A NEW VISION FOR DEVELOPMENT

2010 ANNUAL REPORT

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

"But the purpose of development – and what's needed most right now – is creating the conditions where assistance is no longer needed. So we will seek partners who want to build their own capacity to provide for their people. We will seek development that is sustainable. Building in part on the lessons of the Millennium Challenge Corporation, which has helped countries like El Salvador build rural roads and raise the incomes of its people, we will invest in the capacity of countries that are proving their commitment to development."

President Barack Obama
Millennium Development Goals Summit
United Nations Headquarters
September 22, 2010

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A NEW VISION FOR DEVELOPMENT

Millennium Challenge Corporation
United States of America
Annual Report 2010
October 1, 2009 to September 30, 2010

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Bold thinking and groundbreaking action define **a new vision for development** to best reflect 21st century realities. In these fiscally austere times, we are challenging ourselves at the **Millennium Challenge Corporation** (MCC) to do more with less and to deliver sustainable results that will make a meaningful difference in the lives of the world's poor. MCC is doing this as the United States pursues new ways to promote economic growth in those countries throughout the developing world that embrace responsibility and accountability so they can design and implement their own strategies to replace poverty with prosperity. These investments in global development further American strategic and economic interests.

President Barack Obama's pioneering *U.S. Global Development Policy*, the first such policy from an American administration, captures much of the MCC approach to global development. Since its creation six years ago, MCC has put into practice the principles of economic growth and accountability that rest at the heart of the president's policy, and, today, we are a key contributor to the new global development agenda. MCC has invested over $7 billion worldwide in locally determined and managed development solutions. In 2010, our Board of Directors added nearly $1 billion more to this by approving three additional MCC Compacts with Moldova, the Philippines, and Jordan, and two new Threshold Programs with Liberia and Timor-Leste. We also witnessed the first closeouts of MCC Compacts in Honduras (September) and Cape Verde (October).

MCC's experience testing and implementing the principles of sustainable development demonstrates the value of an innovative, transparent and rigorous policy-based and results-focused approach to development. First, MCC works with developing countries that are willing to help themselves, that seek to practice sound policies, that stand up to corruption, and that are accountable for delivering results from development investments. Second, MCC focuses on creating lasting, sustainable impacts that reinforce a culture of self-sufficiency to break the cycle of aid dependency. Third, MCC seeks to leverage resources from partners both inside and outside of government to generate sustained economic growth and poverty reduction.

MCC is committed to five priorities—**results, partnerships, policy reforms, social and gender assessment, and organizational effectiveness**—to further our core approach**.** Explore the pages that follow to discover how these priorities are putting MCC at the forefront of effective and accountable development assistance.

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For MCC, this new vision for development means:

Delivering Results
Leveraging Partnerships
Championing Policy Reforms
Strengthening Social and Gender Assessment
Improving Organizational Effectiveness

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Message from Secretary of State Hillary Rodham Clinton

CHAIR OF THE MCC BOARD OF DIRECTORS

Since the beginning of my tenure as Secretary of State, I have advocated for smart power: an integrated, coordinated, and collaborative approach to U.S. global engagement that better utilizes our diplomacy, defense, and development initiatives. The Millennium Challenge Corporation, or MCC, is an innovative and effective U.S. government development agency that fits into this framework with a singular mission: reducing global poverty through economic growth. MCC's core principles of effective development assistance set a high bar for results and represent a new vision for development.

President Obama's new *U.S. Global Development Policy* emphasizes sustainable economic growth, good governance, country ownership, transparency, targeted U.S. operations, and rigorous standards for monitoring and evaluating results. MCC is already putting these principles into practice to improve the livelihoods of millions of people in developing countries. Through country-designed and country-implemented programs, MCC builds local capacity and creates a culture of self-sufficiency and sustainability. MCC encourages responsible governance practices that thwart corruption and generate opportunities for poor women and men around the world. And with a constant focus on delivering results, MCC leads a new era in measuring progress, grounded in transparent and independent evaluations to assess the true impact of these efforts.

MCC's experience is invaluable in shaping the future of U.S. development assistance. Already, we have incorporated MCC's key lessons learned on results, gender integration, and country ownership in both *Feed the Future* and the *Global Health Initiative*. With the ongoing support of Congress, development experts, and the American people, MCC will remain a model contributor as the United States continues to improve the human condition by reducing global poverty through sustainable economic growth.

Hillary Rodham Clinton, Chair

And with a constant focus on delivering results, MCC leads a new era in measuring progress, grounded in transparent and independent evaluations to assess the true impact of these efforts.

Message from Chief Executive Officer Daniel W. Yohannes

When I assumed the duties of Chief Executive Officer at the Millennium Challenge Corporation (MCC) in December of 2009, I inherited a strong and sound agency committed to efficiently investing U.S. resources in life-changing solutions to reduce global poverty through sustainable economic growth. Notable achievements were made during MCC's early years. Future plans will expand on these successes. MCC must embrace the challenge and opportunity presented by changing demands to build on our track record as an innovative, results-driven foreign assistance program. To achieve our goals, MCC has set five priorities that will also advance President Obama's new *U.S. Global Development Policy*—results, partnerships, policy reforms, gender integration and organizational effectiveness. While these priorities will define MCC's vision for development moving forward, MCC's *2010 Annual Report* documents the initial headway that we have already made toward achieving these goals.

Results are at the heart of what we do at MCC. **We have a fiduciary responsibility to the American people and to the U.S. Congress to ensure that the $7.9 billion that MCC has invested in partner countries worldwide delivers tangible, long-lasting results. MCC investments are boosting agricultural productivity; building critical infrastructure; expanding health, education, water and sanitation systems; bolstering land tenure security; and ultimately contributing to sustainable increases in individual incomes that will help the poor pull themselves out of poverty and move toward a life of greater opportunity. From nearly 150,000 farmers trained, to more than 890 kilometers of roads built, to more than 200 educational facilities constructed, rehabilitated or equipped through MCC support, we are tracking the tangible outcomes of our investments and measuring the economic and social changes resulting from them. Partner countries are also enacting tough policy reforms to ensure the sustainability of MCC-funded investments. And we are building on our successes: MCC's Board of Directors approved three new MCC Compacts in 2010, with Moldova, the Philippines and Jordan, and we witnessed the first closeouts of MCC Compacts in Honduras (September) and Cape Verde (October).**

To significantly expand the reach of our investments and to produce lasting results, MCC is focusing on forging creative partnerships with traditional and non-traditional actors—from the private sector to the not-for-profit philanthropic community—committed to achieving successful development outcomes. Sustainable results require that MCC partner countries continuously improve policy performance and integrate gender equality into their programs. By strengthening MCC's organizational effectiveness, we can better capture and communicate results, expand partnerships, and enhance our capacity to incorporate policy reforms and gender integration into the programs that we fund. MCC also offers best practices and lessons learned that contribute to and complement the administration's development initiatives.

This integrated vision for development defined MCC's work during fiscal year 2010 and will continue to guide us as we pursue the necessary strategies to maximize results performance. I invite all stakeholders—Members of Congress, the development community, the private sector, other U.S. Government agencies and the American people—to follow MCC's work, send us your feedback and hold us accountable to accelerate the progress we are making in the fight against global poverty. This is how MCC will continue to learn, innovate, lead by example, and be a key contributor to the President's new development policy.

Daniel W. Yohannes, Chief Executive Officer

Board of Directors

MCC benefits from the experience and expertise of a public-private board of directors, comprised of 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, the MCC Chief Executive Officer and four individuals from the private sector appointed by the President with the advice and consent of the U.S. Senate. The private sector component of the MCC Board is one of MCC's most distinct features.

1. Hillary Rodham Clinton, Chair
   Secretary of State
2. Timothy F. Geithner, Vice Chair
   Secretary of the Treasury
3. Dr. Rajiv Shah, Administrator
   U.S. Agency for International Development
4. Ambassador Ron Kirk
   U.S. Trade Representative
5. Daniel W. Yohannes
   MCC Chief Executive Officer

6 Lorne Craner, President
International Republican Institute
(Term expired June 2010)

7 Senator William H. Frist, M.D.
Schultz Class of 1951
Visiting Professor of International Economic Policy
Woodrow Wilson School of Public
and International Affairs
Princeton University

8 Alan J. Patricof,
Founder and Managing Director, Greycroft, LLC
(Term expired June 2010)

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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

Victoria B. Wassmer, Vice President
Department of Administration and Finance

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

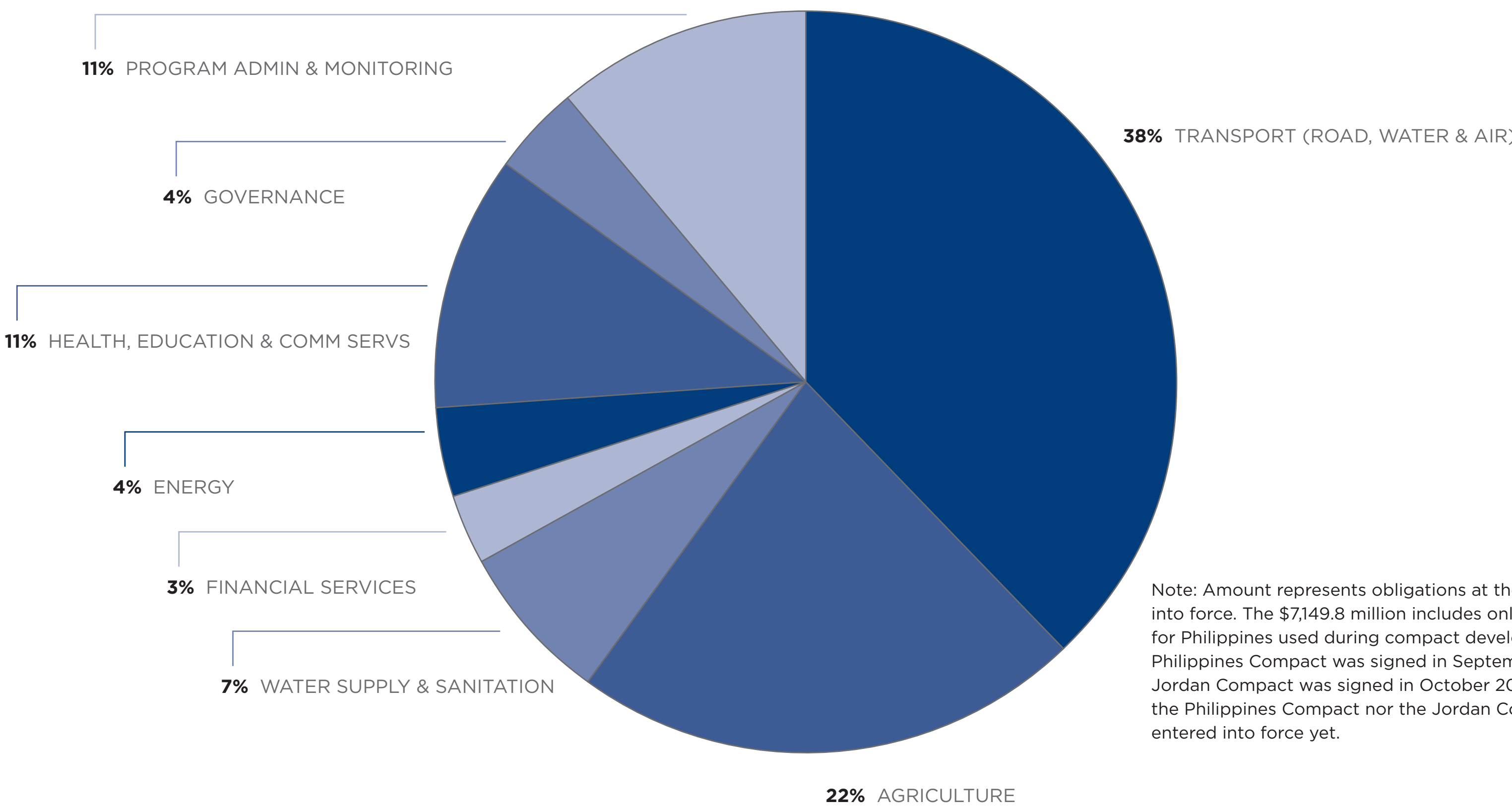
DELIVERING RESULTS

MCC investments produce both short-term and long-term results. To capture the continuum of quantitative and qualitative data throughout the lifecycle of MCC-funded programs, a *results reporting framework* was adopted during fiscal year 2010. This provides MCC a more robust means to measure, collect and report policy reforms, direct and indirect outcomes, preliminary and interim benefits, and impacts on local incomes from the start of MCC engagement with partner countries to the end of MCC Compacts and beyond. MCC is widely recognized for our commitment to technically rigorous, systematic and transparent methods of projecting, tracking and evaluating the impact of our investments. Through this approach, MCC is better able to answer the fundamental question of aid effectiveness: Do the actual benefits of a given investment justify the allocation of scarce aid dollars?

> *"Let's move beyond the old, narrow debate over how much money we're spending and let's instead focus on results—whether we're actually making improvements in people's lives."*
>
> — PRESIDENT BARACK OBAMA,
> September 22, 2010, U.S. Global Development Policy

Results at a Glance

COMPACT INVESTMENTS BY SECTOR
(as of September 30, 2010)



Note: Amount represents obligations at the time of entry into force. The $7,149.8 million includes only $25 million for Philippines used during compact development. The Philippines Compact was signed in September 2010. The Jordan Compact was signed in October 2010. Neither the Philippines Compact nor the Jordan Compact has entered into force yet.

Compact Portfolio Financial Performance

IN MILLIONS OF DOLLARS

Country	Entry Into Force Date	Months remaining	Time Elapsed	Compact Amount	Cumulative Commitments	% of Compact Committed	Cumulative Disbursements
	Compact Information				Cumulative Progress		
MADAGASCAR	1-Jul	0	100%	88.0	86.7	99%	85.6
HONDURAS	1-Sep	0	100%	205.0	203.7	99%	197.5
CAPE VERDE	1-Oct	0	100%	110.1	106.5	97%	102.8
GEORGIA	1-Apr	6	90%	395.3	373.5	94%	321.3
VANUATU	1-Apr	6	90%	65.7	63.8	97%	62.8
NICARAGUA	1-May	7	88%	113.5	109.7	97%	105.9
ARMENIA	1-Sep	11	82%	235.7	162.1	69%	95.3
BENIN	1-Oct	12	80%	307.3	208.5	68%	120.0
GHANA	1-Feb	16	73%	547.0	445.1	81%	234.7
EL SALVADOR	1-Sep	23	62%	460.9	358.1	78%	165.4
MALI	1-Sep	23	62%	460.8	338.3	73%	148.6
MOROCCO	1-Sep	35	42%	697.5	339.4	49%	98.8
LESOTHO	8-Sep	35	42%	362.6	216.4	60%	44.3
MOZAMBIQUE	1-Sep	35	42%	506.9	99.3	20%	35.1
TANZANIA	1-Sep	35	42%	698.1	537.0	77%	77.1
MONGOLIA	1-Sep	35	42%	284.9	106.7	37%	30.3
BURKINA FASO	15-Jul	45	25%	478.9	89.9	19%	53.9
NAMIBIA	16-Sep	47	22%	304.5	77.2	25%	23.0
MOLDOVA	Sep-10	59	2%	262.0	0.0	0%	0.0
SENEGAL	Sep-10	59	2%	540.0	0.7	0%	1.0
PHILIPPINES	TBD	60	0%	433.9	0.0	0%	0.0
GRAND TOTAL				**7558.6**	**3922.8**	**52%**	**2003.3**

% of Commitments Disbursed	% of Compact Disbursed	Commitments FY 2010	Commitment Targets FY 2010	Performance Against Targets	Disbursements FY 2010	Disbursement Targets FY 2010	Performance Against Targets
	Year-to-date Performance						
99%	97%	0.0	0.0	0%	4.0	0.0	0%
97%	96%	11.8	6.3	188%	88.3	68.8	107%
96%	93%	7.4	6.2	118%	41.7	29.1	93%
86%	81%	45.0	22.3	202%	175.3	81.2	126%
98%	96%	0.5	0.8	57%	24.3	13.9	154%
97%	93%	11.2	6.4	175%	30.1	18.9	138%
59%	40%	54.6	31.4	174%	54.0	44.9	94%
58%	39%	12.7	30.0	42%	71.0	48.7	118%
53%	43%	258.1	163.5	158%	144.8	117.8	99%
46%	36%	183.0	113.7	161%	116.1	80.5	113%
44%	32%	168.5	81.1	208%	102.2	63.7	129%
29%	14%	251.6	124.9	201%	76.6	72.6	64%
20%	12%	144.7	48.3	300%	27.2	26.5	82%
35%	7%	30.4	22.9	133%	23.5	26.3	75%
14%	11%	497.2	230.9	215%	69.2	57.0	97%
28%	11%	95.5	24.7	387%	22.4	15.6	102%
60%	11%	42.8	38.1	112%	21.3	20.4	73%
30%	8%	65.2	44.1	148%	21.0	14.1	127%
0%	0%	0.0	0.0	0%	1.0	0.0	0%
128%	0%	0.7	0.0	0%	0.0	0.0	0%
0%	0%	0.0	0.0	0%	0.0	0.0	
51%	**27%**	**1880.8**	**995.69**	**189%**	**1114.0**	**800.00**	**139%**

Estimating Compact Beneficiaries

In 2009, MCC revised the way we identify and count program beneficiaries to apply more precise common standards across all MCC Compacts. The more precise beneficiary definition distinguishes between all of the individuals participating in a project and the more limited set of individuals expected to experience higher household incomes as a result of the project. This approach, captured in MCC's *Guidelines for Economic and Beneficiary Analysis*, was applied systematically across all MCC Compacts in implementation, resulting in revised counts that were finalized and documented. In the guidelines, beneficiaries are now strictly defined as all members of a household who experience higher incomes as a result of MCC interventions. Beneficiary overlap between project activities and between MCC Compact projects is carefully documented to avoid duplicating beneficiaries. Changes in program design and implementation (resulting from such actions as re-scoping or termination) have been incorporated in the beneficiary counts as well. Beneficiary analyses for Senegal and Moldova were conducted using these revised guidelines.

Compact	Estimated Number of Beneficiaries	Estimated Long-Term Income Gain Over the Life of the Project (NPV of Benefits)
Armenia	427,623	$434,783,350
Benin	13,421,086	$409,568,812
Burkina Faso	1,181,296	$186,872,277
Cape Verde	384,765	$149,471,371
El Salvador	901,207	$530,091,653
Georgia	344,244	$301,305,834
Ghana	1,217,133	$683,253,724
Honduras	1,704,553	$237,274,575
Lesotho	1,041,422	$376,048,666
Madagascar	480,347	$123,202,505
Mali	2,836,578	$457,098,832
Moldova	427,242	$259,940,491
Mongolia	2,897,985	$306,921,751
Morocco	972,690	$647,003,206
Mozambique	4,565,136	$632,655,761
Namibia	1,063,413	$240,500,000
Nicaragua	107,832	$193,211,256
Senegal	1,662,129	$862,900,000
Tanzania	5,425,013	$1,335,798,486
Vanuatu	14,783	$54,000,000
Total, All Compacts	**41,076,477**	**$8,421,902,552**

NOTES

1. These estimates do not include beneficiaries of projects or activities that have been terminated or suspended (Madagascar, Honduras, Nicaragua and Armenia). In the case of Madagascar, the estimates account for the Madagascar Compact's early termination. All beneficiary counts reflect the total number of individuals living in households who are expected to experience higher incomes as a result of the project at some point within that project's expected lifespan (usually 20 years).

2. NPV (net present value) of benefits: The present value of the benefit stream is calculated as the sum of all projected benefits accruing within the expected lifespan of the project evaluated at a 10 percent discount rate. The present value of all benefits is reported in millions of purchasing power parity (PPP) U.S. dollars as of 2005. The use of PPP dollars permits users to compare total benefits across MCC Compacts no matter the partner country (and thereby currency) or the initial year of investment.

3. Beneficiary estimates for the Philippines and Jordan Compacts will be finalized at the time of entry into force.

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 information for each MCC partner country.

