.C. §9106). These financial statements have been prepared from MCC's books and records and are presented in accordance with the applicable requirements of OMB, the Secretary of the Treasury, and the Government Management and Reform Act of 1994.

MCC's accounting policies conform to and are consistent with generally accepted accounting principles (GAAP) for the Federal Government, as promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board (FASAB). The FASAB has been recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard setting authority for the Federal government.

MCC's principle financial statements are:

- Balance Sheet;
- Statement of Net Cost;
- Statement of Budgetary Resources; and
- Statement of Changes in Net Position.

Financial statement footnotes are also included and considered an integral part of the financial statements.

B. Reporting Entity

MCC was formed in January 2004 pursuant to the Millennium Challenge Act of 2003, as amended, (P.L. 108-199). MCC's mission is to reduce poverty by supporting sustainable economic growth in developing countries that create and maintain sound policy environments. Assistance is intended to provide economic growth and alleviate extreme poverty, strengthen good governance, encourage economic freedom, and promote investments in people.

C. Budgets and Budgetary Accounting

MCC's programs and activities are funded through no-year appropriations. Such funds are available for obligation without fiscal year limitation and remain available until expended. OMB apportions MCC program and administrative funds on an annual basis pursuant to statutory limitations in the annual appropriations bill. OMB segregates the apportionment of funds for administrative and audit oversight, compact programs, due diligence programs, 609(g) programs and threshold programs. MCC does not have any earmarked funds. Because of the no-year status of MCC appropriations, unobligated administrative, audit, and due diligence funds are not returned to the Treasury; however, unobligated balances as of September 30 for these three categories of funds are transferred to the program fund category for future obligation until expended.

D. Basis of Accounting

Financial transactions are recorded on accrual and budgetary bases in accordance with pertinent Federal accounting and financial reporting requirements. Under the accrual method of accounting, financing sources are recognized when used and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates MCC's compliance with legal constraints and controls over the use of Federal funds. The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared on the accrual basis. The Statement of Budgetary Resources is prepared in accordance with budgetary accounting rules.

E. Fund Balance with Treasury

MCC does not maintain cash in commercial bank accounts. Rather, MCC's funds are maintained by the U.S. Treasury. The U.S. Treasury processes all cash receipts and disbursements for MCC. The fund balances with Treasury represent no-year funds, which are maintained in appropriated funds that are available to pay current and future commitments.

F. Accounts Payable

MCC records as liabilities all amounts due to others as a direct result of transactions or events that have occurred. Accounts payable represent amounts due to Federal and non-Federal entities for goods and services received by MCC, but not paid at the end of the accounting period. Accounts payable reported at the end of Fiscal Year 2011 were $290 million (non-Federal) and $10.3 million (Federal) and at the end of Fiscal Year 2010 were $208 million (non-Federal) and $5.1 million (Federal).

G. Actuarial FECA Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to a job-related injury or occupational disease.

Claims incurred for benefits for MCC employees under FECA are administered by the Department of Labor (DOL) and later billed to MCC. MCC's actuarial liability for workers' compensation includes any costs incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

MCC incurred $3 thousand in FECA liabilities during Fiscal Year 2011 and $0 in Fiscal Year 2010.

H. Accrued Annual Leave

The value of employees' unused annual leave at the end of each fiscal quarter is accrued as a liability. At the end of each fiscal quarter, the balance in the accrued annual leave account is adjusted to reflect current pay rates and leave balances. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed when used and, in accordance with Federal requirements, no accruals are recorded for unused sick leave.

I. Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated by Congress to MCC that are still available for expenditure at the end of the fiscal year. Cumulative results of operations represent the net differences between financing sources and expenses since MCC's inception.

J. Financing Sources

Per note 1C, MCC funds its program and operating expenses through no-year appropriations. Appropriations are recognized as an accrual-based financing source at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations.

