



Highlights of [GAO-07-909](#), a report to the Chairman, Committee on Foreign Affairs, House of Representatives

# MILLENNIUM CHALLENGE CORPORATION

## Vanuatu Compact Overstates Projected Program Impact

### Why GAO Did This Study

In January 2004, Congress established the Millennium Challenge Corporation (MCC) for foreign assistance. Congress has appropriated almost \$6 billion to MCC. As of March 2007, MCC had signed almost \$3 billion in compacts with 11 countries, including a 5-year, \$65.7 million compact with Vanuatu. MCC states that the Vanuatu compact will have a transformational effect on the country's economy, increasing per capita income and GDP and benefiting 65,000 poor, rural people. GAO examined (1) MCC's methods of projecting economic benefits, (2) MCC's portrayal and analysis of the projected benefits, and (3) risks that may affect the compact's impact. GAO reviewed MCC's analyses and met with officials and business owners in Vanuatu as well as with other donors.

### What GAO Recommends

GAO recommends that the Chief Executive Officer of MCC (1) revise the public reporting of the Vanuatu compact's projected impact, (2) assess whether similar reporting in other compacts accurately reflects underlying analyses, and (3) improve its economic analyses by more fully accounting for risks to project benefits. MCC did not directly address our recommendations but commented that it had not intended to make misleading statements and that its portrayal of projected results was factual and consistent with underlying data.

[www.gao.gov/cgi-bin/getrpt?GAO-07-909](http://www.gao.gov/cgi-bin/getrpt?GAO-07-909).

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Gootnick, (202) 512-3149, [gootnickd@gao.gov](mailto:gootnickd@gao.gov).

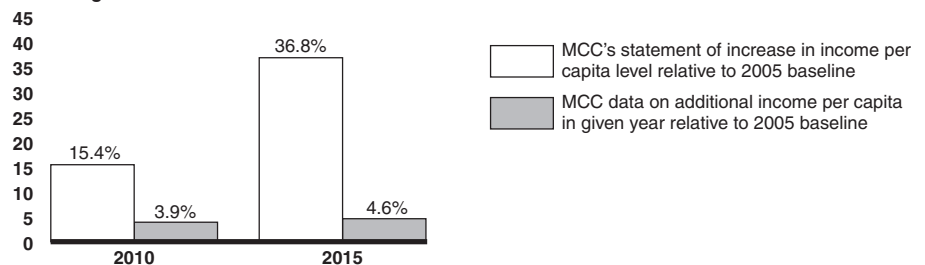
### What GAO Found

MCC projects that the Vanuatu compact's transportation infrastructure projects will provide direct benefits such as reduced transportation costs and induced benefits from growth in tourism and agriculture. MCC estimated the costs and benefits over 20 years, with benefits beginning in full in 2008 or 2009 and growing each year, and it counted poor, rural beneficiaries by defining the area where benefits were likely to accrue. Using projected benefits and costs, MCC calculated the compact's economic rate of return (ERR) and its effects on Vanuatu's gross domestic product (GDP) and per capita income.

MCC's portrayal of the projected impact does not reflect its underlying data. MCC states that per capita income will increase by approximately \$200, or 15 percent, by 2010 and by \$488, or 37 percent, by 2015. However, MCC's underlying data show that these figures represent the sum of individual years' gains in per capita income relative to 2005 and that actual gains will be \$51, or 3.9 percent, in 2010 and \$61, or 4.6 percent, in 2015. MCC also states that GDP will increase by an additional 3 percent a year, but its data show that after GDP growth of 6 percent in 2007, the economy's growth will continue at about 3 percent, as it would without the compact. MCC states that the compact will benefit approximately 65,000 poor, rural inhabitants, but this statement does not identify the financial benefits that accrue to the rural poor or reflect its own analysis that 57 percent of benefits go to others.

We identified five key risks that could affect the compact's projected impacts. (1) Cost estimate contingencies may not be sufficient to cover project overruns. (2) Compact benefits will likely accrue more slowly than MCC projected. (3) Benefit estimates assume continued maintenance, but MCC's ability to ensure maintenance will end in 2011, and Vanuatu's maintenance record is poor. (4) Induced benefits depend on businesses' and residents' response to new opportunities. (5) Efficiency gains, such as time saved in transit, may not increase per capita income. Our analysis of these areas of risk illustrates the extent that MCC's projections are dependent on assumptions of immediate realization of benefits, long-term maintenance, realization of induced benefits, and benefits from efficiency gains.

**Vanuatu Compact's Impact on Per Capita Income According to MCC Statement vs. MCC Data Percentage**



Source: GAO analysis of MCC data.