Results in Agriculture and Irrigation

	Feasibility and/or Detailed Design	Construction/Capacity Building/Other Support to Farmers and Enterprises		Increasing Capacity and Resources Use	Growth in the Agricultural Sector
Indicator Type	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	12. Increase in agricultural value-added or income
Totals	$43.68M in design contracts, 38.04% disbursed	$260M in construction contracts, 32.52% disbursed	148,157 farmers trained, 3,878 enterprises assisted, 4,856.8 ha	82,510.1 ha, $65.99M in loans, 19,389 farmers with new techniques, 30 enterprises with new techniques	Expected upon completion of works and training or in post-compact period
Currently Implementing	**Armenia** ($4.5M, 76%) **Burkina Faso** ($5.86M, 16%) **Cape Verde** (N/A) **Ghana** ($3.6M, 58%) **Georgia** ($1.16M, 59.4%) **Mali** ($8. 96M, 39%) **Morocco** ($18.9M, 28%) **Nicaragua** ($0.7M, 100%)	**Armenia** ($96.8M, 31%) **Cape Verde** ($5.04M, 91%) **Mali** ($126.67M, 37.7%) **Morocco** ($31.49M, 7%)	**Armenia** (43,787 farmers, 185 ent) **Cape Verde** (549 farmers, 12.8 ha) **El Salvador** (8,205 farmers, 76 ent) **Georgia** (286 ent) **Ghana** (45,472 farmers, 2,543 ent) **Honduras** (7,265 farmers, 464 ent, 4,844 ha) **Madagascar*** (31,366 farmers, 324 ent) **Mali** (1,199 farmers) **Mozambique** (1,568 farmers) **Nicaragua** (8,746 farmers)	**Armenia** ($8.4M) **Cape Verde** ($.528M, 100 farmers) **El Salvador** (10,710.1 ha, $4.8M, 1,655 farmers, 23 ent) **Georgia** ($18.48M) **Ghana** (29,615 ha, $15.6M, 6 ent) **Honduras** (19,815 ha, $17.1 M, 6,996 farmers) **Madagascar*** ($1.08M, 1,892 farmers, 1 ent) **Morocco** (9,263 ha) **Nicaragua** (13,107 ha, 8,746 farmers)	Most increases in income attributable to MCC activities to be measured by impact evaluations. Evaluations are in progress in: **Armenia** **Burkina Faso** **Cape Verde** **El Salvador** **Georgia** **Ghana** **Honduras** **Madagascar** **Mali** **Mozambique** **Nicaragua**
Pending Implementation		Burkina Faso Mozambique	Burkina Faso Morocco	Burkina Faso Mali Mozambique	

All program data are as of September 2010. 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.

148,157
farmers trained

3,878
enterprises assisted

82,510.1
hectares under production

$65.99
million in agricultural and rural loans

Results in Roads

	Feasibility and/or Detailed Design	Procurement for Construction Contractors	Construction		Expected Outcomes	Expected Objectives ‡
Indicator Type	Process	Process	Process	Output	Outcome	Objective
Progress Indicators	1. Percent disbursed for contracted studies 2. Kilometers of roads under design	3. Kilometers of roads under works contracts	4. Percent of contracted roads works disbursed	5. Kilometers of roads completed	6. Increased traffic, reduced travel times	7. Increase in income from reduced travel time, reduced vehicle operating costs and increased regional and international trade
Totals	48.1% disbursed; 4,941.5 km of roads under design	2,424.07 km of roads under works contracts	43.13% disbursed	895.63 km of roads completed	Average daily traffic, average travel time	Expected after completion of works
Currently Implementing	**Armenia** (90%; 892 km) **Burkina Faso** (11%, 536 km) **Cape Verde** (92%; 63.4 km) **El Salvador** (42.61%; 179.2 km) **Georgia** (86.1%; 220 km) **Ghana** (96%;776.3 km) **Honduras** (62.8%; 673 km) **Mali** (68%, 81 km) **Mongolia** (17.7 km) **Mozambique** (13%, 491 km) **Nicaragua** (100%; 398.6 km) **Tanzania*** (25%; 464.3 km) **Vanuatu** (100%; 149 km)	**Armenia***** (24.5 km) **Cape Verde** (40.6 km) **El Salvador** (156.41 km) **Georgia** (220 km) **Ghana** (399.16 km) **Honduras** (673 km) **Mali** (81 km) **Mongolia** (176.4 km) **Nicaragua** (74 km) **Tanzania** (430 km) **Vanuatu** (149 km)	**Armenia** (100%) **Cape Verde** (100%) **El Salvador** (32.3%) **Georgia** (64.5%) **Ghana** (27%) **Honduras** (65.5%) **Mali** (53%) **Nicaragua** (100%) **Tanzania** (11.5%) **Vanuatu** (88.8%)	**Armenia** (24.5 km) **Cape Verde** (40.6 km) **Georgia** (54.4 km) **Honduras** (610.1 km) **Mali** (21.03 km) **Nicaragua** (74 km) **Vanuatu** (71 km)	Rehabilitated roads will reduce travel times, lower vehicle operating costs, and increase traffic volumes.	Most income increases attributable to MCC activities to be measured by impact evaluations.
Pending Implementation		Burkina Faso Mozambique	Burkina Faso Mozambique	Burkina Faso El Salvador Ghana Mozambique Tanzania		

All program data are as of September 2010. 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. ‡ All MCC education programs have as their long-term end goal an increase in individual or household income and a corresponding decrease in poverty.

4,941.5
kilometers of roads under design

2,424.07
kilometers of roads under work contracts

895.63
kilometers of roads completed

Results in Land and Property

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

	Regulatory, Legal and Other Work	Institutional Upgrading and Capacity Building	Clarification and Formalization of Land Rights	Expected Outcomes	Expected Objectives
Indicator Type	Output	Output	Output	Outcome	Outcome
Progress Indicators	1. Preparatory studies completed 2. Legal and regulatory reforms adopted	3. Buildings built or rehabilitated 4. Stakeholders trained	5. Rural hectares (ha) mapped/formalized 6. Urban parcels mapped/formalized	Effective property rights system	Increase in income from investment in land and property and higher land productivity and value
Totals	47 studies completed; 20 legal and regulatory reforms adopted	129 buildings built/rehabilitated; $12.5M in equipment purchased; 15,005 stakeholders trained	1,054,966 rural hectares mapped; 33,524.69 rural hectares formalized; 2,454 urban parcels formalized	Expected in late compact or post-compact period	Expected in post-compact period
Currently Implementing	**Benin** (16 studies; 0 reforms) **Burkina Faso** (6 studies; 8 reforms) **Ghana** (5 studies; 2 reforms) **Lesotho** (1 study; 3 reforms) **Madagascar** (8 studies; 4 reforms) **Mali** (0 studies; 2 reforms) **Mongolia** (6 studies; 0 reforms) **Mozambique** (1 study; 1 reforms) **Nicaragua** (4 studies; 0 reforms)	**Benin** ($5.569M; 60 trained) **Ghana** (1 bldg; $0.07M; 128 trained) **Lesotho** ($0.04M) **Mali** (1 bldg; $.05M) **Madagascar*** (115 bldgs; $4.8M; 12,216 trained) **Mongolia** (894 trained) **Mozambique** (4 bldgs; $0.28M; 97 trained) **Nicaragua** (8 bldgs; $1.69M; 1,610 trained)	**Ghana** (4,646 rural ha mapped, 189.69 rural ha formalized) **Madagascar*** (30,047 rural ha mapped and formalized) **Mali** (1,050 rural ha mapped) **Mongolia** (988,334 rural ha mapped) **Nicaragua** (30,889 rural ha mapped; 3,288 rural ha formalized; 2,454 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	Most increases in income attributable to MCC activities to be measured by impact evaluations.
Pending Implementation	Senegal	Senegal Burkina Faso	Benin Lesotho Mozambique Namibia Senegal Burkina Faso		

All program data are as of September 2010. 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.

17
legal and regulatory reforms adopted

15,005
stakeholders trained

1,054,966
rural hectares mapped

33,524.69
rural hectares formalized

2,454
urban parcels formalized

Results in Water and Sanitation

	Feasibility and/or Detailed Design	Construction and Persons Reached		Expected Outcomes	Expected Objectives
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	$28.47M in design contracts, 28% disbursed	$69.82M in construction contracts, 33% disbursed	Expected upon completion of works	Expected upon completion of works	Expected upon completion of works or in post-compact period
Currently Implementing	**El Salvador** ($3.2M, 59.72%) **Georgia** ($.27M, 100%) **Ghana** ($1.5M, 33%) **Tanzania** ($1.9M, 95%) **Mozambique** ($21.6M, 16%)	**El Salvador** ($2.47M, 0%) **Georgia** ($54.32M, 41.46%) **Ghana** ($9.4M, 11.5%) **Lesotho** ($3.63M)	**El Salvador** () **Georgia** ()	**El Salvador** () **Georgia** ()	**El Salvador** () **Lesotho** () **Tanzania** () **Mozambique** () **Georgia** () **Ghana** ()
Pending Implementation		Ghana Tanzania Mozambique	Ghana Lesotho Tanzania Mozambique	Ghana Lesotho Tanzania Mozambique	

* All program data as of September 2010. Data are preliminary and subject to adjustment. Indicators in this Results Framework may be added or removed as MCC's investments in WS evolve over time.

$28.47 million in feasibility and/or detailed design contracts signed

$69.82 million in construction contracts signed

Results in Education

	Construction and Institutional Strengthening	Improved Access, Quality and Relevance	Expected Outcomes	Expected Objectives‡
Indicator Type	Process	Output	Outcome	Objective
Progress Indicators	1. Value of signed contracts 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. Educational facilities constructed/rehabilitated and/or equipped through MCC-supported activities 4. Number of instructors trained or certified through MCC-supported activities	5. Number of students (any educational level) participating in MCC-supported educational activities. 6. Additional primary/secondary/tertiary school female students enrolled in MCC-supported educational facilities	7. Primary/secondary /tertiary/vocational school graduates in MCC-supported educational facilities 8. Employed graduates of MCC-supported training programs
Totals	$50.2M in construction contracts, 22.7% disbursed	201 facilities built, 833 instructors	59,611 students participating, 5,502 additional female students	Expected upon completion of works or training
Currently Implementing	**Burkina Faso** ($22.5M, 12.9%) **El Salvador** ($8.9M, 67.67%) **Ghana** ($18.3M, 13.6%) **Mongolia** ($.5M)	**Burkina Faso** (108 facilities) **El Salvador** (21 facilities, 425 instructors) **Ghana** (71 facilities) **Mongolia** (1 facility, 94 instructors) **Morocco** (314 instructors)	**Burkina Faso** (23,267 students, 1,871 additional females) **El Salvador** (12,878 students, 753 additional females) **Ghana** (17,585 students, 452 additional females) **Morocco** (5,881 students, 2,426 additional females)	**Burkina Faso** () **El Salvador** () **Mongolia** () **Morocco** () **Namibia** () **Ghana** ()
Pending Implementation	Morocco Namibia	Namibia	Mongolia Namibia	

*All program data as of September 2010. 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.

201
educational facilities constructed, rehabilitated and/or equipped through MCC-supported activities

833
instructors trained or certified through MCC-supported activities

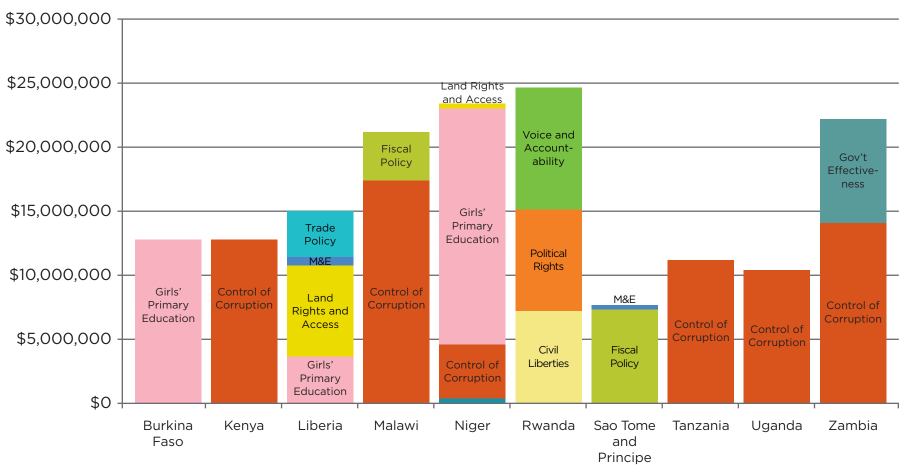
59,611
students participating in MCC-supported educational activities

5,502
additional female students enrolled in MCC-supported educational activities

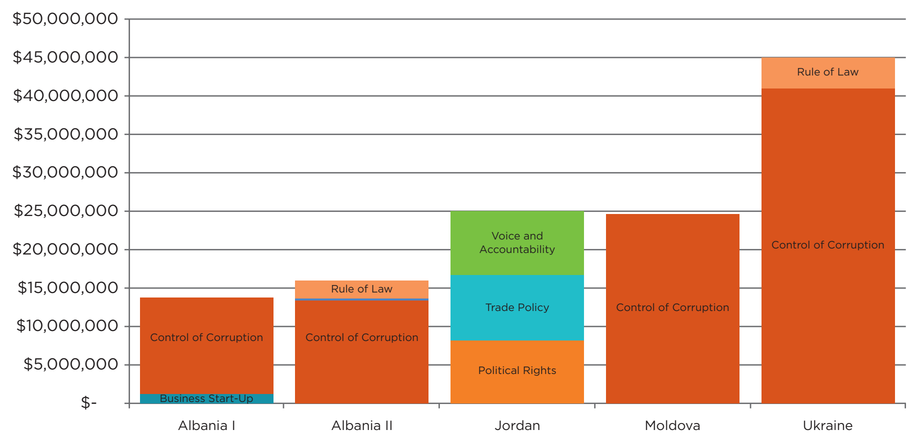
Threshold Program Results

Legend
Business Start-Up
Control of Corruption
Civil Liberties
Fiscal Policy

Africa



Eastern Europe and Middle East



QUICK FACTS

- MCC has launched 23 Threshold Programs with 21 countries totaling nearly $495 million.
- The majority of Threshold Program funding has been dedicated to anti-corruption and rule of law reforms. A large portion of Threshold Program funding also has been dedicated to improving girls' access to education and immunization rates.
- Of the 21 Threshold Program countries, eight have become compact-eligible.
- The United States Agency for International Development (USAID) administers the majority of the Threshold Programs. The U.S. Department of the Treasury administers the Sao Tome and Principe program and participates, along with the U.S. Department of Justice, in several programs by providing direct technical assistance and training.

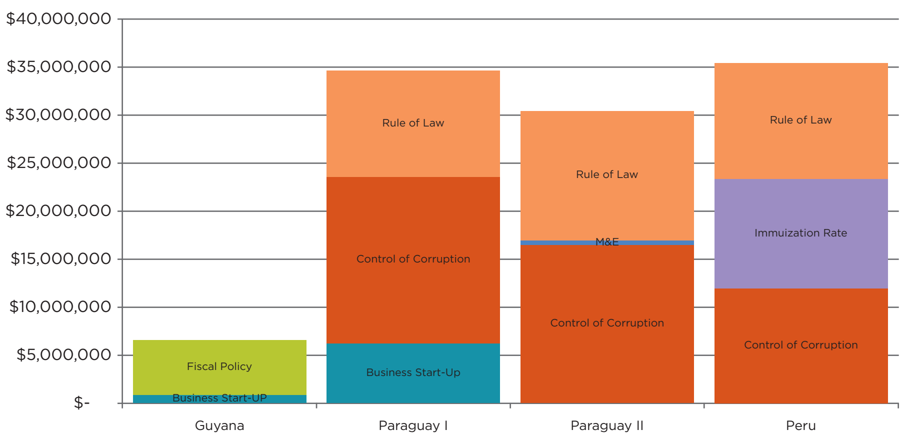
THRESHOLD PROGRAM PROGRESS

Albania's second Threshold Program established a National Licensing Center in the capital, Tirana, and branch offices in nine cities, significantly reducing the time and cost for businesses to obtain licenses and permits. The program also established six regional joint investigative units (JIUs) with authority to investigate and prosecute cases of alleged organized criminal activity and corruption. Now operational, the JIUs have prosecuted dozens of cases, some resulting in convictions on criminal corruption charges. In 2010, Albania received a United Nations award for excellence in public service for becoming the first country in the world to carry out all of its public procurements using the electronic procurement system developed under the MCC Threshold Program.

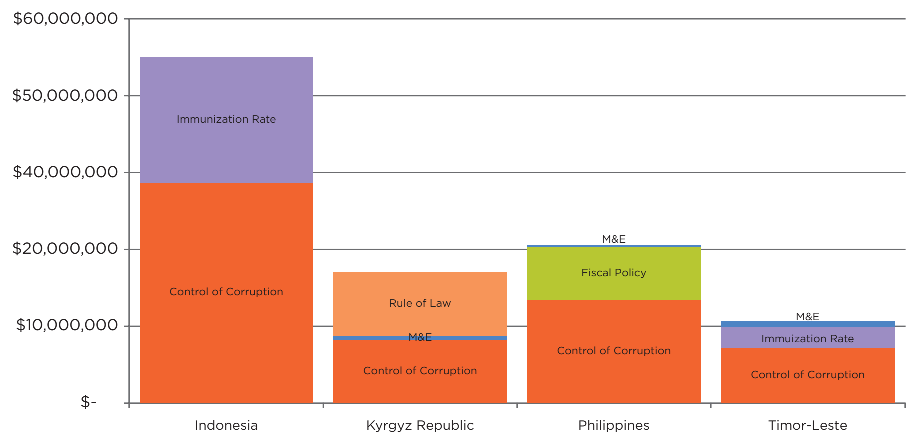
Liberia's Threshold Program was signed on July 6, 2010. It focuses on creating a foundation for reforms that will promote equitable access to land and greater land security, increasing girls' primary education enrollment and retention in targeted communities, and improving Liberia's trade policy and practices.

Girls' Primary Education
Gov't Effectiveness
Immunization Rate
Land Rights and Access
M&E
Political Rights
Rule of Law
Trade Policy
Voice and Accountability

Latin America



Asia and Eurasia



Niger's Threshold Program was suspended by MCC's Board of Directors in December 2009 due to political events that were inconsistent with the criteria used to determine a country's eligibility for MCC assistance. Working closely with MCC, USAID has overseen the termination of the anti-corruption, business and land improvement activities and the orderly wind-down of the construction sites associated with the girls' education component.

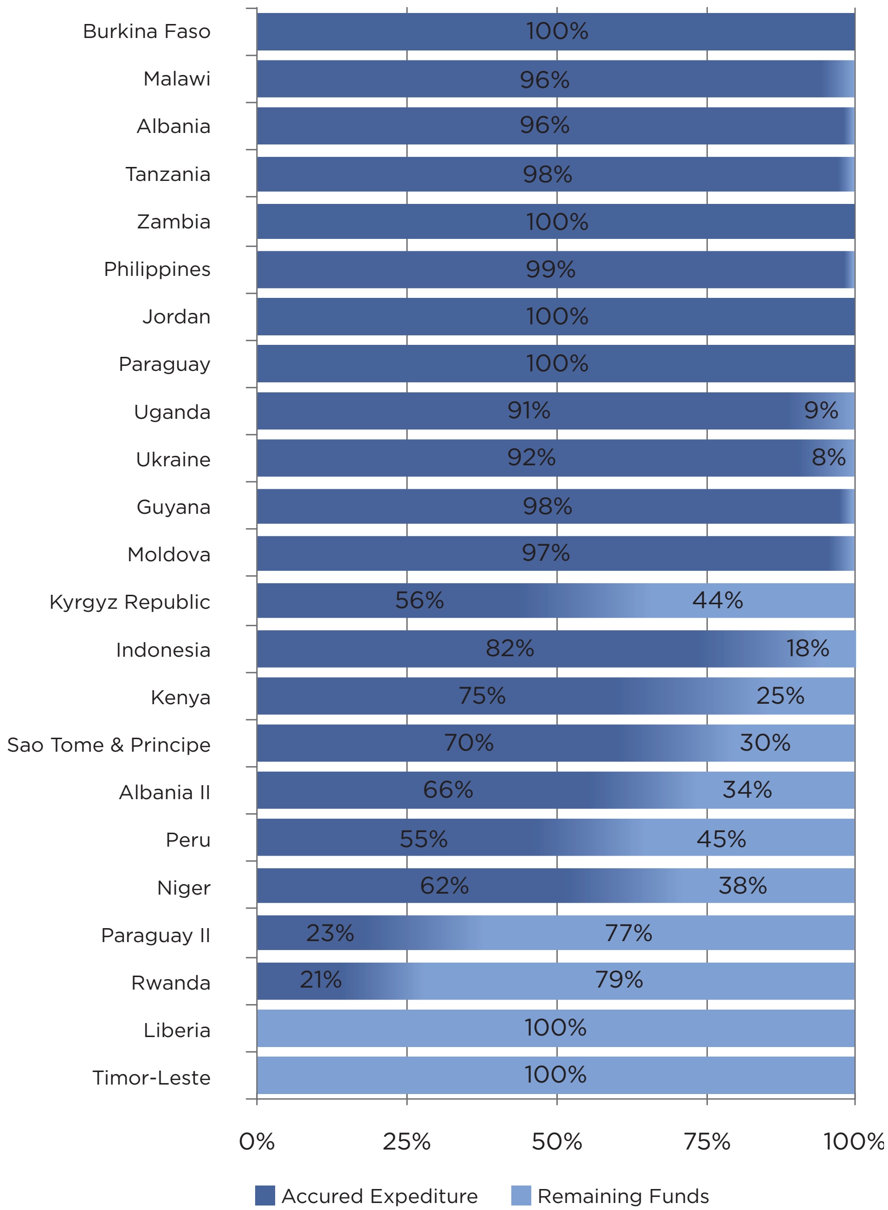
Peru's Threshold Program has contributed to the ability of the Judiciary's Office of Internal Control to investigate higher numbers of complaints against judges and prosecutors and to take stiffer disciplinary actions, including suspensions and dismissals against corrupt judges and prosecutors. The Threshold Program's vaccination activities have led to increased vaccination rates through better supply chain and information management and have expanded vaccine coverage to remote areas by deploying mobile health brigades.

Rwanda's Threshold Program has completed the national installation and rollout of 230 citizen commendation/complaint boxes on police performance. As a result, the police already have begun to receive detailed credible complaints with sufficient information to initiate formal investigations.