K. Retirement Benefits

MCC's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, most U.S. Government employees hired after December 31, 1983, are covered by FERS and Social Security. Federal employees hired prior to January 1, 1984, were allowed to elect whether they desired to participate in FERS (with Social Security coverage) or remain in CSRS. For employees covered by CSRS, MCC contributes seven percent of their gross pay toward their retirement benefits. For those employees covered by FERS, MCC contributes 11 percent of their gross pay toward retirement. Employees are also allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, MCC contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional four percent of pay, for a maximum MCC contribution amounting to five percent of pay. Employees under CSRS may participate in the TSP but will not receive either MCC's automatic or matching contributions.

Federal employee benefits costs paid by the Office of Personnel Management (OPM) and imputed by MCC are reported on the Statement of Net Cost.

L. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of financing sources and expenses during the reporting period. Actual results could differ from such estimates.

During Fiscal Year 2011 the Federal Accounting Standards Advisory Board, issued Technical Release 12 (TR12) Accrual Estimates for Grant Programs and MCC has adopted this methodology for the recording of MCC Compact Grant Accrual Programs. TR12 provides methodologies for both mature grant programs and new grant programs where sufficient relevant and reliable historical data is not yet available. TR 12 also provides guidance on acceptable sources of documentation for grant accrual estimates, including the monitoring and validation of estimates. In the absence of sufficient relevant and reliable historical data on which to base accrual estimates, MCC prepares estimates based upon the best available data at the time the estimates are made.

M. Contingencies

MCC can be a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against MCC. In the opinion of MCC's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact MCC's financial statements.

N. Judgment Fund

Certain legal matters to which MCC can be named as a party may be administered and, in some instances, litigated and paid by other Federal agencies. In general, amounts paid in excess of $2,500 for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation administered by the Department of the Treasury, called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management expects that any liability or expense that might ensue would not be material to MCC's financial statements.

O. Custodial Liabilities

Under current policy and procedures, MCC disburses funds for Compact and pre-Compact projects and activities upon the presentation of a valid invoice. However, under certain conditions, MCC will fund countries by advancing funds on an as-needed basis to cover basic needs. Such funds provided to the countries are required to be deposited in interest-bearing accounts, if legally feasible, until disbursed. The interest earned on these accounts is remitted to MCC by the MCA and is then returned to the Treasury's general fund. MCC received and deposited $999 thousand and $377 thousand in interest remittances as of September 30, 2011 and 2010, respectively.

P. Donated Services

MCC may on occasion utilize donated services from other Federal agencies, individuals and private firms in the course of business operations. The approximate fair market value of donated services for Fiscal Year 2011 was $236 thousand and Fiscal Year 2010 was $270 thousand.

Q. Transfers with Other Federal Agencies

MCC is a party to allocation transfers with another Federal agency as a transferring entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays that are incurred by the child entity are charged to this allocation account, as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, apportionments are derived.

MCC allocates funds, as the parent, to USAID. In Fiscal Year 2011 and Fiscal Year 2010, MCC transferred budgetary authority to USAID of $0 and $25 million, respectively, to administer Threshold and Compact programs. USAID receives these allocations as transfers-in and reports quarterly to MCC as the child. MCC also transfers an administrative fee to USAID for the purposes of administering the Threshold and Compact programs.

Note 2—Fund Balance with Treasury

The U.S. Treasury accounts for all U.S. Government cash on an overall consolidated basis. MCC is appropriated "general" funds only and maintains theses balances in the Fund Balance with Treasury. The general fund line items on the Balance Sheet for September 30, 2011 and 2010 consisted of the amounts presented in Exhibit 13. The status of the general fund balances is summarized by obligated, unobligated and Non-Budgetary fund balances in Exhibit 14.