Timor-Leste's Threshold Program was signed on September 22, 2010. It focuses on reducing corruption by building a network of functioning, effective anti-corruption institutions and by building capacity in government and civil society. The program also improves access to immunization services by creating a more effective community health system. During proposal development, Timor-Leste achieved several important milestones that are critical to the reforms supported under the Threshold Program, including Parliament's nearly unanimous vote to establish an anti-corruption commission.

Note: Monitoring and evaluation (M&E) funds are captured in the chart because they are a portion of the total program funding. They do not represent policy areas targeted by the program.

THRESHOLD PROGRAM DISBURSEMENT PIPELINE
(as of 9/30/2010; in millions of dollars)



Next Generation Threshold Program

MCC recently concluded a year-long review of the Threshold Program to assess the program's achievement of its policy and program objectives. In light of the results of this review, MCC developed a refocused Threshold Program that maintains the original Threshold Program's strengths while addressing its limitations.

The next generation of the MCC Threshold Program will continue to assist countries in becoming compact-eligible by supporting targeted reforms designed to remove policy and institutional impediments to economic growth. Future Threshold Programs will enable countries to demonstrate their commitment to the broad policy areas underlying the MCC eligibility indicators. These Threshold 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 Results Framework

RIGOROUS MODEL OF ECONOMIC ANALYSIS

Consistent with our mandate to reduce poverty through economic growth, MCC uses rigorous economic analyses to guide the development of new programs and to inform investment decisions.

Constraints Analysis: As a first step toward an MCC Compact, partner countries undertake a formal analysis of the most serious bottlenecks to private investment and economic growth. This analysis contributes to program quality both as a focusing device and as an analytical tool to identify the most critical problems that might be addressed through MCC investments and related policy and institutional reforms.

Benefit-Cost Analysis: As partner countries move from the problem identification phase, reflected in the *Constraints Analysis*, to the program design phase, MCC provides guidance and technical support to ensure the impact of possible investments, both in terms of potential returns and the distribution of benefits. Investments should have a clear logic linking proposed costs to the likely project outputs and their consequent impacts. Most development interventions around the world face uncertain circumstances, and MCC's *Benefit-Cost Analysis* does not eliminate risk or uncertainty. However, these formal models of program logic represent a framework for describing interventions and anticipated results and for assessing whether expected benefits justify costs.

Beneficiary Analysis: While *Benefit-Cost Analysis* estimates the increase in local incomes that is expected to be generated by our investment, we recognize that the tool cannot assess who within societies benefits most. As a result, MCC uses *Beneficiary Analysis* to describe the expected effect of proposed investments on different segments of the population. The *Beneficiary Analysis* unpacks the bundle of total additional income generated by a project and provides a much richer sense of the distribution of benefits and the likely effect on the poor.

Monitoring and Evaluation (M&E): After program implementation begins, a *Monitoring and Evaluation (M&E) plan* will track performance as compact disbursements commence. M&E plans reflect targets in implementation that are constructed on the basis of the project logic, enabling MCC and partner country accountable entities implementing the program (what we often call MCAs) to know when program performance is consistent with the investment's underlying economic logic. Through our M&E plans, which collect quarterly performance data from our partner countries, we will know a lot about program performance by the end of the MCC Compact. We will know whether inputs were purchased as planned and whether output and outcome targets were met. In most cases, however, monitoring data collected during implementation cannot provide a rigorous description of impact.

Evaluations: MCC has developed an *evaluation strategy* to provide a final assessment of the impact of our investments on local incomes. For every MCC Compact, we contract third-party evaluators, many of them associated with American universities, to assess the impact of our investments. For roughly half of MCC investments, these evaluations incorporate rigorous design elements to allow the highest level of attribution of effect to MCC programs. For most of the remainder, independent evaluators will be able to use data from baseline and endline surveys to revisit benefit-cost projections. These evaluations may not always document successful results, but they will generate invaluable information that will inform future investment decisions. MCC will publish all results, a practice consistent with our commitment to learning, transparency, accountability and aid effectiveness.

POLICY REFORMS TO IMPACT

During fiscal year 2010, MCC renewed and strengthened our commitment to results reporting. Results reporting is an invaluable tool in managing projects, improving development outcomes, and staying true to MCC's commitment to transparency and accountability. MCC results across the entire portfolio of investments exist along a continuum that can be measured, collected and reported throughout the lifecycle of projects, from entry into force to compact closeout and beyond.

MCC's results framework is distinctive. MCC's Board of Directors selects well-governed countries where MCC investments will have the best chance for success. MCC's partners specifically select investments that target their most pressing constraints to economic growth and poverty reduction and have the best potential for returns, as quantified by a rigorous model of economic analysis.

The results that MCC is most interested in seeing—and in being able to attribute to our engagement with partner countries—are increased incomes among program beneficiaries. This is a different way of looking at results, which means MCC must take a different approach to measuring results. Nonetheless, what is consistent and evident throughout our program logic are the principles of transparency, country ownership, flexibility and adaption, and learning from what works and what does not work. The key to innovation in our results-to-impact framework is identifying and learning from failures early on.

Because the focus is on sustained economic growth, most MCC-funded projects in partner countries are investments that take years to implement and years to generate significant new income. Even before incomes begin to rise, however, MCC countries show tangible results. MCC tracks interim indicators, such as number of farmers trained, hectares planted with high-value crops, kilometers of road constructed, or land titles granted, because these investments in both physical and human capital in partner countries are expected to drive long-term income gains among beneficiaries over the next ten or twenty years.

Tracking policies: MCC's investments cannot happen in isolation. That is why MCC and partner countries look closely at the policy environment in which MCC investments are being made, and plan reforms to economic, political and social policies that might limit the investment's impact and sustainability.

Tracking outputs: MCC's five-year investment programs produce outputs that are key building blocks toward the ultimate goal of increasing incomes and reducing poverty among beneficiaries. During this period, MCC and our partners can report on the number of farmers trained, hectares under production, agricultural loans made, irrigation systems under contract, roads built, and land titles issued.

Tracking preliminary outcomes: We also want to measure economic and social changes that result from these outputs, such as reduced travel time to markets, schools and health clinics and increased number of commercial vehicles on the road or number of new businesses started. We measure these preliminary outcomes, relative to targets, that result because of our program logic: Our *inputs* fund the *outputs* that generate *outcomes* in terms of new patterns of commerce and social behavior generated by our investments.

Tracking impact: The indicators we set targets for, track and report are chosen because they are the key ingredients to achieving the desired impact of increased incomes. We expect that progress in these areas will translate into increased incomes over time. To confirm these expectations, we conduct independent impact evaluations after compacts come to a close. In many cases, these rigorous evaluations compare results from the people who did benefit from MCC-funded programs to those who did not benefit in order to gauge the effectiveness of our investments and the extent to which preliminary outcomes did, in fact, improve the incomes of the poor. The results of these evaluations will provide the best assessment of MCC investment impacts.

And, all of this is conducted with

- transparency and full public disclosure;
- respect for country-driven and country-owned implementation; and
- a firm commitment to learn from both the successes and setbacks of our innovative results framework, allowing us to internalize best practices that will keep MCC and the U.S. Government at the forefront of effective global development efforts.

Honduras and Cape Verde, the first two countries to conclude their MCC Compacts, illustrate MCC's **results framework**:

RESULTS FRAMEWORK

HONDURAS

As of September 30, 2010

PROBLEM

Low agricultural productivity among farmers and high transportation costs are key barriers to economic growth and poverty reduction.

SOLUTION

Improving small farmer productivity and investing in transportation will contribute to long-term economic growth and poverty reduction.

Entry into force: September 2005		Compact Closeout						($ in millions)
Interim Progress								Compact Level
Transportation	Long-Term Results	Estimated Long-Term Income Benefits						$199.00
		Estimated Long-Term Beneficiaries						$1,347,297
	Financial Progress		2006	2007	2008	2009	2010	
		Sector Commitments	$0.50	$3.10	$91.30	$114.72	$120.59	$120.59
		Sector Disbursements	$0.39	$0.94	$8.34	$61.77	$111.07	
	Select Performance Indicators				Planned	Actual *	Performance	Overall
		Percentage of road works complete			100	65	65%	100
		Kilometers of road completed (cumulative)				611	88%	681
Rural Development	Long-Term Results	Estimated Long-Term Income Benefits						$132.00
		Estimated Long-Term Beneficiaries						471,417
	Financial Progress		2006	2007	2008	2009	2010	
		Sector Commitments	$19.69	$24.40	$40.26	$64.28	$68.07	$68.27
		Sector Disbursements	$1.18	$6.67	$21.85	$38.14	$61.63	
	Select Performance Indicators				Planned	Actual *	Performance	Overall
		Number of hectares under irrigation by community irrigation systems			203	400	197%	203
		Value of loans disbursed to farmers, agribusiness, other producers and vendors in horticulture industry			6	10	167%	6
		Number of farmers trained (FTDA Activity)				7265	88%	8255
Program Administration	Financial Progress		2006	2007	2008	2009	2010	
		Sector Commitments	$1.74	$6.10	$8.50	$12.90	$15.00	$16.00
		Sector Disbursements	$1.45	$3.36	$4.76	$9.10	24.77@	

Note: * To be updated after they are finalized. @ Disbursements overstated by $10 M for Program Admin to be transferred to other projects in October 2010.
Projected long-term income benefits to 1,704,553 beneficiaries: $237 million

RESULTS FRAMEWORK: HONDURAS
(continued)

POLICY REFORMS

Honduras enacted legal policy reforms to sustain MCC-funded investments in rural development and transportation infrastructure, key ingredients to boosting agricultural productivity among small farmers.

- **Increasing access to credit through a movable property registry:** Accessing credit without property or other assets that major banks usually require as collateral is a challenge. Through the newly-enacted Secured Transaction Law and establishment of a movable property registry system, farmers and others with small businesses will have increased access to credit. This law improves the process for credit seekers to use an entirely new category of movable, non-real estate property—such as shop inventory, future crops, tractors, supply contracts and sewing machines—as collateral.
- **Enabling responsible resettlement:** The Honduran government passed a special decree fully authorizing MCA-Honduras (the local entity responsible for implementing Honduras's MCC Compact) to carry out a comprehensive resettlement program. Thanks to this decree, MCA-Honduras provided affected parties with timely and fair market-value compensation beyond current legislative allowances, managed resettlement activities effectively, cleared rights-of-way, and started road construction more quickly than other projects investing in the same highway and facing similar resettlement needs.
- **Ensuring road sustainability:** Both a weight control system and a road maintenance fund are necessary for sustainability. MCC funded the design of a weight control system and promoted passage of legislation that creates the legal framework to pursue an effective vehicle weight control system. Although MCC ended assistance for the weight control system when the compact's partial termination occurred, the Honduran government and other donors are stepping in to construct and operate the system. Also, MCC asked Honduras to allocate funding to protect investments made in the national road network, including the sections MCC rehabilitated. As a result, Honduras progressively increased its road maintenance budget from less than $40 million in 2005 to $64 million in 2010.

OUTPUTS

- More than **7,000 farmers** received technical training in better crop management, irrigation techniques, business skills, marketing and post-harvest handling.
- More than **10,000 loans** have been extended to **5,800** farmers, agribusinesses and other producers, giving them the means to buy equipment, seeds and tools to help them expand their production and increase their profits.
- A total of **611 kilometers of roads** have been rehabilitated, including sections of the *CA-5 Highway* as well as rural and secondary roads, reducing transportation costs and travel time to national, regional and global markets.

PRELIMINARY OUTCOMES

- Of the farmers trained, **6,029** increased their production of high-value horticultural crops to earn **$2,000** or more per hectare, demonstrating their effective adoption of the new techniques.
- Farmers have reported that with more income, they are improving their farms and homes, purchasing vehicles to transport their produce to market and investing in the education of their children.

IMPACT EVALUATION

- Though MCC can point to real change in Honduras now, MCC's stringent standards for measuring and reporting results require independent evaluations to verify the immediate and long-term impact of our partnership. These evaluations, expected by September 2011, will measure the gains in income attributable to MCC investments.
- Over the next 20 years, MCC's investment in Honduras is expected to benefit more than **1.7 million** Hondurans and increase incomes by about **$240 million**.

RESULTS FRAMEWORK

CAPE VERDE

As of September 30, 2010

PROBLEM

Low-income households engaged in subsistence farming have limited opportunities to learn and adopt new technologies and practices that would raise their incomes.

SOLUTION

Increasing agricultural productivity, building vital infrastructure and developing a robust private sector are transforming agriculture in Cape Verde into a productive, competitive business sector to significantly reduce poverty and increase economic growth.

Entry into force: October 2005		**Compact Closeout**						**($ in millions)**
Interim Progress								**Compact Level**
Roads & Bridges	Long-Term Results	Estimated Long-Term Income Benefits						$137.60
		Estimated Long-Term Beneficiaries						384,465
	Financial Progress		2006	2007	2008	2009	2010	
		Sector Commitments	$7.50		$70.60	$77.28	$81.07	$82.63
		Sector Disbursements	$6.25	$6.15	$17.01	$42.28	$67.21	
	Select Performance Indicators				Planned	Actual	Performance	Overall
		Kilometers of roads completed			40.6	40.6	100%	40.6
		Number of days per year that bridges are not passable			0	0	100%	0
Watershed Management & Agriculture Support Services	Long-Term Results	Estimated Long-Term Income Benefits						$9.74
		Estimated Long-Term Beneficiaries						900
	Financial Progress		2006	2007	2008	2009	2010	
		Sector Commitments	$0.10	$0.76	$9.56	$10.61	$11.71	$12.03
		Sector Disbursements	$0.05	$0.38	$3.54	$7.85	$10.78	
	Select Performance Indicators				Planned	Actual *	Performance	Overall
		Volume (cubic meters) of available water; all watersheds			465,800	299,542	64%	465,800
		Number of farmers adopting drip irrigation; all watersheds			337	100	30%	337
Private Sector Development	Long-Term Results	Estimated Long-Term Income Benefits						$2.12
		Estimated Long-Term Beneficiaries						900
	Financial Progress		2006	2007	2008	2009	2010	
		Sector Commitments	$0.00	$0.52	$1.23	$1.53	$1.72	$1.93
		Sector Disbursements		$0.12	$0.36	$0.98	$1.56	
	Select Performance Indicators				Planned	Actual *	Performance	Overall
		MFI Gross Loan Portfolio (Thousand $ECV)			323,000	385,568	119%	323,000
		MFI Portfolio at Risk above 90 days			PAR < 5	1.43	100%	PAR < 5
Program Administration	Financial Progress		2006	2007	2008	2009	2010	
		Sector Commitments	$1.80	$4.50	$8.03	$9.80	$12.00	$13.50
		Sector Disbursements	$1.22	$2.90	$6.22	$9.60	$23.00*	

Note: *Disbursements overstated by $10 M for Program Admin to be transferred to other projects in October 2010.

Projected long-term income benefits to 384,765 beneficiaries: $149.5 million

RESULTS FRAMEWORK: CAPE VERDE
(continued)

POLICY REFORMS

- **Decree Lifting Embargo:** Cape Verde issued a national decree, contingent upon the construction/operation of the MCC-funded post-harvest inspection center, lifting a more than 20-year embargo on agricultural exports from the island of Santo Antão that had been prohibited from trade because of a millipede infestation. Santo Antão farmers now have an outlet for income-generating trade.

- **Road Maintenance Fund:** In response to a compact condition precedent, the government established a Road Maintenance Fund, financed by a levy on road users, to achieve maximum sustainability of the road improvements.

- **Citizens' House *(Casa do Cidadão)*:** The MCC Compact contributed to this e-government service through NOSi (the Cape Verdean agency responsible for e-government) by investing in equipment, software and technical assistance valued at more than $3 million. The Citizens' House electronic system improves citizens' access to government services. The time to register a business, which previously took an average of 52 days, has been dramatically reduced through the new online process.

- **Microfinance Legislation:** As a condition precedent to providing technical assistance to microfinance institutions (MFIs), Cape Verde enacted a microfinance law that, among other improvements, authorized MFI collection of savings.

OUTPUTS

- To increase agricultural productivity in targeted rural watershed areas, **28 reservoirs** (100 percent of the target) have been completed, **549 farmers** have been trained in new technologies, and four participating microfinance institutions have issued **$617,000 in rural agricultural loans** to **209 farmers or agribusinesses**.

- Three rural roads, totaling **40.6 kilometers**, have been upgraded from cobblestone to asphalt pavement connecting coastal and inland villages with larger population centers and markets. In addition, all **four bridges** have been completed, reducing the average annual number of days riverbeds were impassable from eight to zero during the heavy rainy seasons and contributing to the overall improvement of Cape Verde's rural transport network.

- The **Port of Praia's efficiency increased** with the completion of the first phase of work, including the construction of a cargo village and access road and the rehabilitation of Quay 2.

- To increase financial intermediation and competition in the government securities market and develop the private sector, MCA-Cape Verde provided **eight microfinance institutions with technical assistance**, building capacity through training on best practices in accounting, credit appraisal, delivery, collection, human resources management, and marketing. Cape Verde is also launching its first **private credit bureau**.

PRELIMINARY OUTCOMES

- Reduced road roughness because of rehabilitated roads is expected to result in shorter travel times, increased mobility, reduced operating costs and improved access to employment opportunities, markets, educational and health care facilities, and other social services. The improved benefits stream will be measured as part of an initial ex-post *Economic Rate of Return Analysis* on road investments as well as an impact evaluation.

- As farmers increase their agricultural productivity, they will also increase their household income from farm profits and wages. A rigorous post-compact impact evaluation will confirm the impact on household income.

IMPACT EVALUATION

- Though MCC can point to real change in Cape Verde now, MCC's stringent standards for measuring and reporting results require independent evaluations to verify the long-term impact of the partnership. Project evaluations are expected beginning in November 2011 through June 2014 and will measure the gains in income attributable to MCC investments.

- MCC's investment in Cape Verde is expected to benefit nearly **385,000** Cape Verdeans and increase incomes by over **$149 million** over the next 20 years.

PROPOSED LEGISLATIVE CHANGES TO MAXIMIZE RESULTS

During fiscal year 2010, the Senate Foreign Relations Committee and the Senate Appropriations Committee passed changes to MCC's authorization statute. Both bills include versions of language on compact term extension, concurrent compacts and graduation/selection issues. The bills allow extensions of the five-year compact term if necessary (with a limit of seven years). Concurrent compact authority would allow MCC to sign overlapping compacts in one country within the provided time and compact funding limitations. The new legislation also includes a comprehensive treatment of country graduation and selection that accommodates changes in the composition of the MCC candidate pool. The Senate Appropriations Committee bill also would limit funding of any one country to 15 years and would require a country contribution for second compacts (7.5 percent for low-income countries and 15 percent for lower-middle-income countries). We continue to work with the U.S. Congress toward adopting these legislative changes to maximize impacts and sustainability.

LEVERAGING PARTNERSHIPS

Maximizing development impact means maximizing *coordination and cooperation* among partner countries, U.S. Government agencies, donors, nongovernmental organizations, foundations and the private sector. We want to engage the private sector community in the broadest sense—encompassing all those non-traditional actors beyond the public sector whose missions and business interests align with sustainable development objectives. With challenging budget constraints that demand doing more with less, the world's poor benefit when the core competencies of various partners are leveraged. MCC is seeking increased nongovernmental engagement, including with the private sector, to expand the reach of U.S. Government investments.

"No one nation can do everything everywhere and still do it well. To meet our goals, we must be more selective and focus our efforts where we have the best partners and where we can have the greatest impact. And just as this work cannot be done by any one government, it cannot be the work of governments alone. Indeed, foundations, the private sector and NGOs are making historic commitments that have redefined what's possible."

— PRESIDENT BARACK OBAMA,
September 22, 2010, U.S. Global Development Policy

MCC's Lessons Learned for the Future of Foreign Assistance

PARTNERING ON SHARED OBJECTIVES

As the United States reforms how it engages with the developing world, it is emphasizing broad-based economic growth, country ownership, results, mutual accountability and governance, transparency, and gender integration. These same principles have been fundamental to the practice of MCC's model since its inception in 2004. These principles are also central to the Obama Administration's new *U.S. Global Development Policy* and are reflected in presidential initiatives such as *Feed the Future* (FTF), the *Global Health Initiative* (GHI), the U.S. strategy on the *Millennium Development Goals*, the Administration's global commitments in the context of G8 and G20 summits, and a number of legislative initiatives.

For example, collaboration on FTF built upon two areas in which MCC is particularly strong: a rigorous focus on results and a practical approach to gender integration during program design, implementation and monitoring. MCC helped FTF develop its results framework and estimate its program impact. Also, MCC agriculture experts reviewed FTF country plans to provide guidance based on MCC's experience in supporting country-led plans for comprehensive food security investments. Our experience implementing the MCC gender policy informed the development of both FTF's and GHI's approach to gender integration.

The administration recognizes that growth is the foundation for reducing poverty and attracting investment to create jobs and economic opportunity in partner countries. MCC is at the center of the U.S. Government's commitment to long-term investments in global economic growth. President Obama regularly emphasizes that development is ultimately in the hands of countries themselves, and that accountable and effective governance is a necessary ingredient. This is a core MCC principle, and we work with poor countries that have a proven track record of ruling justly, promoting economic freedom, and investing in the needs of their people. Moreover, MCC's approach to the transparency of financial and program information in development assistance serves as a model for the administration's efforts toward greater government-wide transparency. The White House Open Government Innovations Gallery highlighted this model, featuring the results section of our website in *"Putting Results at the Forefront: Where Transparency Meets Smart U.S. Foreign Aid."*

Partnering with Countries

Country ownership is a key principle of President Obama's *Global Development Policy*. Country ownership is also a core tenet of the aid effectiveness agenda promoted through the *Paris Declaration* and *Accra Agenda for Action*. The starting point of MCC's approach to country ownership is the belief that development programs will be more effective if they are part of a country's own development strategy. MCC expects partner countries to identify the principle constraints to investment, growth and poverty reduction, to consult broadly with key stakeholders to better understand those constraints and to prioritize investments to address them. In this sense, ownership extends beyond governments. These consultations result in programs that have broad public support, ensuring their resiliency in the face of political upheaval, including changes in government leadership and ideology.

Ownership extends through the project development phase into implementation, where MCC partner countries take the lead in all aspects of program management, including establishing and staffing an accountable entity, procuring goods, services and civil works, and providing oversight for all investments. Partner countries establish accountable entities—often referred to as MCAs—which are responsible for program implementation; these entities are predominately staffed by country nationals and are accountable to a board of directors (or similar governing body) that includes representatives from the partner government, local civil society and the private sector. Typically, partners also establish stakeholder advisory committees designed to represent the interests of project beneficiary groups and to ensure regular communication with constituents. MCC partners take the lead in managing environmental and social safeguards associated with their investments and in tracking results.

Country ownership is vital to the sustainability of compact investments. Countries are more likely to make difficult policy reforms for programs that are aligned with national priorities, strongly supported by the public and implemented by recipients. They are also more likely to sustain these investments through, for example, diligent operations and maintenance.

Examples of country-driven consultations to develop MCC Compacts include:

- **Jordan** created a council to advise on the strategy and execution of the country's consultative process. The council helped recruit a significant share of the participants for regional meetings that took place in each of Jordan's 12 governorates. Following these broad consultations, several private business leaders and NGOs participated in a smaller, multidisciplinary, results-focused project design workshop to provide detailed insights on key problems in the water sector. This workshop actually determined the conceptual design for the projects that Jordan proposed as part of its initial concept paper, which later became the basis for its MCC Compact.

- The consultative process for the **Malawi** Compact has been ongoing since the initial phases of compact development. The consultative plan was strategically designed to integrate civil society groups and organized to have broad and comprehensive coverage, involving NGOs, religious leaders, traditional authorities, university faculty and students, women's groups, and various associations. As compact activities are further defined, MCC and Malawi will continue to conduct consultations with different stakeholder groups to ensure the sustainability of MCC's investments.

- During compact development, **Moldova** met with multiple NGOs to discuss constraints to economic growth, including the Foreign Investors' Association, the American Chamber of Commerce in Moldova, the National Confederation of Employers, the "Timpul" Business Club, the gender-focused Partnership for Development Center and the Independent Analytic Center Expert-Group. Public and private sector representatives from the agricultural sector, for example, advised on the design of the integrated high-value agricultural project in the Moldova Compact. The Steering Committee of MCA-Moldova, which is now responsible for implementing Moldova's MCC Compact, includes executive directors from five NGOs.

- During compact development in the **Philippines**, the Philippines core team sought advice from the *Transparency and Accountability Network (TAN)* and *InciteGov*, two umbrella organizations that represent hundreds of grassroots NGOs engaged in anti-corruption and governance initiatives. *TAN* and *InciteGov* supported national and regional consultations during the compact development process. Constraints and solutions that they identified, such as procurement fraud training, are included in the compact's governance framework. Moreover, at the project level, *Road Watch* held discussions with the Philippines' core team and MCC during compact development to ensure that the *Secondary National Roads Development Project* was consistent with the principles adopted for similarly-funded road construction activities in the Philippines. Meanwhile, local farmer organizations and advocacy groups focused on gender participated in consultations regarding the Kalahi-CIDSS project, offering suggestions for the process of social mobilization and preparation that have been incorporated into this MCC-funded community-driven development activity.

- After conducting broad-based consultations in **Zambia** on constraints to economic growth, Zambia's core team held in-depth consultations within the framework of the Sector Advisory Groups (SAGs). SAGs include representatives of civil society groups, the private sector and cooperating partners. The SAGs, which the Government of Zambia initially set up to assist in developing the Poverty Reduction Strategy Paper and the Fifth National Development Plan, proved helpful in eliciting feedback on the initial constraints analysis findings for the MCC Compact.

MCA ACCOUNTABLE ENTITIES

	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 Other U.S. Government Agencies

MCC's large-scale grants, commitment to country ownership and capacity-building are unique within the U.S. Government's foreign assistance toolkit. Taking a whole-of-government approach, MCC projects are unlocking opportunities that other U.S. Government agencies are leveraging. Examples during fiscal year 2010 include:

- MCC and USAID cooperate in several areas. The agencies are identifying country-led opportunities through the administration's *Feed the Future* initiative to complement and leverage existing MCC investments in food security, which total nearly $4 billion. For example, one of the key obstacles to food security in Mali is land tenure; the *Alatona Irrigation Project* within the MCC Compact is piloting land titles for small farmers. USAID intends to build on this by supporting a legal framework to resolve land conflicts. In Senegal, MCC and USAID have identified opportunities for USAID programs in social services, farmer training and rural infrastructure to complement MCC's investments in roads and irrigation networks. In Moldova, MCC and USAID are co-financing capacity-building and market development activities for farmers who are also benefitting from compact investments in irrigation infrastructure. In Ukraine, USAID is continuing some of the successful anti-corruption initiatives from the MCC-funded Threshold Program that ended in December 2009, including streamlining the customs valuation system and developing a pilot unified land registry.
- The **U.S. Trade and Development Agency** funded feasibility studies for private sector activities connected with MCC Compacts and organized visits between representatives from MCC partner countries and the U.S. private sector. These visits allowed MCC partner countries to learn about available technologies and to observe the design, manufacture and operation of U.S. products and services. The **U.S. Export-Import Bank** and the **Overseas Private Investment Corporation** can provide financing to contractors that work on compact-funded projects and to companies that have increased their business because of compact investments.
- **USAID**, the **U.S. Department of the Treasury** and the **U.S. Department of Justice** contribute to the success of MCC's Threshold Programs. Because most MCC Threshold Programs center on corruption, USAID brings its expertise in democracy and governance to program design and implementation. The U.S. Department of the Treasury supports MCC Threshold Programs in such areas as customs administration and financial sector reform. The U.S. Department of Justice contributes technical expertise in prosecution and law enforcement to several MCC Threshold Programs.
- More than 160 contractors and suppliers attended a procurement conference in South Africa co-organized by the **U.S. Department of Commerce**, Business Unity South Africa and MCC at the Development Bank of Southern Africa. Representatives from MCC partner countries attended to meet with companies seeking contracting opportunities on projects funded by MCC Compacts.
- MCC CEO Daniel Yohannes and **United States Peace Corps** Director Aaron Williams signed an agreement on September 9, 2010 to enhance further collaboration and cooperation between the two agencies and share respective strengths, knowledge and resources in support of country-led development. The Peace Corps and MCC are breaking new ground in Lesotho, for example, where a Peace Corps member became the very first Peace Corps Volunteer to be assigned to work with the MCA entity managing the implementation of Lesotho's MCC Compact. The Peace Corps volunteer at MCA-Lesotho is co-managing the *Rural Water Supply and Sanitation Project* in Lesotho's MCC Compact, which is reducing sanitation-related health problems by constructing 250 water projects and more than 10,000 ventilation-improved pit latrines in rural areas. Similarly, Peace Corps volunteers in El Salvador are exploring ways of collaborating with FOMILENIO, the Salvadoran MCA entity, on MCC-funded projects. So far, volunteers have surveyed students benefitting from MCC assistance in technical middle schools in the country's Northern Zone and have organized workshops to train artisans and other entrepreneurs to pursue market-based opportunities. Additional opportunities are being developed across other MCC Compact countries.

Partnering with the Broader Development Community

MCC deepened partnerships with international donors, non-governmental organizations and philanthropic foundations during fiscal year 2010 to promote poverty reduction and economic growth. Looking ahead, MCC intends to forge additional partnerships with the broader international development community, including with more non-traditional actors like social entrepreneurs and social responsibility firms.

- MCC partnered with the Australian Government Overseas Aid Program (AusAid), the Danish International Development Agency (Danida), the UK Department for International Development (DFID) and other donors to sponsor the *International Initiative for Impact Evaluations* (3ie). MCC is in a unique position among 3ie's sponsoring members to provide input given our rigorous impact evaluations. Collaboration with 3ie will help MCC stay on the cutting edge of impact evaluation through ongoing input and guidance from 3ie's extensive network of evaluation experts and will improve the quality of information we can draw on to assess proposed projects. MCC also participated in 3ie's *Open Window* grant competition, which awards quality impact evaluations in the areas of social and economic development in low- and middle-income countries and creates incentives to enhance the quality of impact evaluations worldwide. These initiatives help donors like MCC and the developing world better identify what works to support poverty reduction and economic growth.

- The **World Bank's** Public Private Infrastructure Advisory Facility (PPIAF) funded a $244,000 financial sustainability plan for Malawi's national electricity utility, which is playing a role in that country's MCC Compact under development. In Mozambique, PPIAF provided $250,000 for public-private transaction advice supporting MCC-upgraded rural water utilities.

- Together with the **World Bank**, the **United Nations Development Program** and other donors, MCC piloted a capacity self-assessment tool called *CAP-Scan* to help countries determine where their capacities to manage for development results fall short. For example, MCC supported Malawi in a capacity self-assessment in the energy sector. Malawi's *CAP-Scan*, completed in March 2010, involved extensive consultation with key stakeholders in government, the private sector, the electric utility, regulators, and members of civil society. The results of the assessment will inform compact implementation activities to ensure the sustainability of MCC's investments by strengthening leadership, planning and budgeting, statistical capacity, monitoring and evaluation, accountability, and partnerships in the energy sector.

- MCC and the **World Food Program (WFP)** identified opportunities for MCC-funded farmers to supply WFP's *Purchase for Progress Program*. This innovative program is designed to respond to food security needs in developing countries by providing a structured market for smallholders as they transition to commercial agriculture.

Partnering with the Private Sector

During fiscal year 2010, MCC worked to attract additional resources from the private sector. These resources enhance sustainability, increase efficiency, boost scalability, build capacity, and share or mitigate risk in partner countries worldwide. Private sector firms benefit from business-friendly policy environments in MCC partner countries and from the financing we bring to projects that enhance or underlie commercial, trade and investment opportunities. Significant procurements resulting from MCC-funded compacts also present real opportunities for private sector firms. By increasing MCC partner countries' awareness of the benefits of partnering with the private sector, and providing them with the tools and information they need to forge those partnerships, we will sustain economic growth once MCC funding ends.

The following examples illustrate how private sector engagement contributes to successful compacts:

- A joint venture between U.S. firm *Symbion Power LCC* and French company *Areva* will manufacture and install a new 100 megawatt submarine power cable between the mainland of Tanzania and the island of Zanzibar as part of Tanzania's $698 million MCC Compact to fund water, energy and infrastructure projects.

- Kenyan company *VegPro* will begin exporting vegetables from **Ghana** to Europe in early 2011. Through the facilitation of MiDA (the local accountable entity implementing Ghana's MCC Compact), VegPro is leasing a 1,050-hectare farm next to the MCC-financed irrigation perimeter. VegPro will source vegetables from about 500 MiDA-trained smallholder farmers, who will be farming on the MCC-financed irrigation scheme. In addition, VegPro will create approximately 800 agricultural jobs on its own 1,050-hectare farm. Over the next four years, VegPro is planning to expand operations, creating additional opportunities for local farmers.

- Through its MCC Compact, **Jordan** plans to leverage substantial private sector resources to expand the As-Samra wastewater treatment plant, which will improve access to and conservation of clean water as part of an integrated set of investments.

MCC and Trade

MCC helped improve partner countries' trade activities during fiscal year 2010 by motivating policies, deepening trade capacity and building physical links vital for trade. First, in selecting partner countries, we look at pro-business and pro-growth factors such as days and cost to start a business, inflation, trade and fiscal policies, and regulatory quality. This approach incentivizes reform and creates reliable trading partners. Second, MCC's assistance enhances the aid-for-trade capacity of partner countries by removing internal barriers, building institutional abilities in customs and national standards, and developing trade-related skills. Third, by the end of fiscal year 2010, 38 percent of MCC Compact proceeds were invested in transportation infrastructure, which is critical for private sector investment and global trade. Landlocked African countries, for example, cannot trade regionally or globally if they do not have reliable roads, bridges or airports to move their goods efficiently. More than $3.5 billion of MCC grants are being invested in African infrastructure necessary for productive capacity. This allows African partner countries to take advantage of the *African Growth and Opportunity Act* (AGOA) and other initiatives to boost national, regional and international trade.

- **Tanzania**, for example, is improving trunk roads to increase commerce, including a road connecting the seaport of Tanga with Horohoro at the Kenyan border to reach the major port of Mombasa.

- **Cape Verde** invested its MCC Compact in modernizing its port to increase the volume of imports and exports.

- **Mali**, a landlocked country that depends on air routes for trade, is investing part of its MCC Compact in improving its airport to increase freight and passenger traffic. This includes making institutional changes to ensure the effective management, operation and maintenance of the improved airport over the long-term.

Looking ahead

Private sector engagement is a key MCC priority looking ahead. We support initiatives with potential to address barriers to private sector-led development:

- We will expand our use of non-traditional partnerships to include more public-private structures and enhanced outreach to nongovernmental organizations, social investors, foundations and others dedicated to social entrepreneurship who share our commitment to economically sound investments in development.
- We will consider a broader, more versatile range of financial instruments, including output-based aid, guarantees, structured finance and investment funds that deliver significant economic growth impact.
- We will pursue commercial activity that encourages domestic and regional trade and investments that are critical for economic development. We must create a stronger climate for local entrepreneurship that nurtures homegrown capacity and skills to compete, do business, innovate and create jobs.
- We will seek to align MCC's development objectives with the legitimate commercial interests of trade and investment partners by structuring more flexible investment and co-investment partnerships and by addressing risks.
- We will look more intensely at the role of small- and medium-sized companies—not just large multinationals—and the role they play within development. Often, these smaller firms are executing impressive niche strategies in emerging markets.
- We will broaden the scope of projects we do and how we do them.
- We will provide the tools and support necessary to facilitate direct investment in our partner countries.
- We will pursue more innovative solutions. We can learn from the successful development practices others have implemented and explore innovative ways to scale them up to long-term viability and sustainability.

In every instance, a dynamic interactive relationship with the private sector is critical for MCC. We seek feedback from potential private sector investors and partners on project concepts, best practices and relevant investment constraints and seek to identify, develop and structure appropriate partnerships and financing mechanisms.

Moreover, MCC has identified innovation in development as a priority for the coming years, and the private sector has an important role to play in this. MCC's commitment to rigorous project selection and evaluation can make a significant difference, for example, in developing sound strategies for applying new technologies in agriculture and energy. We encourage the development and application of locally adapted technologies and innovations in alternative energy and energy efficiency, notably in Mongolia and Malawi. We see this as a way to increase commercial activity and domestic investment in partner countries.

CHAMPIONING POLICY REFORMS

Because effective project design and sustainable development demand sound policies, MCC partners with countries that practice good governance, respect the rule of law, protect civil liberties, fight corruption, invest in health and education, and promote economic freedoms, as assessed through 17 independently verified and publicly available indicators. During fiscal year 2010, MCC reaffirmed the critical importance of *performance-based development assistance*. This approach motivates partner countries not only to adopt policy reforms, including at the sector level, but also to create conditions that attract private sector-led economic growth and investment. Policy performance remains the primary focus of our country selection process, and we continue to make the implementation of investment-related policy reforms a key component of our strategy to ensure that our investments have full and sustained impact.

"The United States will focus our development efforts on countries… that promote good governance and democracy; the rule of law and equal administration of justice; transparent institutions, with strong civil societies; and respect for human rights."

— PRESIDENT BARACK OBAMA,
September 22, 2010, U.S. Global Development Policy

Policy Performance as an MCC Innovation

MCC recognizes that countries themselves must create the conditions for development to take hold. Both research and experience suggest that sound political, social and economic policies can promote broad-based economic growth and the effective use of development assistance. **That is why we work only with poor countries that have a track record of ruling justly, promoting economic freedom, and investing in people as measured by their performance on a set of transparent and publicly available third-party indicators.** By selecting partner countries that perform well in these areas and by leveraging continued country policy reforms to support growth, good governance and an enabling environment for trade and investment, MCC creates an incentive for partner countries to improve in the areas that matter most for poverty reduction and economic growth. Through our performance-based approach to development, MCC motivates policy reforms essential for sustainable development even before we make a single investment of American resources.

Sectoral Reforms

MCC incentivized major sectoral reforms as part of compacts with various partner countries. These reforms help maximize the impact and ensure the sustainability of our investments.

- **Lesotho** enacted the *Land Act 2010*, which provides for systematic regularization and surveys of informal land holdings, providing occupants with registered leases. The country also enacted the *Land Administration Authority Act 2010* to modernize land administration services and simplify the process of land transactions. This semi-autonomous authority will record rights to land in an efficient and customer-oriented manner, with the potential of becoming self-supporting through revenue collected for services. Formalizing land rights under the *Land Administration Authority Act* will expand access to land information, reducing risks in land transactions and improving landholders' access to credit. This is a dramatic improvement for a country where over 70 percent of the residents in Maseru, the capital city, lived on land occupied informally for decades, without the security of tenure to invest in their homes.

- **Tanzania** passed a new electricity law, a requirement of its MCC Compact, in part to encourage private sector participation in the power sector. TANESCO, which services the mainland, and ZECO, which services Zanzibar, were required to sign a power purchase agreement to meet commercial objectives, ensuring the long-term sustainability of MCC investments in this sector. Furthermore, both TANESCO and ZECO are required to reform their tariffs to fully recover their costs, which is a prerequisite for attracting private investors to the power sector.

- **Ghana's** parliament passed landmark legislation regulating seeds, plant protection and fertilizer in June 2010, which will provide access to improved seed varieties, certified fertilizer and pest-free plant material. These developments are key for Ghana's food security and agricultural productivity. With the passage of these laws, MCC will finance the rehabilitation of and equipment for Ghanaian agricultural labs.

- **Armenia's** Ministry of Nature Protection worked with MCC and MCA-Armenia to approve guidelines for the proper handling of construction wastes containing certain types of hazardous materials. These guidelines now serve as a basis for promoting safe handling practices and protecting workers and the environment from potentially harmful hazardous materials.

Progress On

POLICY ON PREVENTING, DETECTING AND REMEDIATING FRAUD AND CORRUPTION IN MCC OPERATIONS

Reflecting a performance-based approach to development, MCC established an innovative policy on *Preventing, Detecting and Remediating Fraud and Corruption in MCC Operations* in 2009. The establishment of such a comprehensive policy reaffirms MCC's fiduciary responsibility to stakeholders and our interest in maximizing investment benefits in partner countries.

In 2010, MCC made substantial progress in implementing this policy, which proactively engages MCAs in a process to put in place project-specific action plans to reduce fraud and corruption risk. During this fiscal year, MCC and MCAs worked together to pilot an approach to identifying risks and developing action plans in Burkina Faso, Nicaragua and Armenia. MCA-Burkina Faso's action plan, for example, demonstrates how MCAs are responsible for managing risks identified during the risk assessment. To address concerns that fraudulent invoices might be paid before the completion of the roads project, MCA-Burkina Faso will better supervise data verifying the progress of road building and will require contractors to appropriately document and authorize any required work changes.

Based on positive feedback and lessons learned, MCC launched the full program of identifying risks and developing action plans in May 2010, beginning with El Salvador. Several more countries are scheduled to begin this process early in 2011. MCC also worked with experts to produce an anti-fraud training program. This will be unveiled in nearly all compact countries, further underlining MCC's commitment to preventing fraudulent activities.

MCC and Human Trafficking

As part of our emphasis on policy performance, MCC seriously considers concerns about human trafficking in partner countries—those seeking MCC funding and those already implementing MCC programs. MCC's mission to reduce poverty through economic growth is not designed to directly address trafficking in persons (TIP) or to explicitly target anti-trafficking investments. However, MCC investments aim to enhance economic opportunities and increase incomes, two factors that could help reduce the need for people to pursue activities that may make them susceptible to TIP risks.

When determining MCC Compact and Threshold Program eligibility, MCC considers a country's commitment to preventing and combating human trafficking. We have integrated the U.S. Department of State's *Trafficking in Persons Report* in our selection process along with the World Bank's *Rule of Law* indicator, an aggregate indicator that considers human trafficking as one of its factors. MCC addresses TIP, along with other potential project-related adverse socioeconomic and environmental impacts, during program design and implementation. As with all policy areas of interest to MCC, our response to significant declines in a country's performance is governed by MCC's *Policy on Suspension and Termination*.

STRENGTHENING SOCIAL AND GENDER ASSESSMENT

During fiscal year 2010, MCC's *recognized leadership in gender integration* has continued and deepened, proving that development programs are most effective when they are designed and evaluated to emphasize and embrace—not exclude—gender.