Exhibit 13: Fund Balance with Treasury as of September 30

	FY 2011	FY 2010
Fund Balances		
General Funds	$ 5,875,161	$ 6,554,089
Total	**$ 5,875,161**	**$ 6,554,089**

Exhibit 14: Status of Fund Balance with Treasury as of September 30

	FY 2011	FY 2010
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 671,745	$ 451,137
Unavailable	592,963	493,067
Obligated Balance	$ 4,609,454	$ 5,609,508
Non-Budgetary FBWT	999	377
Total	**$ 5,875,161**	**$ 6,554,089**

Note 3—Accounts Receivable, Net

Accounts receivable reflect overpayments of payroll, travel and other MCC current and former employee expenses. It also reflects substantiated disallowed MCA expenditures. MCC does not record an allowance for doubtful accounts as these expenses are deemed wholly collectible. Total receivables as of the end of Fiscal Year 2011 and Fiscal Year 2010 were approximately $65 thousand and $49 thousand, respectively.

Note 4—General Property, Plant and Equipment (PP&E), Net

MCC's PP&E costs are the associated leasehold improvements made to its leased office space as well as general equipment costs. The book value of all general PP&E for Fiscal Year 2011 and Fiscal Year 2010 was $4.6 million and $5.9 million, respectively.

MCC has made significant leasehold improvements to its office space and amortizes the improvements based on the in-service (invoice) date of the improvement. Amortization on that in-service improvement is calculated on a quarterly basis. The cost of these leasehold improvements for both Fiscal Years 2011 and 2010 was $10.9 million. Accumulated amortization was $6.4 million and $5.2 million, respectively. The useful life of the improvements is based on the lease terms: ten (10) years for the Bowen building lease and eight (8) years for the City Center building lease.

MCC's capitalization threshold for all other general property, plant and equipment is an original cost of

$50,000 or more and an estimated useful life of five or more years. Accumulated depreciation was $48 thousand for Fiscal Year 2011 and $20 thousand for Fiscal Year 2010.

MCC's software capitalization threshold defines a capitalized asset that has an original cost of $200,000 or more and an estimated useful life of five years or more and the information technology (IT) infrastructure capitalization threshold defines a capitalized asset as having an original cost of $200,000 or more and an estimated useful life of three years or more. These thresholds reduce MCC's administrative costs associated with accounting for PP&E, and result in increased operational efficiency. MCC does not own its software or IT infrastructure; therefore, no depreciation has been calculated.

Note 5—Advances

Advances reflect amounts provided to compact countries and other Federal agencies in accordance with formal compacts or inter-agency agreements. Advances are liquidated and recorded as expenses upon receipt of expenditure reports from the recipients. MCC reported $198.0 million ($5.9 million Federal and $192.1 million non-federal) and $191.1 million ($8.8 million Federal and $182.3 million non-federal) in advances as of September 30, 2011 and 2010, respectively.

Note 6—Leases

MCC leases office space in two adjacent locations in Washington, D.C. These operating leases are on ten-year (Bowen Building) and eight-year (City Center Building) lease terms that terminate on May 25 and May 26, 2015, respectively. The Bowen building lease increases approximately one percent each year of the lease term. The City Center building lease increases at a fixed level every three years until the termination of the lease.

MCC also has short term leases for 1 corporate vehicle (through June 28, 2015) and for 18 copier machines (through January 31, 2012) utilized in both buildings. The future lease payments due are depicted in Exhibit 15 below.

Exhibit 15: Operating Leases

Future Lease Payments Due (in dollars)			
Fiscal Year	Bowen	City Center	Total
FY 2012	5,669,249	1,942,376	7,611,625
FY 2013	5,725,941	1,942,376	7,668,317
FY 2014	5,783,201	1,995,229	7,778,430
FY 2015	5,841,033	1,995,229	7,836,262
Total Future Lease Payments	$23,019,424	$7,875,210	$30,894,634

Future Lease Payments Due (in dollars)			
Fiscal Year	MCC Vehicle	MCC Copiers	Total
FY 2012	10,980	55,821	66,801
FY 2013	10,980		10,980
FY 2014	10,980		10,980
FY 2015	8,235		8,235
Total Future Lease Payments	$41,175	$55,821	96,996

Note 7—Intragovernmental Costs and Exchange Revenue

The Statement of Net Cost reports the MCC's gross cost less earned revenues to arrive at net cost of operations. Costs have been illustrated by MCC funded programs. Exhibit 16 shows the value of exchange transactions between MCC and other Federal entities, as well as non-Federal entities. Intra-governmental costs relate to transactions between the MCC and other Federal entities. Public costs relate to transactions between the MCC and non-Federal entities. MCC does not have any exchange revenues.