"...Countries are more likely to prosper when they tap the talents of all their people. That's why we're investing in the health, education and rights of women, and working to empower the next generation of women entrepreneurs and leaders. Because when mothers and daughters have access to opportunity, economies grow and governance improves."

— PRESIDENT BARACK OBAMA,
September 22, 2010, U.S. Global Development Policy

Successful development outcomes depend on understanding the social context of our programs and addressing the opportunities and constraints that affect people's ability to participate in and benefit from those programs. MCC recognizes that gender equality is a key aspect of sustainability: Empowering women can lead to significant long-term benefits for overall human welfare in the poorest countries, including sustaining the natural resource base. In addition, when gender is well-integrated into consultations, design and monitoring, positive changes introduced through the development project are both relevant and more easily accepted.

Gender integration focuses on more than women. Decades of experience and research demonstrate that when differences in the roles, resources and power between women and men are neglected, international assistance programs fail to meet their goals. We know that gender inequality is a significant constraint to sustainable economic growth and poverty reduction.

Because gender is a key social difference and gender inequality can be a significant constraint to economic growth and poverty reduction, MCC deepened our recognized leadership in gender integration during fiscal year 2010 by

- identifying gender integration as an agency priority;
- providing high-level engagement through the Office of the Chief Executive Officer; and
- increasing capacity, resources and accountability within MCC and among our partner countries to ensure that gender analysis is integrated across compacts.

For example, MCC's commitment to gender integration was backed by additional staffing. Four positions were added, in addition to the single existing position, to increase the team's capacity to consistently and comprehensively enforce MCC's *Gender Policy* across all partner countries. We also launched the *MCC Gender Integration Award*, an annual recognition of two employees who best exemplify MCC's commitment to removing gender inequality as a constraint to economic growth.

MCC's approach to gender integration follows international best practice. The analyses of gender differences and inequalities—both at the project level and within the larger policy, institutional and social context—inform detailed design and monitoring of MCC Compacts. With a renewed commitment to resources and capacity, MCC and our partner countries are ensuring that compacts in development integrate gender analyses in project design and that gender will be a key area for MCC support and oversight during implementation.

A Woman's Empowerment
IN LESOTHO

In 2001, Maleribe Leleka secured a job as a cleaner at the local community council in Pitseng, and she started saving her money to buy a piece of land. By 2003, she had saved enough money to do so. Upon submitting her application for land to the village chief, she was denied on the grounds that she is a legal minor because she is a woman. In 2009, she attended a community council meeting where the MCA-Lesotho Gender Equality project team was conducting training on the *Legal Capacity of Married Persons Act of 2006*, which includes a woman's right to own property. Empowered by the knowledge that she has a right to hold a title to land in her own name, Maleribe immediately went to her village chief to re-apply for an allocation of land. She was approved, and Maleribe is now purchasing rocks, cement and window panes to build a home on her property.

MCC's *Gender Policy* in Action

During development and early implementation of the *Rural Development Project* in the MCC Compact with **Honduras**, MCC and MCA-Honduras ensured that implementers carried out gender analyses and developed strategies to increase women's participation in all aspects of the agriculture value chain, many of which are typically dominated by men. Consequently, initial implementation designs were modified to diversify and improve women's participation in project components, including the *Farmer Training and Development Activity*, *Farmer Access to Credit* and the *Agricultural Public Goods Grant Facility*. As a result, the *Rural Development Project* experienced higher than average participation by women across the board compared to similar ongoing and previous agricultural outreach development programs run by the government and other donors. Specifically, as part of a grant from the *Rural Development Project*'s *Agricultural Public Goods Grant Facility*, the Honduras Institute of Coffee (IHCAFE) established additional research facilities on the production and quality of Honduran coffee beans in rural areas. Instead of hiring trained laboratory technicians from urban areas and sending them to these rural facilities, which had been the typical practice, IHCAFE trained local women to perform needed laboratory analyses. This non-traditional source of employment not only empowered these local women but also resulted in project cost savings.

In **Lesotho**, MCC is funding a project that provides training and outreach to support the implementation of legal reforms. The *Gender Equality in Economic Rights Project*, under the direction of Limpho Maema with the Ministry of Gender and MCA-Lesotho, has achieved both anticipated and unanticipated good results. These include:

- engaging traditional leaders and training men to support women's rights,
- developing implementation guidelines for new legislation and ensuring other laws are harmonized with those that establish gender equality,
- facilitating the development of *a Statement of Commitment to Gender Equality* from Lesotho's religious leaders,
- ensuring actions taken in other compact projects reflect the new legislation,
- producing a radio drama and hosting a call-in talk show on the implications of gender equality,
- providing guidance to traditional authorities on the implications of the reforms for customary law,
- partnering with PEPFAR-Lesotho on an advocacy campaign and a Gender Challenge Fund that will provide grants to women for business start-up, and
- providing skills training to women in information and communication technologies.

The project's work ensures that MCC's and the Government of Lesotho's commitment to policy reform will result in achieving economic rights and opportunities for women in Lesotho.

MCC's fiduciary responsibility to both the American taxpayer, whose generosity funds MCC programs, and to the world's poor, who benefit from MCC programs, requires effective alignment of resources to achieve results. In these resource-constrained times, MCC is more committed than ever to a culture of accountability, innovation, learning and performance. MCC took significant action, starting in fiscal year 2010, to remove structural barriers to optimal performance, innovate with a new approach to risk management, and continue to be a leader in promoting open government, transparency and collaboration in all aspects of our work.

"We'll insist on more responsibility—from ourselves and others... Guided by the evidence, we'll invest in programs that work and end those that don't. Because we need to be big-hearted and hard-headed."

— PRESIDENT BARACK OBAMA,
September 22, 2010, U.S. Global Development Policy

IMPROVING ORGANIZATIONAL EFFECTIVENESS

Organizational Realignment

Regardless of where any one group sits in the organizational chart, all MCC staff members contribute as a team to achieving shared corporate goals with consistency, efficiency and quality in practice. Achieving maximum effectiveness with limited resources, however, required better aligning MCC's structure to our business needs. To do this, the *Department of Compact Development* and the *Department of Compact Implementation* were combined into a single *Department of Compact Operations*. MCC economists and monitoring and evaluation specialists were consolidated into an enhanced *Department of Policy and Evaluation* (formerly *Department of Policy and International Relations)*. We also established a new investment and risk management function within the Office of the Chief Executive Officer, responsible for leading high-priority initiatives in a number of areas, including increased private sector engagement; expansion of the types of projects, partnerships and financing instruments used by MCC; and promoting innovation in areas such as alternative energy, energy efficiency, adaptive technology and access to capital. The organizational realignment allows MCC to concentrate more fully on capturing and communicating results; expanding partnerships, particularly with non-traditional actors; and enhancing our capacity and resources to better facilitate policy reforms and gender integration in the projects we fund.

A New Approach to Risk Management

Identifying and managing the risks we face in promoting economic growth in very challenging environments are critical to sound business operations, to the protection of taxpayer funds and to the achievement of MCC's objectives. From our inception, we have considered financial, economic, operational and reputational risk factors in assessing the viability of projects at both the proposal and implementation stages. Various mechanisms have been used to identify risks, design risk mitigation strategies, and assess performance against risk. These measures include:

- risk analysis during due diligence,
- specific risk identification and mitigation analysis in investment memoranda,
- discussions of risk issues among senior management and MCC's Board,
- detailed work programs and indicator specifications setting out performance targets against which risk is assessed,
- rollout for the development of risk registers for each country, and
- regular portfolio reviews in which risks are regularly analyzed.

As our portfolio matures, it has become possible and important to conduct both deeper and more cross-cutting risk analysis in order to design and manage projects more cost-effectively and with greater confidence to achieve targeted results.

The new *Investment and Risk Management* (IRM) division within the Office of the Chief Executive Officer was created during fiscal year 2010 to focus on investment strategy and risk management across MCC. The Senior Investment and Risk Officer is developing a process for risk assessment and risk mitigation evaluation across projects, countries and risk types. For example, the IRM division will be analyzing transport projects in early MCC Compacts, identifying when and how risks emerged, whether or not they were or could have been anticipated, how the emerging risks were addressed, how successful the risk management strategies were, and what lessons can be derived to inform future transportation projects. Similarly, cross-sector analysis is being conducted on how certain risks—such as cost escalation, contractor underperformance or political disruption—have been handled across projects and what lessons learned can be incorporated in future programs.

Open Government Initiative

Even before the Office of Management and Budget issued an *Open Government Directive* on December 8, 2009, MCC has been—and remains—at the forefront of promoting transparency, participation and collaboration in all aspects of our work to reduce poverty through economic growth. These are essential aspects of our organizational strength and effectiveness. Through our website, regular public events, press interactions, and participation in the activities and initiatives of the Obama administration and the development community, MCC provides continuously updated data on our decision-making, program management and policy assessment.

We firmly believe that U.S. taxpayers and key stakeholders deserve to know how funds provided by the U.S. Congress are used at MCC. They also deserve the opportunity to provide feedback on how we can perform more effectively. To maximize transparency and learning in a constrained economic environment, we are fully utilizing the vast capacity and reach of online information-sharing. Visitors to MCC's public website can access spreadsheets that show economic rates of return calculations, performance indicator tracking tables and impact evaluation summaries for MCC-funded projects. Data on beneficiary analyses are also available. All signed MCC Compacts, quarterly status reports on worldwide programs, information on program-related procurement opportunities, and reports and notices provided to Congress are posted to our website. We invite feedback, comments and questions on this data and these reports via our website as part of our ongoing discourse with the public. In addition, MCC has embraced new technologies and social media, including web chats, Facebook, Twitter, YouTube and Vimeo.

In keeping with our commitment to transparency and openness—and with support from partner countries—MCC plans to post to our website up to 50 new survey datasets related to program impact evaluations over the next two years. A number of these datasets will include pre-, mid- and post-project survey data that will be used to assess the impacts of compacts that will be completed in these two years. Approximately 40 of these datasets will be baseline datasets, reflecting conditions prior to compact investments in a number of countries.

Visit www.mcc.gov/open to download and read MCC's *Open Government Plan*.

APPENDIX: FINANCIAL STATEMENTS

Message from Chief Financial Officer Victoria Wassmer

I am pleased to present the 2010 financial statements of the Millennium Challenge Corporation (MCC). At MCC, we take our fiduciary responsibilities very seriously. So, while MCC is not subject to the requirements of the *Chief Financial Officers Act*, we choose to follow the professional standards the act 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.

These are exciting and busy times at MCC; we are currently overseeing the full-scale implementation of compacts in 20 countries and the effective closeout of MCC Compacts in Honduras and Cape Verde. During my first year as Vice President of Administration and Finance, I have made it a priority to improve our administrative and financial capabilities to meet MCC's expanding programmatic requirements. An example of this is the acquisition of an *Administration and Finance Integrated Management System*, for which we are currently reviewing bids. With projected implementation by January 2012, this system will revamp our existing financial management system (which will soon be obsolete) by integrating a complementary suite of corporate services, including finance, procurement, grant, and human resource requirements. In 2010, we re-established the *Senior Assessment Board* to oversee MCC's internal control environment, including controls and processes to ensure compliance with pertinent financial and administrative statutes and regulation. In addition, we launched the *Enterprise Content Management Initiative* to develop strategies, methods and tools to capture, manage, store, and deliver content management. Finally, we recently completed an independent verification and validation of the *MCC Integrated Data Analysis System (MIDAS)*. In the year ahead, we will actively address areas for improvement of both the MIDAS tool and related processes.

After five years of clean audit opinions, we received a narrowly qualified opinion on our financial statements. The qualification and related material weakness, which also affected our FY 2009 opinion, related to the accuracy of accruals for work not paid or invoiced until the subsequent period. The circumstances of the qualification occurred late in the audit cycle, and we were unable to satisfy our auditors that the accruals for FY 2009 and FY 2010 were accurate. The FY 2010 *Independent Auditor's Report* cites two additional material weaknesses related to MCC's controls over Millennium Challenge Accounts' activities and the reporting of advance payments. We will be addressing all of these issues aggressively and comprehensively in the coming months by implementing changes in policies and procedures, enhancing reporting structures and improving communication with our partner countries.

MCC's achievements in 2010, and the continued progress we plan for 2011, are not possible without the exemplary dedication of our committed staff and partner countries. Their work is inspiring and transformational. Ultimately, it is through the successful implementation of our programs that we achieve the results of sustainable poverty reduction through economic growth.

Victoria Wassmer, Vice President
Administration and Finance

Fund Summary

DATE AS OF SEPTEMBER 30, 2010

in millions of dollars

Fund Groups	Obligations in FY 2010	Cumulative Obligations through FY 2010	Disbursements in FY 2010	Projected Cumulative Disbursements through FY 2010	Actual Cumulative Disbursements through FY 2010
609(g)[1]	14.3	106.7	19.4	67.0	69.7
Administrative	93.1	465.0	91.8	440.6	436.4
Audit	3.4	16.3	3.5	16.3	15.3
Compacts[2]	728.8	7,151.9	1,113.2	1,691.3	2,003.6
Due Diligence	33.5	191.4	28.6	116.0	126.5
Threshold Program[3,4]	26.4	510.6	68.3	402.4	372.8
TOTAL	**899.5**	**8,441.9**	**1,324.8**	**2,733.6**	**3,024.3**

[1] 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.

[2] The fund group “Compacts” includes Compact Implementation Funding, compacts, and other grants except those made using Threshold Program and 609(g) fund groups.

[3] Data for the Threshold Program are provided by USAID, except for the Sao Tome and Principe Threshold Program, which is administered by the U.S. Department of the Treasury. USAID’s data for this report are from its General Ledger by country, rather than its Threshold Country

[4] “Obligations in FY 2010” for the Threshold Program fund group have been adjusted to reflect an accounting misclassification related to the Burkina Faso Compact. Programs report. USAID is working to rectify discrepancies between these two data sources.

Compacts and Compacts-Related

AS OF SEPTEMBER 30, 2010

in millions of dollars

Country	Fund Group	Obligations pre-FY 2010	Obligations in FY 2010	Cumulative Obligations through FY 2010	Projected Obligations in FY 2011	Disbursements pre-FY 2010	Disbursements in FY 2010	Cumulative Disbursements through FY 2010	Projected Disbursements[1]					
									FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
Armenia[2] *Signed, 3/27/2006* *EIF,[3] 9/27/2006*	609(g) Compacts Due Diligence	- 235.7 4.7	 1.0	- 235.7 5.7		- 41.3 2.5	 54.0 0.6	- 95.3 3.1	81.5					 176.9 3.1
Benin *Signed, 2/22/2006* *EIF, 10/6/2006*	609(g) Compacts Due Diligence	- 307.3 5.9	 0.5	- 307.3 6.4		- 49.0 3.0	 71.0 1.1	- 120.0 4.1	187.3					- 307.3 4.1
Burkina Faso *Signed, 7/14/2008* *EIF, 7/31/2009*	609(g) Compacts Due Diligence	9.4 480.9 8.4	 2.3	9.4 480.9 10.7		3.6 32.6 5.8	1.2 21.3 1.8	4.8 53.9 7.6	36.9	156.0	145.6	90.4		4.8 482.9 7.6
Cape Verde *Signed, 7/4/2005* *EIF, 10/17/2005*	609(g) Compacts Due Diligence	0.2 110.1 4.6	(0.0) (0.1)	0.2 110.1 4.5		0.2 61.1 2.4	 41.7 0.5	0.2 102.8 2.9	7.3					0.2 110.1 2.9
El Salvador *Signed, 11/29/2006* *EIF, 9/20/2007*	 Compacts Due Diligence	 460.9 6.8	 0.9	 460.9 7.7		 49.3 4.7	 116.1 1.2	 165.4 5.8	146.2	149.4				 460.9 5.8
Georgia *Signed, 9/12/2005* *EIF, 4/7/2006*	609(g) Compacts Due Diligence	4.2 395.3 9.7	 1.1	4.2 395.3 10.8		4.1 145.9 6.8	0.0 175.3 1.4	4.2 321.3 8.2	47.0					4.2 368.3 8.2
Ghana *Signed, 8/1/2006* *EIF, 2/16/2007*	609(g) Compacts Due Diligence	3.3 547.0 7.4	 1.7	3.3 547.0 9.1		3.3 89.9 5.6	0.0 144.8 1.3	3.3 234.7 6.8	177.6	134.8				3.3 547.0 6.8
Honduras *Signed, 6/13/2005* *EIF, 9/29/2005*	 Compacts Due Diligence	 215.0 4.0	 (10.0) 1.2	 205.0 5.3		 109.1 2.4	 88.3 0.5	 197.5 2.9	7.5					 205.0 2.9
Indonesia *Signed, TBD*[4] *EIF, TBD*	609(g) Compacts Due Diligence		 0.1	- - 0.1			 0.0	- - 0.0	-					- - 0.0
Jordan *Signed, 10/25/2010* *EIF, TBD*	609(g) Compacts Due Diligence	13.3 0.6	(1.2) 3.6	12.1 - 4.2	275.0	 0.2	2.9 2.3	2.9 - 2.5	2.1	41.8	93.4	86.8	40.7	2.9 264.9 2.5
Lesotho *Signed,7/23/2007* *EIF, 9/17/2008*	609(g) Compacts Due Diligence	1.4 362.5 9.2	0.0 2.7	1.4 362.6 11.9		1.0 17.2 4.8	 27.2 1.5	1.0 44.3 6.4	61.7	137.2	119.3			1.0 362.6 6.4
Madagascar *Signed, 4/18/2005* *EIF, 7/27/2005*	609 (g) Compacts Due Diligence	 109.8 3.7	 (21.8) (0.8)	 88.0 2.9		 81.5 2.4	 4.0 0.3	- 85.6 2.6	-					- 85.6 2.6
Malawi *Signed, TBD* *EIF, TBD*	609(g) Compacts Due Diligence	1.3 0.9	9.5 1.4	10.9 2.3	9.1	0.2 0.1	6.8 1.3	7.0 - 1.4	-	-	-	-	-	7.0 - 1.4
Mali *Signed, 11/13/2006* *EIF, 9/17/2007*	609(g) Compacts Due Diligence	9.7 460.8 9.1	2.5	9.7 460.8 11.6		9.7 46.4 3.8	 102.2 1.9	9.7 148.6 5.7	141.9	170.3				9.7 460.8 5.7

Country	Fund Group	Obligations pre-FY 2010	Obligations in FY 2010	Cumulative Obligations through FY 2010	Projected Obligations in FY 2011	Disbursements pre-FY 2010	Disbursements in FY 2010	Cumulative Disbursements through FY 2010	Projected Disbursements[1]					
									FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
Moldova	609(g)	5.0	7.2	12.2		2.9	2.5	5.4						5.4
Signed,1/22/2010	Compacts		262.0	262.0		-	0.2	0.2	7.9	56.7	88.6	72.3	36.4	262.0
EIF, 9/01/2010	Due Diligence	0.9	0.7	1.6		0.2	0.2	0.4						0.4
Mongolia														
Signed,10/22/2007	Compacts	284.9	1.5	284.9		7.9	22.4	30.3	80.6	98.8	75.2			284.9
EIF, 9/17/2008	Due Diligence	6.4		7.9		4.1	0.8	4.9						4.9
Morocco														
Signed,8/31/2007	Compacts	697.5	1.9	697.5		22.2	76.6	98.8	177.4	243.3	178.0			697.5
EIF, 9/15/2008	Due Diligence	9.6		11.5		5.1	1.9	7.0						7.0
Mozambique	609(g)	13.4	(4.0)	9.5		9.5		9.5						9.5
Signed,7/13/2007	Compacts	506.9		506.9		11.6	23.5	35.1	84.5	194.1	193.2			506.9
EIF, 9/22/2008	Due Diligence	8.2	2.6	10.8		3.7	1.0	4.7						4.7
Namibia	609(g)	3.2		3.2		3.0	0.1	3.1						3.1
Signed,7/28/2008	Compacts	304.5		304.5		2.0	21.0	23.0	48.0	91.9	95.4	46.1		304.5
EIF, 9/16/2009	Due Diligence	3.8	1.4	5.2		3.0	0.3	3.4						3.4
Nicaragua	609(g)	-												
Signed,7/14/2005	Compacts	175.0	(61.5)	113.5		75.7	30.1	105.9	7.6					113.5
EIF, 5/26/2006	Due Diligence	3.9	0.3	4.1		1.9	0.4	2.3						2.3
Philippines	609(g)		0.3	0.3			0.3	0.3						0.3
Signed,9/23/2010	Compacts		25.1	25.1	409.0		0.1	0.1	11.1	57.5	89.7	93.3	105.7	357.5
EIF, TBD	Due Diligence	1.3	1.8	3.1			1.8	1.8						1.8
Senegal	609(g)	18.1		18.1		4.7	2.8	7.5						7.5
Signed,9/16/2009	Compacts	5.0	535.0	540.0			1.0	1.0	14.5	196.8	233.7	77.6	16.4	540.0
EIF, 9/23/2010	Due Diligence	1.8	0.7	2.5		0.4	0.8	1.2						1.2
Tanzania	609(g)	9.8		9.8		8.1	1.6	9.7						9.7
Signed,2/17/2008	Compacts	698.1		698.1		7.9	69.2	77.1	204.8	259.5	156.8			698.1
EIF, 9/15/2008	Due Diligence	11.6	1.3	12.9		6.8	1.4	8.2						8.2
Vanuatu														
Signed,3/2/2006	Compacts	65.7		65.7		38.6	24.3	62.8	2.9					65.7
EIF, 4/28/2006	Due Diligence	3.8	(1.2)	2.7		1.8	0.1	1.9						1.9
Zambia	609(g)		2.4	2.4										
Signed, TBD	Compacts								-	-	-	-	-	
EIF, TBD	Due Diligence	0.2	1.1	1.3		0.0	0.2	0.2						0.2
Cross-Cutting	Due Diligence/ 609(g)/Grants	31.2	3.9	35.1		26.5	5.3	31.8						31.8
Total		**6,672.8**	**777.2**	**7,450.0**	**693.1**	**1,037.6**	**1,162.3**	**2,199.9**	**1,536.4**	**1,988.0**	**1,469.0**	**466.6**	**199.2**	

[1] 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.

[2] MCC has placed an operational hold on disbursement of $58.6 million allocated in the Armenia Compact for rural roads.

[3] Entry into force.

[4] To be determined.

Compacts in Development

COMPACT DEVELOPMENT PROGRESS

Country	Threshold Program Status	FY 2008				FY 2009			
		Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4
Jordan	Completed	Consultations				Proposal and Assessment			
Malawi	Completed		Consultations			Proposal and Assessment			
Indonesia	Ongoing								Consultations
Zambia	Completed								Consultations
Cape Verde	n/a								

Keys:

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

Notes: *Indonesia Compact would be split across two fiscal years with concurrent compact authority.
Entry into force usually occurs six to nine months after compact signing.

FY 2010				FY 2011 (estimates)				FY 2012 (estimates)	Potential Investment (in millions)
Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	
	Feasibility and Design			Signing		Implementation			$275
		Feasibility and Design			Signing		Implementation		$300
		Proposal and Assessment		Feasibility and Design			Signing	Implementation	$700-$800*
		Proposal and Assessment			Feasibility and Design		Signing	Implementation	$300-$350
	Consultations	Proposal and Assessment			Feasibility and Design		Signing	Implementation	$75-$100

SEPTEMBER 30, 2010

Threshold Country Programs

			Cumulative Program Obligations by MCC	Cumulative Disbursements by Other U.S. Government Agencies[1]
			2005 - 2010	2005 - 2010
Approved Threshold Programs				
Country	Signing Date	Status		
Albania	4/3/06	Completed	13.9	13.7
Albania II	9/29/08	Ongoing	15.7	10.4
Burkina Faso	7/22/05	Completed	12.9	12.9
Guyana	8/23/07	Completed	6.7	6.6
Indonesia	11/17/06	Ongoing	55.0	44.9
Jordan	10/17/06	Completed	25.0	25.0
Kenya	3/23/07	Ongoing	12.7	9.5
Kyrgyz Republic	3/14/08	Completed	16.0	8.9
Liberia	7/6/10	Ongoing	15.1	-
Malawi	9/23/05	Completed	20.9	20.1
Moldova	12/15/06	Completed	24.7	23.9
Niger	3/17/08	Suspended	23.1	14.3
Paraguay	5/8/06	Completed	34.6	34.5
Paraguay II	4/13/09	Ongoing	30.3	7.0
Peru	6/9/08	Ongoing	35.6	19.5
Philippines	7/26/06	Completed	20.7	20.5
Rwanda	9/24/08	Ongoing	24.7	5.3
Sao Tome & Principe	11/9/07	Ongoing	7.4	5.2
Tanzania	5/3/06	Completed	11.2	10.9
Timor-Leste	9/22/10	Ongoing	10.5	-
Uganda	3/29/07	Completed	10.5	9.6
Ukraine	12/4/06	Completed	45.0	41.3
Zambia	5/22/06	Completed	22.7	22.7
Assistance for Threshold Program Preparation				
Cumulative to Other U.S. Government Agencies			2.0	1.1
Fees for Administration of Threshold Programs[2]				
Cumulative to Other U.S. Government Agencies			36.0	
Total			**532.8**	**367.7**

[1] Cumulative disbursements are based on USAID and U.S. Department of the Treasury estimates.
[2] Fees for Threshold Program administration reflect allocations and transfers of MCC funds to other U.S. Government agencies, primarily USAID.

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, 2010 AND 2009

AUDIT REPORT NO. M-000-11-001-C
November 15, 2010

WASHINGTON, DC

Office of Inspector General
for the Millennium Challenge Corporation

November 15, 2010

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005-2221

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Periods Ending September 30, 2010 and 2009
Report No. M-000-011-001-C

Dear Mr. Yohannes,

Enclosed is the final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Cotton & Company LLP to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2010. 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 a qualified opinion on MCC's FY 2010 and 2009 Financial Statements. The report stated that the auditors discovered certain errors during the audits of the current year that resulted in understatements of previously reported advances as of September 30, 2009. Consequently, the financial statements as of September 30, 2009 were restated to reflect corrections to previously reported advances and the related effect on expenses.

The report also stated that MCC's 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. While additional procedures were performed to compile such information for the FY 2010 statements, these procedures did not extend to FY 2009, which in the independent auditors' opinion, should have been included in accordance with accounting procedures generally accepted in the United States of America. FY 2009 expenses were understated by accrual amounts, and FY 2010 expenses were overstated by those same amounts.

In their opinion, except for the effects of insufficiently accruing for expenses reported in a subsequent period, as discussed in the preceding paragraph, MCC's financial statements for FY 2010 and FY 2009 present fairly, in all material respects, the financial position of MCC as of September 30, 2010 and 2009, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Cotton & Company , LLP reported the following deficiencies in MCC's internal control to be material weaknesses and the cause of qualified opinion:

1. Reporting Advance Payments.
2. Compiling Accruals (Proper Reporting Period).
3. Monitoring Controls over Millennium Challenge Accounts Activities.

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.

The auditors considered the following deficiencies in MCC's internal control to be significant deficiencies.

1. Reconciling Fund Balance with Treasury
2. Controls over Financial Reporting

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

In carrying out its oversight responsibilities, the OIG reviewed Cotton & Company, LLP's report and related audit documentation. This review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards were 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 applicable laws and regulations. Cotton & Company, LLP is responsible for the attached auditor's report, dated November 15, 2010, and the conclusions expressed in the report. However, our review disclosed no instances that Cotton & Company, LLP did not comply, in all material respects, with applicable standards.

To address the internal control deficiencies reported by Cotton & Company, LLP, we made the following recommendations to MCC's management on November 10, 2010.

Material Weaknesses

Reporting Advance Payments
We recommend that the MCC Division of Finance and Department of Compact Operations:

Recommendation No. 1: Modify the Payment Request Form (PRF) to specifically identify requests for advance payments to vendors.

Recommendation No. 2: 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.

Compiling Accruals (Proper Reporting Period)
We recommend that MCC Division of Finance revise and strengthen its process for determining accruals required at yearend by implementing the following:

Recommendation No. 3: Establish a comprehensive methodology and/or standard process for obtaining, recording, and reporting yearend accruals which covers all MCAs and funds and include invoiced and rendered services which have not been recorded in the yearend trial balance.

Recommendation No. 4: Establish consistent communication with NBC and the MCAs for understanding the process and methodology developed.

Recommendation No. 5: Perform quality control procedures over amounts obtained and recorded. Review the amounts posted for reasonableness, accuracy, and completeness.

Monitor Controls over MCAs Activities

We recommend that the MCC Department of Compact Operations and Division of Finance:

Performance of Timely and Complete MCA Audits
Recommendation No. 6: 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 to ensure that MCA audits are completed in accordance with the compact.

Recommendation No. 7: 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.

Improper and Untimely Quarterly Reporting
We recommend that MCC Management and Department of Compact Operations:

Recommendation No. 8: 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.

Recommendation No. 9: 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.

Inadequate Oversight of 609(g)-Funded Transactions

Recommendation No. 10: We recommend that MCC Department of Compact Operations 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.

Recommendation No. 11: We recommend that MCC Department of Compact Operations, in coordination with the Division of Finance monitor on a quarterly basis the cumulative obligation 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.

Recommendation No. 12: We recommend that MCC Department of Compact Operations strengthen its CPS Signature Card process to include a MCC authorizing signature, effective and termination dates, 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.

Inadequate Processing of Closed Programs:
We recommend that the MCC management and Department of Compact Operations:

Recommendation No. 13: 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.

Recommendation No. 14: 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.

Significant Deficiencies

Reconciling Fund Balance with Treasury
Recommendation No. 15: We recommend that the MCC Division of Finance 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.

Control over Financial Reporting:
We recommend that the MCC Division of Finance:

Recommendation No. 16: Strengthen its quality reviews over financial statements to validate that information presented is accurate, complete, and complies with accounting standards and reporting guidance.

Recommendation No. 17: 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.

In finalizing the report, we received and considered MCC's response to the draft audit report and the recommendations included therein. In its comments, MCC concurred with all of the recommendations. We acknowledge that management decisions have been reached on all 17 audit 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 Cotton & Company, LLP during the audit. Please contact me at (202) 216-6962, if you have any questions concerning this report.

Sincerely,

Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

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INDEPENDENT AUDITOR'S REPORT

We have audited the Balance Sheets of the Millennium Challenge Corporation (MCC) as of September 30, 2010 and 2009, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. These financial statements are the responsibility of MCC management. Our responsibility is to express an opinion on the financial statements based on our audits.

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. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 10 to the above-referenced statements, we discovered certain errors during our audits of the current year that resulted in understatements of previously reported advances as of September 30, 2009. Accordingly, the Balance Sheet as of September 30, 2009, and related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended have been restated to reflect corrections to previously reported advances and the related effect on expenses.

In addition, MCC's 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. While additional procedures were performed to compile such information for the FY 2010 statements, these procedures did not extend to FY 2009, which, in our opinion, should have been included in accordance with accounting principles generally accepted in the

United States of America. FY 2009 expenses were understated by accrual amounts, and FY 2010 expenses were overstated by those same amounts.

In our opinion, except for the effects of insufficiently accruing for expenses reported in a subsequent period, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of MCC as of September 30, 2010 and 2009, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis (MD&A) and Other Accompanying Information sections is not required as part of the basic financial statements. We made certain inquiries of management and compared information for consistency with MCC's audited financial statements and against other knowledge we obtained during our audits. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance. We did not audit the MD&A or Other Accompanying Information and therefore express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued separate reports dated November 15, 2010, on our consideration of MCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audits.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

Colette Wilson

November 15, 2010
Alexandria, Virginia

Cotton& Company

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the Balance Sheets of the Millennium Challenge Corporation (MCC) as of September 30, 2010 and 2009, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. We have issued our report thereon dated November 15, 2010. 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.

In planning and performing our audits of MCC's financial statements as of and for the years ended September 30, 2010 and 2009, in accordance with auditing standards generally accepted in the United States of America, we considered MCC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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.

We consider the following deficiencies in MCC's internal control to be material weaknesses.

3. **Reporting Advance Payments.** MCC improperly recorded advance payments as expenses and therefore did not perform appropriate liquidation procedures. These errors resulted in expenses being overstated by material amounts in the current and prior fiscal years. As a result, Fiscal Year (FY) 2009 financial statements were restated.

4. **Compiling Accruals (Proper Reporting Period).** MCC's process for compiling accruals was not comprehensive enough to sufficiently accrue for material amounts of current-year expenses that were not paid or invoiced until the subsequent period. While additional procedures were performed to compile such information for the FY 2010 statements, these procedures did not extend to FY 2009. This caused FY 2009 statements to be understated by accrual amounts, and FY 2010 statements to be overstated by those same amounts.

5. **Monitoring Controls over MCA Activities.** MCC lacks sufficient controls over mission activities to ensure timely and accurate reporting of transactions and balances. We noted untimely completion of Millennium Challenge Account (MCA) audits, inadequate oversight of 609(g) funds, untimely quarterly reporting, and inadequate processing of closed programs. The combination of these weaknesses increases MCC's risk of inaccurate, incomplete, and untimely reporting of MCA activities.

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.

We consider the following deficiencies in MCC's internal control to be significant deficiencies.

6. Reconciling Fund Balance with Treasury

7. Controls over Financial Reporting

MATERIAL WEAKNESSES

1. REPORTING ADVANCE PAYMENTS

MCA coded prepayments to vendors as expenses instead of as advances. During our tests of controls over 87 expense transactions recorded in MCC's general ledger as of June 30, 2010, we identified three MCAs that submitted a total of seven invoices for "expense" payments to vendors rather than correctly reporting them as "advance" payments for future expenses. These seven transactions totaled $40 million. We expanded audit tests to include all MCAs to identify other such instances. Results of those tests revealed that MCAs submitted $216 million in advance payments to vendors since FY 2008. Of this, $60 million has been liquidated based on services provided to date.

Advance payments from MCAs are to be reported by an indication on the Payment Request Form (PRF) with a project and activity code of "NA NA." Related liquidations of those advances are to be reported quarterly on the Quarterly Financial Report (QFR). MCAs are aware that these payments are advances; supporting invoices clearly indicate "pre-payment/advance," and MCAs track such information in their

own accounting records. It appears, however, that MCAs code payments as regular expenses on PRFs, because specific project and activity codes were known at the time of the advance, and payments were sent directly to vendors versus MCA's permitted account. This practice was started when the Common Payment System (CPS) was instituted, and payments could be submitted directly to vendors. Before this, all funds were provided to MCAs as an advance.

Improper recording of advance payments and lack of appropriate liquidation caused expenses to be overstated by $18 million, $53 million, and $83 million in FYs 2008, 2009, and 2010, respectively. To correct these errors, MCC has restated its FY 2009 financial statements for the effects of both FY 2008 and 2009 and made appropriate adjustments to the FY 2010 financial statements.

Recommendation. We recommend that the MCC Division of Finance and Department of Compact Operations:

- Consider modifying the PRF to specifically identify requests for advance payments to vendors.

- Provide training to Fiscal Agents and other in-country personnel to explain how to properly record each line of the PRF based on supporting document and how MCC financial statements are affected by MCA activities and transactions.

2. COMPILING ACCRUALS (PROPER REPORTING PERIOD)

MCC's process for compiling accruals was not comprehensive enough to sufficiently accrue for significant current year expenses. As a result, expenses for goods and services received and performed were not recorded in the proper period. This is a repeat finding from previous-year audits, which cited that MCC's accrual processes were not sufficient to identify and compute amounts owed, but not paid, in the appropriate period. In FY 2010, MCC continued its process of contacting its vendor, National Business Center (NBC), for a listing of invoices and payment requests received but not paid, and requested that the information include the first 12 days of FY 2011.

During our review of accruals recorded at yearend, we noted that some payment requests made on or before October 12, 2010 were not accrued, and other significant payments were requested within a few days of October 12, 2010. We determined that these payments were for FY 2010 services. Based on our sample testing, we identified unrecorded accruals for FY 2010 expenses reported in FY 2011 that resulted in understated expenses for compact funds of $11 million in known amounts and $873,000 in likely amounts. In addition, our review noted that accruals were not recorded for anticipated expenses incurred but not yet invoiced, payments made to U.S. vendors, 609(g) and Compact Implementation Funds (CIF), compact funds for two MCAs, and liquidations of advances for two additional MCAs.

Also, MCC retained amounts withheld from vendor payments on large construction-type contracts in its compact countries. MCC was unaware of these retained amounts being held and the need to record them as expenses incurred in the year of retention. Because these retained fees were incurred at the time of invoicing, but not paid until a later date, an accrual must be recorded to match the expense with the period in which it was incurred. With respect to retained fees that should have been accrued for invoices received as of September 30, 2010, we noted that expenses were understated by $26 million in FY 2010. The FY 2009 amount accrued should have been $9 million.

Statements of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government* (Paragraphs 22 and 23), states:

> *…a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future…. The expense is recognized in the period that the exchange occurs.*

Further, OMB Circular A-136, *Form and Content of the Performance and Accountability Report (PAR), Balance Sheet,* Section III.3.4, *Liabilities,* states that:

> *…liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources.*

In the FY 2009 audit report, we recommended that MCC ensure that all countries, types of funding, and programs be considered when recording accruals. We further recommended that MCC communicate procedures to MCAs to require submission of estimates or payment requests for current-period expenses that have not or will not be recorded until the subsequent year for each fund type. No such communication was made to the MCAs.

Upon notification of such material omissions and auditor adjustments, MCC made additional inquiries to obtain better data and adjusted the FY 2010 statements for an additional $95 million. Based on these adjustments, it was noted that amounts were not accrued for FY 2009 in the same fashion. As a result, FY 2009 expenses were understated, and FY 2010 expenses overstated for work performed in FY 2009 but not reported or accrued in the FY 2009 statements. For this reason, we qualified our opinions on both fiscal years.

Recommendation. We recommend that MCC Division of Finance revise and strengthen its process for determining accruals needed at yearend by implementing the following:

- Establish a comprehensive methodology and/or standard process for obtaining yearend accruals which covers all MCAs and funds. Ensure that accruals include invoiced and rendered services which have not been recorded in the yearend trial balance.

- Establish consistent communication with NBC and the MCAs to ensure a clear understanding of the process and methodology developed.

- Perform quality control procedures over amounts obtained and recorded to ensure that amounts posted are properly reviewed for reasonableness, accuracy, and completeness.

- Ensure that current and prior year financial statements are fairly stated as it relates to accruals recorded.

3. MONITORING CONTROLS OVER MCA ACTIVITIES

Most activities and expenses occurred in the Compact and Threshold programs. As such, controls in the mission countries must be adequately designed and operating effectively. Also, MCC must be actively

monitoring controls to gain sufficient assurance over activities taking place and reliance of financial information being reported.

While we identified improvements related to complete and timely submission of documentation from the missions and accurate reporting of re-disbursements on quarterly financial reports, weaknesses continued through untimely performance and lack of monitoring of MCA audits. This was identified in the prior-year report and is discussed under Item A, below.

We also identified other weaknesses related to mission activities regarding:

- Improper and Untimely Quarterly Reporting (Item B, below)
- Inadequate Oversight of 609(g)-fund Transactions (Item C, below)
- Inadequate Processing of Closed Programs (Item D, below)

The combination of these weaknesses increases MCC's risk of inaccurate, incomplete, and untimely reporting of MCA activities. Each area is detailed below.

A. Untimely Performance of MCA Audits

This is a repeat finding from the prior year. Audits of controls, transactions, and balances of MCA entities were not completed, submitted to the Office of Inspector General (OIG), or issued in a timely manner. While we identified some improvements in the monitoring of these audits by management, the results of untimely completion remain.

As a major component of internal control over the MCAs, MCC required audits to be conducted on a semiannual basis for the six months ending December and June of each year. Audit results give MCC some assurance over the effectiveness and accuracy of MCA controls and transactions, because supporting documentation for transactions reported are not reviewed or maintained by MCC or its service provider. Instead, MCC relied on approved advance, disbursement, and payment request documents submitted by MCA personnel.

We inquired of MCC management and the OIG as to the status of MCA audits. The status of audits for the 6 months ending December 31, 2009, is summarized below. Audit reports were due by March 31, 2010.

Of 18 MCAs that had entered into force and were due for audit:

- Three audit reports are past due.

- One audit report was rejected by the OIG due to concerns over audit procedures.

- The audit period for one MCA was extended and will be combined with the June 2010 audit.

- Five audit reports were submitted to the OIG and are currently under review. Only one of these reports was submitted timely, others were submitted in July and August.

- Eight audit reports were issued by the OIG (all were issued in June, August, and September 2010, after the March 31 due date). Only three of these reports were initially submitted to the OIG by the March 31 due date.

The status of audits for the 6 months ending June 30, 2010, in which audit reports were due by September 30, 2010, are summarized below.

Of 17 MCAs that had entered into force and were due for audit:

- Nine audit reports are past due.

- Five audits were extended and will be included in the December 2010 audit. Extensions relate to delayed start of current period audits, untimely procurements, and issues with auditors.

- Three audit reports were submitted to the OIG and are under review. Two were received by the September 30 due date, and one was received on October 1.

- No audits have been issued as final by the OIG as of September 30.

Outstanding audit reports for the period ending June 30, 2010, which cover two quarters of FY 2010 activity, will now be received well after the current fiscal period, and will not be useful in MCC's assessment or assurance of MCA's FY 2010 activities.

Audit reports not issued in a timely manner increase the risk that MCC will not be notified of potential inadequate controls and inaccurate financial information, which could have a material impact on MCC's financial statements. OIG comments, which can delay audit report issuance, have related to questionable amounts presented, clarification of audit findings, and lack of adherence to audit requirements and formatting of reports. Resolution of these comments is dependent on sufficient and timely responses from MCA auditors.

OIG's *Guidelines or Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* (revised August 2007) states:

> *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. The MCC may require more frequent audits than annually* (§1.5).
>
> *MCC responsibilities are to: 1) monitor and ensure that the required contracted audits of the MCA… are performed in a timely manner;…* (§1.8)
>
> *All required audits must be completed and the reports issued in accordance with the compact (no later than 90 days after the end of the audit period)…* (§1.15)
>
> *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* (§2.3).

Lack of accurate and timely audit processing (including procurement, execution, and submission of reports) increases MCC's risk of not knowing, in a timely manner, the effectiveness and accuracy of MCA activities in regards to costs incurred, transactions recorded, and existence of underlying support.