Exhibit 16: Intra-governmental Costs and Exchange Revenue (in thousands)

	Program	609(g)	614(g)	Threshold	Due Diligence	Audit	Administrative	FY 2011 Total (in thousands)	FY 2010 Total (in thousands)
Intra-Governmental	4,518	3,531	0	12,681	5,153	3,871	25,135	54,889	42,228
Public	1,444,767	25,294	51	36,321	32,476	216	66,676	1,605,801	1,184,140
Total - Program	**1,449,285**	**28,825**	**51**	**49,002**	**37,629**	**4,087**	**91,811**	**1,660,690**	**1,226,368**

Note 8—Undelivered Orders at the End of the Period

Exhibit 17 presents Undelivered Orders, paid and unpaid, as of September 30, 2011 and 2010.

Exhibit 17: Undelivered Orders

Undelivered Orders	2011	2010
Administrative	$ 35,653,558	$ 28,539,653
Audit	840,492	1,031,296
609(g)	34,747,822	37,167,213
614(g)	223,767	0
Due Diligence	70,954,703	65,060,507
Program	4,297,756,596	5,334,343,971
Threshold	58,595,317	111,923,479
Total	**$ 4,498,772,255**	**$ 5,578,066,116**

Note 9— Differences between the SBR and the Budget US Government

MCC ensures that the information reported in its books is reflected within the Budget of the U.S. Government. Since MCC's financial statements are published before the President's Budget, this reconciliation is based on the Statement of Budgetary Resources column for Fiscal Year 2010 and the Fiscal Year 2010 actual data reported in the Fiscal Year 2012 budget submission. Fiscal Year 2011 actual data will be published within the 2013 Budget of the United States to be published in February 2012. No material differences were noted.

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Note 10—Reconciliation of Net Cost of Operations to Budget

Exhibit 19 reconciles the resources available to MCC to finance operations with the net cost of operating MCC's programs. Some operating costs, such as depreciation, do not require direct financing sources. This exhibit illustrates the reconciliation of Net Cost of Operations to Budget for the comparative FY 2011 and FY 2010 fiscal years.

Exhibit 19: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		FY 2011 Reported Program Costs	
Budgetary Resources Obligated			
Obligations Incurred	$ 581,848,132	Gross Costs	$1,660,690,233
Recoveries of prior year unpaid obligations	(4,152,213)		
Other financing resources	2,459,751		
Total resources used to finance activities	580,155,670		
Total resources used to finance items not part of the net cost of operations	1,079,290,170	Less: Earned Revenue	-
Total components of net cost of operations that will not require or generate resources	1,244,393		
Net Cost of Operations	**$1,660,690,233**	**Net Cost of Operations**	**$1,660,690,233**

FY 2010 Resources Used to Finance Activities		FY 2010 Program Costs	
Budgetary Resources Obligated			
Obligations Incurred	$899,566,345	Gross Costs	$1,226,367,832
Recoveries of prior year unpaid obligations	(4,045,794)		
Other financing resources	2,624,899		
Total resources used to finance activities	898,145,451		
Total resources used to finance items not part of the net cost of operations	326,986,011	Less: Earned Revenue	-
Total components of net cost of operations that will not require or generate resources	1,236,370		
Net Cost of Operations	**$1,226,367,832**	**Net Cost of Operations**	**$1,226,367,832**

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