Recommendation. We recommend that the MCC Department of Compact Operations and Division of Finance:

- Continue to actively monitor the MCA audit process, from procurement and start of the audit through issuance of the audit report to ensure timely completion and sufficient time for OIG review and MCC consideration of any impact on its financial reporting.

- Continue active communication with MCAs, audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits.

- Ensure that MCAs and respective auditor firms understand the importance of timely and complete audits and how they affect MCC's assessment and reliance of overall MCA controls.

B. Improper and Untimely Quarterly Reporting

MCAs did not submit QFRs and Disbursement Requests properly or in a timely manner. We reviewed QFRs for all funds from a sample of 5 of MCC's 18 active MCAs and noted the following:

- FY 2010 Quarterly Disbursement Requests and QFRs were not received for:
  - MCA-Benin's CIF (last reporting was FY 2006).
  - MCA-Namibia's 609(g) funds (last reporting was FY 2009).

- MCA-Burkina Faso did not submit Disbursement Requests in a timely manner for its 609(g), CIF, and Compact funds during FY 2010.

- MCA-Lesotho submitted its Compact fund Disbursement Requests without formal signatures of appropriate MCA personnel, including the Fiscal Agent who assists in its preparation. Instead, MCA personnel waited until all documents were vetted, revised and resubmitted, and approved by MCC before submitting a request to the MCA Board for formal approval, which is not the standard process.

- MCA-Lesotho's Resident Country Director did not formally or timely document his approval of quarterly submissions.

- MCA-Mongolia and MCA-Namibia submitted some FY 2010 quarterly reports with incorrect Compact or CIF numbers.

We also noted during our review of Compact and CIF funds for MCA-Burkina Faso, which are administered by United States Agency for International Development (USAID), that QFRs were not submitted to MCC in a timely manner for all of FY 2010. Upon notification by the auditors, the QFRs were requested, and liquidations against this advance were posted in the amount of $11.8 million.

MCC's Financial Management Policies and Procedures (FMPP) on Compact Management (as updated in A&F-2007-77.2 received during FY 2010 audit) states the following:

> *The Accountable Entity is required to submit a QFR at least every fiscal quarter even if no additional cash is to be requested. In addition, separate QFRs are due for 609(g) funds and for funds provided under other mechanisms (e.g. Compacts) when both are disbursed in the same period. QFRs are due to MCC twenty (20) calendar days prior to end of the quarter (§5.3).*
>
> *The Disbursement Request, which is completed by the Accountable Entity team and Fiscal Agent, details the requested budgeting authority to cover the projected disbursements made through CPS during the next quarter (§5.4).*

FMPP further details responsibilities of the Accountable Entity Designated Officials and Fiscal Agents to jointly prepare and submit QFRs and Disbursement Requests to Transaction Team Leadership (§6.5; 6.7).

MCAs did not submit final QFRs to report final disbursement amounts when fund use was completed. This precludes MCC from properly and timely deobligating any unneeded funds. Untimely receipt of QFRs and Disbursement Requests, including those not properly approved, increases the risk to MCC that current-year transactions and accruals are inaccurate or incomplete.

Recommendation. We recommend that MCC management and Department of Compact Operations:

- Ensure that all personnel responsible for QFRs adhere to requirements to submit accurately prepared and properly approved QFRs and Disbursement Requests in a timely manner.

- Ensure that funds are periodically reviewed to determine if MCAs should submit final QFRs to record deobligations for funds no longer needed.

C. Inadequate Oversight of 609(g)-Fund Transactions

MCC's original intent was to manage 609(g) funds provided for countries and ultimately have oversight of all transactions and underlying support until an MCA was established, and a Compact was issued and entered into force. Processes have evolved, and MCC has allowed some countries with only an established Millennium Challenge Unit (MCU), rather than an MCA, to manage their own 609(g) funds, referred to as "country managed."

This new process did not always include MCC involvement and/or review of underlying invoices for reported expenses for MCAs. Thus, MCC management did not review these transactions until they were included in the agency's annual financial statement audit, because MCA audits do not occur without an MCA in place.

We identified other matters during our review of policies and procedures over 609(g) funds:

- Controls over approvals of vendor invoices and related payments for country-managed funds were established, but were not adequately or formally documented or shared with relevant personnel.

- Countries with the ability to approve their own invoices did not clearly document those approvals and authorizations to pay.

- The Fiscal Accountability Director and Assistant Chief Financial Officer (CFO) did not document their approvals of PRF submitted by in-country persons for vendor payments via CPS.

- Names and signatures on PRFs submitted for two sampled items did not match MCC CPS Signature Cards on file for the country.

- Sampled CPS Signature Cards did not have effective dates or MCC signatures ensuring card validity before being sent to NBC.

In addition, during our review of balances as of March 31, 2010, we identified several countries with active compacts that had 609(g) balances for which disbursements had not been made for one or more fiscal years. MCC Compact personnel did not adequately review aged obligations for countries with 609(g) funds to determine if "an immediate need" still existed. At yearend, we noted disbursement activity for some funds, while others were deobligated.

FMPP, Section 210, *Policies and Procedures on Authorizing and Recording Commitments and* Obligations, states:

> *MCC ensures that obligated funds are de-obligated when an obligating or authorizing official determines that the funds are no longer needed. … At the end of each quarter, MCC's DCFO initiates and coordinates a 1311 Review of Open Obligations for…609(g) and audit funds to identify and de-obligate any excess or unneeded balances. … In addition to the quarterly review of open obligations led by the DCFO, authorizing and obligating officials are required to routinely monitor and review unexpended obligated balances for which they are responsible to ensure that balances are de-obligated when no longer needed* (§6.2, *Review and De-Obligation of Unliquidated Obligations;* §5.2 in draft FMPP of same name).

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

> *Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations.*

The MCC Fiscal Accountability Director for one country documented a cursory set of desk procedures for entities for which funds are country-managed. This procedures document was not, however, vetted through any formal process, and it was not a shared document, thereby preventing other Fiscal Accountability Directors from using the same procedures for the same or similar processes.

The failure to have a prescribed set of procedures for 609(g) administration creates the risk that each country will be managed by a different set of guidelines, and that sufficient controls may not be in place to ensure proper approval and request of vendor invoices and payments and accurate reporting of transactions to MCC.

Recommendation. We recommend that MCC Department of Compact Operations 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.

We further recommend that MCC Department of Compact Operations, in coordination with the Division of Finance:

- Monitor on at least a quarterly basis obligations and disbursements of all countries that received 609(g) funds and communicate with the MCAs to determine if immediate needs still exist to maintain excess 609(g) funds that have not been disbursed within a period of 9 months or more and deobligate 609(g) funds no longer considered an immediate need to the MCA/Partnering Country.

- Strengthen its CPS Signature Card process to include an MCC authorizing signature, effective and termination dates, and annual or other periodic review process for MCC, its financial service provider, and the MCAs to ensure that signature cards are kept on file for only active users of the CPS system.

D. Inadequate Processing of Closed Programs

MCC did not have a comprehensive close-out process for its compacts and other programs, specifically those terminated or suspended. MCA-Madagascar was formally terminated August 31, 2009, after which MCC Fiscal Accountability worked with MCA Fiscal Agents to determine a timeline for the audit and for processing payments. During our review of this program that ended in August 2009, we noted the following during the “wind-up” period:

- The audit performed in-country did not encompass the entire compact activity period or any period involving wind-up activities. The last audit covered the period January 1 to September 30, 2009, whereas wind-up activities were not scheduled to end until December 3, 2009.

- The detailed cash management plan did not allow for administrative wind-up activities that might occur after the December 3, 2009, period, and it did it not mention the provision for payment to the auditor for the final audit period or final payments to the Fiscal and Procurement Agents.

- The detailed cash management plan did not provide for balances remaining on MCC’s general ledger for outstanding advances and undelivered order balances.

- QFRs were not submitted for MCA-Madagascar since August 14, 2009.

- Budget authority was appropriately established and approved for the period ending December 3, 2009, although three PRFs were submitted to NBC for payment after this date.

MCC’s *Guidelines for the Program Closure of Millennium Challenge Compacts*, effective September 8, 2009, do not provide for terminated or suspended programs, instead stating that specific guidelines can be applied to any of the closed programs. The final disbursement period should be extended to include an additional 60 days to ensure that valid invoices received after the Closure Period can be submitted and paid, and, if the spending authority is not sufficient to cover expenses after that period, then additional spending authority must be requested and approved (§5.7.3, Spending Authority for Final Disbursement Period, and §5.7.5, Cash Flow Management). When all disbursements have been made during the specified Closure Period, the final QFR should be submitted to report actual expenditures. Due to timing of the Closure Period and audit end dates, special arrangements should be made for final payment to the audit firm (§5.10.4, Final Financial Audit).

Finally, MCC’s *Financial Management Policies and Procedures for Compact Management*, as well as its instructions for submitting QFRs, discusses requirements for submitting QFRs for each quarter that funds are maintained for a compact, whether activity has occurred or not, until a final QFR is submitted (A&F-2007-77.2, §5.3).

As a result of not having and/or adhering to comprehensive close-out procedures:

- Payments were processed after budgeted authority expired.

- MCC Division of Finance was unable to determine if expenses needed to be accrued or liquidations posted, because it did not have interim and final QFRs.

- MCC is at risk for funds being used for expenses that would not be considered allowable under a fully documented Compact Closure Plan.

Recommendation. We recommend that MCC management and Department of Compact Operations:

- 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.

- Ensure that Fiscal Accountability Directors, Fiscal Agents, as well as personnel in the Division of Finance and MCC’s financial services provider are fully aware of any restrictions to process payments made during a program or compact close-out period.

SIGNIFICANT DEFICIENCIES

4. Reconciling Fund Balance with Treasury

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. USAID has not, however, 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 (TFM), *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:

> *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 mistakes 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 the MCC Division of Finance 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.

5. Controls over Financial Reporting

This is a repeat finding from prior-year audits. MCC needs to continue to strengthen its quality control procedures over financial information presented to ensure accuracy and completeness. In addition, these quality control procedures should be adhered to ensure the "quality" of information over the "timeliness" of information. Although MCC has improved its review process, with documentation of its review by the Assistant CFO and the Deputy CFO, review procedures are still insufficient, and a process does not exist for documenting and correcting errors in a timely manner. As a result, adjustments are not being made promptly, and an audit trail does not exist to identify these issues.

We noted the following deficiencies in the preparation and review of quarterly and yearend financial statements:

- There was a $30 million overstatement in the second-quarter trial balance as the result of a posting error to the Appropriations Received account. MCC stated that is knew about this material misstatement, but submitted the resulting statements to OMB and its auditor without correction or notification.
- An on-top adjustment from the prior-year audit was omitted from budgetary accounts, resulting in understated recoveries of prior-year obligations. MCC failed to account for all prior-year adjustments to ensure proper balances in the current year when preparing its second-quarter statements.
- Although not material in nature, we identified differences in comparing proprietary expenses and budgetary expended authority in the second and third quarters, respectively.
- The manual nature of the Excel spreadsheet used to prepare the financial statements lends itself to human error and extensive posting and tracking of adjustments. In addition, one person is responsible for preparing the spreadsheet, and quality control procedures do not include a review and agreement of information in the trial balance to the notes.
- In an effort to meet due dates and submit timely statements and notes, MCC did not complete its established quality control process before submitting draft yearend statements and notes. This process involves reviewing notes and other financial information in the financial statement package for accuracy and consistency with financial statement and trial balance information. We identified mathematical errors, incorrect prior-year balances, and inconsistent information.
- MCC lacks sufficient communication with the MCAs to ensure that they understand the impact of their transactions on MCC's financial statements and provide information that is complete, accurate, and sufficient for MCC's accrual reporting.

OMB Circular A-136, *Form and Content of Performance and Accountability Report (PAR)*, states:

> *Reporting entities should ensure that information in the financial statements is presented in accordance with GAAP for Federal entities and the requirements of this Circular….*
>
> *Preparation of the annual financial statement is the responsibility of agency management….*

Financial statements presented for audit are the responsibility of MCC. Without conducting or ensuring effective, detailed analyses and quality control reviews over consolidated financial information, MCC is at risk for presenting statements that are not comparative, accurate, or in compliance with applicable requirements and accounting standards.

Recommendation. We recommend that the MCC Division of Finance:

- Continue to strengthen its quality control reviews over financial statements to ensure that information presented is accurate, complete, and complies with accounting standards and reporting guidance.

- 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.

We noted certain other matters involving internal control and its operation that we will report to MCC management in a separate letter.

MCC's management comments to recommendations are in the 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 USAID, MCC management, and others within MCC, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

Colette Y. Wilson

November 15, 2010
Alexandria, Virginia

APPENDIX
MANAGEMENT COMMENTS

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Memorandum

Date: November 12, 2010

To: Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

From: Victoria B. Wassmer, Vice President
Millennium Challenge Corporation
Department of Administration and Finance

Subject: Management Response to Draft Independent Auditor's Report on MCC's Financial Statements for Fiscal Years Ended September 30, 2010 and 2009.

We have received the subject draft report and note that the independent auditors, Cotton & Company, LLP, have issued a narrow qualified opinion on our principal financial statements. The qualification and related material weakness, which also affected our FY 2009 opinion, primarily relates to the accuracy of accruals for work not paid or invoiced until the subsequent period.

We at the Millennium Challenge Corporation (MCC) take our fiduciary responsibilities very seriously. Our team has been moving aggressively to ensure accountability, effective stewardship and transparency regarding the resources entrusted to MCC. Our goal is to provide sound financial management, financial reporting and internal control systems that will help ensure successful implementation of programs for sustainable poverty reduction through economic growth. We initiated a variety of aggressive actions in FY 2010 to address internal controls and other issues.

Now, in addition, MCC management is currently organizing a Task Force to quickly and effectively address the material weaknesses raised in the FY 2010 audit. The joint Task Force of the Department of Administration and Finance (A&F) and the Department of Compact Operations (DCO) will be working with key stakeholders, including Millennium Challenge Account (MCA) country entities, to:

(1) Analyze and revise current processes, procedures, and reporting related to the financial management and oversight of our partner countries' activities for accuracy, consistency, and shared agreement on how and why we need to address issues arising in large part from the different cash and accrual methods used by MCAs and MCC, respectively, and

(2) Develop and provide training to implement detailed corrective action plans with milestone dates to implement Task Force recommendations.

Any questions may be addressed to Mr. Dennis Nolan, Deputy Chief Financial Officer, or to me.

MCC management also offers these responses to the five areas of audit recommendations made by the Assistant Inspector General, Millennium Challenge Corporation.

1. Material Weakness: Reporting Advance Payments

MCC concurs with the OIG recommendation to "modify the Payment Request Form (PRF) to specifically identify requests for advance payments to vendors." In addition, A&F will work with the Office of the Inspector General (OIG) to modify the existing scope of semi-annual MCA audits to include audit procedures to verify the accuracy and completeness of amounts coded as advances on PRFs.

MCC also concurs with the OIG recommendation that MCC "provide training to Fiscal Agents and other in-country personnel to explain how to properly record each line of the PRF" and to ensure shared understanding of the necessity and importance." Through the Task Force mentioned earlier, MCC will ensure the requirement for advance payments to vendors be clearly identified, appropriately recorded in the accounting system and supported by documentation as part of the training for both MCC and MCA staff as needed.

2. Material Weakness: Compiling Accruals (Proper Reporting Period)

MCC concurs with the OIG recommendation to "revise and strengthen its process for determining accruals needed at year-end by establishing a comprehensive methodology and/or standard process for obtaining, recording and reporting year-end accruals which cover all MCAs and funds and include invoiced and rendered services which have not been recorded in the year-end trial balance." MCC has already implemented a new year-end procedure and will build in further changes and necessary steps to ensure that both quarterly and year-end accruals are complete.

MCC extended its FY 2010 cut-off to 12 days for invoices received but not paid in response to accrual related issues raised in the FY 2009 audit. Based on the accrual-related issues raised in the FY 2010 audit, MCC's new procedure to develop quarterly and year-end accruals for financial statement reporting entailed working directly with the Fiscal Agents, Procurement Directors, and other staff at the MCAs to obtain quarterly and year-end accrual reporting for: (1) invoices received but not paid, (2) work completed but not billed, (3) retention payments, and (4) country-managed 609(g) agreements.

In addition, MCC will be recalculating our FY 2009 expense accrual using the methodology described above to correct any errors in the beginning balances on our FY 2010 financial statements. Finally, MCC will institute regular communication with MCA staff to ensure that accruals are comprehensive, and reflect all activities that are occurring in country as part of compact implementation.

MCC also concurs with the recommendation to "establish consistent communication with NBC and the MCAs and establish a process to ensure a clear understanding of process and methodology developed." Through the Task Force mentioned earlier, MCC will ensure that the methodology for obtaining, recording, and reporting accruals is part of the training for both MCC and MCA staff as needed.

MCC also concurs with the recommendation to "perform quality control procedures over amounts obtained and recorded to ensure that amounts posted are properly reviewed for reasonableness, accuracy, and completeness." A&F also will work with the OIG to modify the existing scope of semi-annual MCA audits to include audit procedures to verify the accuracy and completeness of the data provided by the MCAs to calculate accruals. In conjunction with the semi-annual audits, A&F will also institute a process to sample MCA invoices and other documentation to verify the completeness and accuracy of accruals.

3. Material Weakness: **Monitoring Controls over Mission Activities**

MCC concurs with the recommendation to "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 that the audits are completed in accordance with the compact." MCC has developed a reporting system to track the status of all MCA audits. As noted by our auditors, there has been considerable progress on eliminating the backlog of past due audits. MCC will continue its monitoring of the MCA audit program, and will work closely with the OIG to implement additional remedial actions or changes designed to improve the audit program.

In FY 2010 MCC implemented certain measures to improve timeliness of the MCA audit program; however, their full effect has not been realized. OIG's increase in staffing on the MCA audit program will also assist in alleviating a backlog in the audit report approvals process. MCC's Compliance Officer in conjunction with the Fiscal Accountability Directors in DCO will conduct monthly audit status meetings with OIG to ensure that issues related to the completion of MCA audits are addressed timely.

MCC also concurs with the recommendation to "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." A&F will work with the OIG to modify the existing scope of semi-annual MCA audits to include audit procedures to verify the accuracy and completeness of the data provided by the MCAs to calculate advances, retention payments, and accruals.

MCC also concurs with the recommendation to "establish and implement a process to ensure that all personnel responsible for QFRs understand how to submit accurately prepared and properly approved QFRs and Disbursement Requests in a timely manner." Through the Task Force mentioned earlier, MCC will review and revise existing processes to ensure that quarterly reporting requirements are met.

In addition, A&F has developed a QFR scorecard to track the status of all required QFRs for all funds. The scorecard will be distributed weekly to MCC senior management for follow-up actions on delinquent QFRs.

MCC also concurs with the recommendation to "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." This recommendation has already been implemented. A&F performs a semi-annual review of all open obligations which includes all fund types. This process is outlined in the Financial Management Policies and Procedures for Authorizing and Recording Commitments and Obligations issued in September 2010.

MCC also concurs with the recommendation to "implement a formal process for administering 609(g) funds in all countries not managed by MCC or MCA."
MCC has developed operating procedures regarding the management of 609(g) funds when the Fiscal Agent has not been selected and mobilized. These procedures will be formalized and incorporated in MCC's Financial Management Policies and Procedures.

MCC also concurs with the recommendation to "monitor on quarterly basis the cumulative obligation 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." This recommendation has already been implemented. A&F performs a semi-annual review of all open obligations which includes all fund types. This process is outlined in the Financial Management Policies and Procedures for Authorizing and Recording Commitments and Obligations issued in September 2010.

MCC also concurs with the recommendation to "strengthen its Common Payment System (CPS) Signature Card process to include an MCC authorizing signature, effective and termination dates, and annual or other periodic review process for MCC, its financial service provider, and the MCAs to ensure that signature cards are kept on file for only active users of the CPS system." A&F, in coordination with DCO, will strengthen the CPS Signature Card process to include a MCC authorizing signature, effective and termination dates, and include at a minimum, a quarterly review of the CPS process and update the CPS manual to include the revised controls.

MCC also concurs with the recommendation to "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." A&F and the DCO will review the existing *"Guidelines for the Program Closure of MCC Compacts"* to ensure that it is inclusive of policies and procedures for suspended and/or terminated compacts.

MCC also concurs with the recommendation to "establish guidelines for Fiscal Accountability Directors, Fiscal Agents, as well as personnel in the Division of Finance and MCC's financial services providers to make them fully aware of any restrictions to process payments made during a program or compact close-out period." A&F and the DCO will review the existing *"Guidelines for the Program Closure of MCC Compacts"* to ensure that it is inclusive of policies and procedures related to budget authority and required authorizations for the expenditure of funds during and after the compact close-out period. The Guidelines will be communicated to all responsible parties.

1. Significant Deficiency: Reporting Fund Balance with Treasury

MCC concurs with the recommendation to "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." A&F will continue to inquire each quarter (in conjunction with USAIDs preparation and delivery of MCC Threshold trial balances) of USAID's progress towards 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.

USAID Response: USAID has control over current transactions but was not able to eliminate the backlog of old differences. USAID expects that the improvements we made in our systems for controlling cash, especially for DHHS, and suspense will enable us to keep current transactions under control for 2011 and give us time to clear up a substantial portion of our old differences.

2. Significant Deficiency: Controls Over Financial Reporting

MCC concurs with the recommendation to "continue to strengthen its quality control reviews over financial statements to ensure that information presented is accurate, complete, and complies with accounting standards and reporting guidance." MCC implemented a further refinement to its quality control reviews over financial reporting--the Division of Finance Budget Officer and staff now review the Trial Balances and the Statement of Budgetary Resources. This additional layer of review compliments the reviews being conducted by the Division of Finance management team.

MCC also concurs with the recommendation to "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." The errors noted in the audit report stemmed from a miscommunication regarding an FY 2009 Financial Statement Audit adjustment processed during the FY 2009 annual close process. The miscommunication resulted in the need for an "on-top "adjustment to the final financial statements. In order to alleviate scenarios like this in the future MCC will request auditors timely submit adjustments using the MCC Journal Voucher template. MCC will continue to improve its quality control procedures by developing and adding an additional Excel spreadsheet worksheet to its financial statements workbook to be used to document systematic issues that may require "on-top" adjustments be made.

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Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the Balance Sheets of the Millennium Challenge Corporation (MCC) as of September 30, 2010 and 2009, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. We have issued our report thereon dated November 15, 2010. 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.

MCC management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether MCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB audit guidance. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes.

The results of our tests of compliance disclosed no instances of noncompliance that we are required to report under *Government Auditing Standards* and OMB Bulletin audit guidance. Providing an opinion on compliance with those provisions was not, however, an objective of our audits, and accordingly, we do not express such an opinion.

This report is intended solely for the information and use of United States Agency for International Development (USAID), MCC management, and others within MCC and USAID, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

November 15, 2010
Alexandria, Virginia

Appendix A

Following is the disposition of prior year (2009) findings, recommendations, and MCC Management's action.

Finding:

1. Control over Mission Activities and Support – Repeat Material Weakness

Status: Overall finding still exists in FY 2010, although some of the components were closed. Finding was a material weakness in FY 2009, and is again in FY 2010.

1.1 Untimely Performance and Lack of Monitoring of MCA Audits

Recommendations: We recommend that the MCC Department of Compact Implementation and Division of Finance:

- Strengthen the monitoring of the MCA audit process, from submission of the audit plan through issuance of the audit report to ensure timely completion and sufficient time for OIG review, prior to issuing the report to MCC for management comment.
- Increase communication between the MCAs, the audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits in a timely manner. Ensure that the MCAs understand the impact of these audits and how they affect MCC's assessment of overall controls and its financial statement audit.

Status: Open.

1.2 Lack of Adequate Documentation to Support Transactions

Recommendation: We recommend that MCC management, in coordination with the U.S. Agency for International Development (USAID), establish effective and periodic communication with MCA and Threshold mission personnel, to emphasize the need for proper documentation to be maintained in the MCA files, and that these documents be readily available and promptly submitted for inspection when requested.

Status: Closed

1.3 Improper Reporting of Re-disbursements

Recommendations: We recommend that MCC Department of Compact Implementation and Division of Finance:

- Develop training for MCA Fiscal Agents to ensure proper reporting of re-disbursements on the QFRs to ensure the MCA is only requesting advances for immediate funding needs.
- Develop a tracking mechanism to monitor prepayments and to ensure that MCC and NBC personnel are properly reviewing the quarterly submitted QFRs for proper reporting of both the projected needs for advancement of funds and actual re-disbursements of previously advanced funds.

Status: Closed.

2. Quality Control over Financial Reporting (Repeat Significant Deficiency)

Recommendations: We recommend that the MCC Division of Finance:

- Strengthen its quality control reviews over financial statements, notes, and other information presented, to ensure that information presented for audit is accurate, complete, and complies with accounting standards and reporting guidance.

Status: Open.

- Increase communication with USAID to ensure information received has been reviewed and is reliable, in order for MCC to prepare complete and accurate financial statements in accordance with accounting standards and reporting guidance.

Status: Closed.

3. Controls over Payroll Processes

3.1 Untimely and Incomplete Processing of Separated Employees

Status: Closed.

3.2 Improper and/or Lack of Certification on the SF-52 and SF-50

Status: Closed.

3.3 Lack of Support for Employee Selected Benefit Deductions

Status: Closed.

4. Proper Reporting Period (FY 2009 Significant Deficiently, FY 2010 Material Weakness)

Recommendations: We recommend that MCC Division of Finance:

- Continue to strengthen, and revise as necessary, policies and procedures for yearend accruals to ensure that all countries, types of funding, and programs are considered when recording estimates for future expenses, and that accruals are reasonably sufficient to cover anticipated costs.

Status: Open.

- Establish and communicate procedures for the MCAs to require the submission of estimates or payment requests for current period expenses that have not, or will not be recorded until the subsequent year, for each fund type.

Status: Open.

- Ensure that the accrual amount is adequately and reasonably calculated, clearly documented and supported, and properly reviewed for completeness and accuracy prior to and subsequently after posting to the GL.

Status: Open.

- Ensure that USAID has procedures to resolve incorrect accruals and to make certain that quarterly and yearend amounts for the Threshold program are complete and accurate.

STATUS: Closed.

5. Fund Balance with Treasury (FBWT) Reconciliation

Recommendations: We recommend that the MCC Division of Finance:

- Inquire of USAID's procedures to resolve the issue of incomplete SF 224 reporting.

Status: Open.

- Consider revisions to the Memorandum of Agreement (MOA) with USAID to require timely responses upon inquiry by MCC management regarding financial statement audit findings related to Threshold Program transactions. *Open*

Status: Open.

Appendix B

Management Comments and Our Evaluation

We received and evaluated MCC's management comments to the recommendations made in this report. Management comments have been included in its entirety in Appendix C.

Based on MCC's comments, we acknowledge that management decisions have been reached on all of the recommendations. MCC should report to the OIG when final action has been taken on the recommendations. The following is a brief summary of MCC's management comments on the 17 recommendations included in this report and our evaluation of those comments.

Recommendation No. 1
MCC concurs with the recommendation to modify Payment Request Form (PFR) to identify requests for advance payments to vendors.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 2
MCC concurs with the recommendation to provide training to Fiscal Agents and other in-country personnel to explain how to properly record each line of the PRF.

Auditor Evaluation:
We conclude that management has adequately addressed this recommendation, and acknowledge that a management decision has been reached.

Compiling Accruals (Proper Reporting Period)

Recommendation No. 3 MCC concurs with this recommendation to establish a comprehensive methodology and/or standard process for obtaining, recording, and reporting yearend accruals which covers all MCAs and funds and include invoiced and rendered services which have not been recorded in the yearend trial balance.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 4
MCC concurs with this recommendation to establish consistent communication with NBC and the MCAs for understanding the process and methodology developed.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 5
MCC agrees with the recommendation to perform quality control procedures over amounts obtained and recorded to ensure that amounts posted are properly reviewed for reasonableness, accuracy, and completeness.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Monitor Controls over MCAs Activities

Recommendation No. 6
MCC agrees with the recommendation to 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 that the audits are completed in accordance with the compact.

Auditor Evaluation:
We conclude that management has addressed this issue, and acknowledge that a management decision has been reached and final action taken.

Recommendation No. 7
MCC concurs with the recommendation to 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.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 8
MCC concurs with the recommendation to establish and implement a process to ensure that all personnel responsible for QFRs understand how to submit accurately prepared and properly approved QFRs and Disbursement Requests in a timely manner.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 9
MCC agrees with the recommendation to 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.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 10
MCC concurs with the recommendation to implement a formal process for administering 609(g) funds in all countries not managed by either MCC or an MCA.

Auditor Evaluation:
MCC has developed operating procedures regarding the management of 609(g) funds when the Fiscal Agent has not been selected and mobilized. MCC will formalized and incorporate in MCC's Financial Management Policies and Procedures. We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 11
MCC concurs with this recommendation. A&F currently performs a semi-annual review of all open obligations on a quarterly basis which includes all fund types. This process is outlined in the Financial Management Policies and Procedures for Authorizing and Recording Commitments and Obligations issued in September 2010.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 12
MCC agrees with the recommendation to strengthen its CPS Signature Card process. A&F, in coordination with DCO, will strengthen the CPS Signature Card process.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 13
MCC agrees to 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.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 14
MCC concurs with this recommendation to 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.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Significant Deficiencies

Recommendation No. 15
MCC concurs with the recommendation to 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.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 16
MCC concurs with the recommendation to continue to strengthen its quality reviews over financial statements to ensure that information presented is accurate, complete, and complies with accounting standards and reporting guidance.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

Recommendation No. 17 MCC also concurs with the recommendation to 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.

Auditor Evaluation:
We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been reached.

FINANCIAL SECTION

In accordance with the OMB Circular A-136, Financial Reporting Requirements, MCC is presenting its financial statements in the appropriate form and content for Fiscal Year 2010. The tables below outline the following financial statements:

- Balance Sheets
- Statements of Budgetary Resources
- Statements of Net Cost
- Statements of Changes in Net Position
- Audit the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2010 and 2009
- Notes to Financial Statements

BALANCE SHEETS

	FY 2010	RESTATED FY 2009
Assets		
Intra-Governmental		
Fund Balance with Treasury *(Note 2)*	**$6,554,088,712**	**$6,655,511,983**
Advances – Federal *(Note 5)*	8,778,900	6,474,444
Total Intra-Governmental	6,562,867,612	**6,661,986,427**
Accounts Receivable *(Note 3)*	49,408	90,363
General Property, Plant, and Equipment *(Note 4)*	5,857,213	6,953,153
Advances – Public *(Note 5)*	182,343,189	103,874,266
Total Assets	**$6,751,117,423**	**$6,772,904,210**
Liabilities		
Intra-Governmental		
Accounts Payable – Federal *(Note 1F)*	$5,055,266	$229,546
Contributions and Payroll Taxes Payable	476,667	467,304
Total Intra-Governmental	**5,531,933**	**696,850**
Federal Employee and Veteran Benefits Payable	12,444	35,751
Accounts Payable – Public *(Note 1F)*	208,104,353	65,665,061
Accrued Funded Payroll Liabilities	9,279,041	7,196,040
Total Liabilities	**$222,927,770**	**$73,593,702**
Net Position		
Unexpended Appropriations – Other Funds	$6,522,071,077	$6,694,361,386
Cumulative Results of Operations – Other Funds	6,118,576	4,949,121
Total Net Position	**$6,528,189,653**	**$6,699,310,507**
Total Liabilities and Net Position	**$6,751,117,423**	**$6,772,904,210**

The notes are an integral part of these financial statements.

STATEMENTS OF BUDGETARY RESOURCES

	FY 2010	RESTATED FY 2009
Budgetary Resources		
Unobligated Balance – Beginning of Period	$787,102,593	$962,304,024
Recoveries of Prior Years Obligations	4,045,794	1,029,114
Budget Authority:		
Appropriations *(Note 1C)*	1,105,000,000	875,000,000
Non expenditure Transfers, Net, Anticipated and Actual	(2,377,922)	(679,000)
Permanently Not Available	(50,000,000)	0
Total Budgetary Resources	**$1,843,770,465**	**$1,837,654,138**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$899,566,345	$1,050,551,545
Unobligated Balance Available	451,137,424	56,176,028
Unobligated Balance Not Available	493,066,696	730,926,565
Total Status of Budgetary Resources	**$1,843,770,465**	**$1,837,654,138**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2009		
Unpaid Obligations, Brought Forward, October 1	$5,868,196,304	$5,583,344,174
Obligations Incurred	899,566,345	1,050,551,545
Gross Outlays	(1,154,208,950)	(764,670,301)
Recoveries of Prior Year Unpaid Obligations, Actual	(4,045,794)	(1,029,114)
Obligated Balance, Net – End of Period		
Unpaid obligations	$5,609,507,905	$5,868,196,304
Net Outlays		
Gross Outlays	$1,154,208,950	$764,670,301

The notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET POSITION

	FY 2010	RESTATED FY 2009
Cumulative Results of Operations		
Beginning Balances	$4,949,121	$6,839,070
Adjustments		
Beginning Balance, as Adjusted	4,949,121	6,839,070
Budgetary Financing Sources		
Appropriations Used	$1,224,912,387	$746,726,904
Other Financing Sources		
Donations and Forfeitures of Property *(Note 1P)*	$269,513	$205,267
Imputed Financing	2,355,386	1,789,515
Total Financing Sources	1,277,537,287	748,721,686
Net Cost of Operations	(1,226,367,832)	(750,611,635)
Net Change	1,169,455	(1,889,949)
Cumulative Results of Operations	**$6,118,576**	**$4,949,121**
Unexpended Appropriations		
Beginning Balance	$6,694,361,386	$6,548,610,190
Adjustments		0
Correction of errors		18,157,101
Beginning Balance, as Adjusted	$6,694,361,386	$6,566,767,291
Budgetary Financing Sources		
Appropriations Received	$1,105,000,000	$875,000,000
Appropriations Transferred In/Out	(2,377,922)	(679,000)
Other adjustments	(50,000,000)	0
Appropriations Used	(1,124,912,387)	(746,726,904)
Total Budgetary Financing Sources	(172,290,309)	127,594,096
Total Unexpended Appropriations	$6,522,071,077	$6,694,361,386
Net Position	**$6,528,189,653**	**$6,699,310,507**

The notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS (AS OF SEPTEMBER 30, 2010)

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*, for 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 for the Federal Government, as promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board.

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, (Public Law 108-199). MCC's mission is to reduce poverty by supporting sustainable, transformative 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. MCC has attained total appropriations of $1.105 billion and $875 million in Fiscal Year 2010 and Fiscal Year 2009, respectively. OMB apportions MCC administrative funds on an annual basis pursuant to statutory limitations in the appropriations bill. In addition, MCC receives from OMB a separate 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 (apportioned on annual bases) 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 at the beginning of the subsequent fiscal year.

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 in Treasury accounts. The Department of the 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 2010 were $208 million (non-Federal) and $5.1 million (Federal) and at the end of Fiscal Year 2009 were $65.7 million (non-Federal) and $230 thousand (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 no FECA liabilities during Fiscal Year 2010 and Fiscal Year 2009.

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. Annual leave is funded from current appropriations. 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.

As of the end of Fiscal Year 2010, MCC made retirement contributions of $104 thousand to CSRS, $2.8 million to FERS, and $1.1 million to TSP.

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.

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 funds. MCC received and deposited $377 thousand and $213 thousand in interest remittances as of September 30, 2010 and 2009, 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 2010 was $270 thousand and Fiscal Year 2009 was $205 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 2010 and Fiscal Year 2009, MCC transferred budgetary authority of $25 million and $33 million, respectively, to USAID 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. Since Fiscal Year 2008, these administrative fee transfers are not reported back to MCC.

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, 2010 and 2009 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

	September 30, 2010 (in thousands)	RESTATED September 30, 2009 (in thousands)
Fund Balances		
General Funds	$6,554,089	$6,655,512
Total	**$6,554,089**	**$6,655,512**

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

	September 30, 2010 (in thousands)	RESTATED September 30, 2009 (in thousands)
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$451,137	$56,176
Unavailable	493,067	730,927
Obligated Balance	$5,609,508	$5,868,196
Non-Budgetary FBWT	377	213
Total	**$6,554,089**	**$6,655,512**

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 2010 and Fiscal Year 2009 were approximately $49 thousand and $90 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. 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 improvements for both Fiscal Years 2010 and 2009 was $10.9 million. Accumulated amortization was approximately $5.2 million and $4.0 million, respectively. The current book value is $5.7 million and $7.0 million for the periods ending September 30, 2010 and 2009, respectively. The useful life of the improvements is based on the lease terms: ten years for the Bowen building lease and eight years for the City Center building lease.

MCC's capitalization threshold for all other general property, plant and equipment must have an original cost of $50,000 or more and an estimated useful life of five or more years. For Fiscal Year 2010, equipment was valued at approximately $139 thousand. Accumulated depreciation was approximately $20 thousand for Fiscal Year 2010. MCC did not have any equipment assets for Fiscal Year 2009.

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 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.

Note 5—Advances

Advances reflect amounts provided to Compact countries and other Federal agencies in accordance with formal Compacts or inter-agency agreements. MCC reported $191.1 million ($8.8 million, Federal and $182.3 million, non Federal) and $110.4 million ($6.5 million, Federal and $103.9 million, non-Federal) in advances as of September 30, 2010 and 2009, 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 one (1) corporate vehicle (through June 28, 2015) and for eighteen (18) office 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 2011	5,613,117	1,942,376	7,555,493
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	**$28,632,541**	**$9,817,586**	**$38,450,127**

Future Lease Payments Due (in dollars)			
Fiscal Year	**MCC Vehicle**	**MCC Copiers**	**Total**
FY 2011	10,980	55,821	66,801
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	**$52,155**	**$111,642**	**$163,797**

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)

	Compact	609(g)	Threshold	Due Diligence	Audit	Administrative	FY 2010 Total (in thousands)	RESTATED FY 2009 Total (in thousands)
Intra-Governmental	35	5	16,281	5,151	3,246	17,510	42,228	27,537
Public	1,017,189	19,547	43,407	23,467	272	80,258	1,184,140	723,075
Total - Program	**1,017,224**	**19,552**	**59,688**	**28,618**	**3,518**	**97,768**	**1,226,368**	**$750,612**

Note 8—Undelivered Orders at the End of the Period

Exhibit 17 presents Undelivered Orders, paid and unpaid, as of September 30, 2010 and 2009.

Exhibit 17: Undelivered Orders

Undelivered Orders	2010	RESTATED 2009
Administrative	$28,539,653	$27,268,537
Audit	1,031,296	1,131,689
609(g)	37,167,213	42,422,624
Due Diligence	65,060,507	60,123,947
Program	5,334,343,971	5,625,698,055
Threshold	111,935,476	148,518,787
Total	**$5,578,078,116**	**$5,905,163,639**

Note 9—Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. 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 2009 and the Fiscal Year 2009 actual data reported in the Fiscal Year 2011 budget submission. Fiscal year 2010 actual data will be published within the 2012 Budget of the United States to be published in February 2011. No material differences were noted.

Note 10—Restatements

During Fiscal Years 2008 and 2009, MCA's erroneously reported vendor disbursements as expenses that should have been reported as advances for goods and services. MCA's also did not report to MCC any retention payments being withheld for services rendered during Fiscal Year 2009. Those amounts should have been accrued during Fiscal Year 2009 to capture those expenses when incurred. This restatement is being presented in the Fiscal Year 2009 column of these comparative financial statements. The Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position are all affected by this restatement. The original reported amount, effect of the restatement and the restated amount are all summarized in **Exhibit 18** below.

MCC has developed a revised accrual methodology to communicate directly with each country to determine a more accurate estimate of the value of goods and services received; both invoiced and unbilled. MCC believes that direct communication with each MCA will allow for the proper treatment of expense accruals within the proper reporting period.

MCC has analyzed the issue surrounding the proper reporting of advances to vendors within country to perform services but reported to MCC as expenses. MCC is revising its Payment Request Form to ensure MCA's are accurately designating funds being disbursed to a vendor so that an advance or expense disbursed is recorded in the MCC financial system accurately. MCC will also be performing a reconciliation of those advances erroneously reported as an expense within each country to ensure the financial records within the MCC financial system is consistent with financial records within each country.

Exhibit 18: Restatement of Fiscal Year 2009 Financial Statement Material Amounts

	2009 Reported	Effect of Restatement	2009 Restated
Balance Sheet			
Advances to Others	$32,422,386	$71,451,880	$103,874,266
Total Assets	$6,701,452,329	$71,451,880	$6,772,904,210
Accounts Payable	$56,026,101	$9,638,960	$65,665,061
Total Liabilities	$63,954,742	$9,638,960	$73,593,702
Unexpended Appropriations – other funds	$6,632,548,466	$61,812,920	$6,694,361,386
Total Net Position	$6,637,497,587	$61,812,920	$6,699,310,507
Statement of Net Costs			
Compact – Gross Costs	$533,740,058	($43,655,781)	$490,084,277
Net Cost of Operations	$794,267,415	($43,655,781)	$750,611,635
Statement of Changes in Net Position			
Budgetary Financing Sources – Appropriations Used	$790,382,685	($43,655,781)	$746,726,904
Total Financing Sources	$792,377,466	($43,655,781)	$748,721,686
Net Cost of Operations	($794,267,415)	($43,655,781)	($750,611,635)
Corrections of Errors	(39)	$18,157,140	$18,157,101
Unexpended Appropriations – Beginning Balance, as adjusted	$6,548,610,151	$18,157,140	$6,566,767,290
Budgetary Financing Sources – Appropriations Used	($790,382,685)	$43,655,781	($746,726,904)
Total Budgetary Financing Resources	$83,938,315	$43,655,781	$127,594,096
Total Unexpended Appropriations	$6,632,548,466	$61,812,920	$6,694,361,386
Net Position	$6,637,497,587	$61,812,920	$6,699,310,507

Note 11—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.

Exhibit 19: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		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**

"No one nation can do everything everywhere and still do it well. To meet our goals, we must be more selective and focus our efforts where we have the best partners and where we can have the greatest impact. And just as this work cannot be done by any one government, it cannot be the work of governments alone. Indeed, foundations, the private sector and NGOs are making historic commitments that have redefined what's possible."

— PRESIDENT BARACK OBAMA,
September 22, 2010, U.S. Global Development Policy

"Let's move beyond the old, narrow debate over how much money we're spending and let's instead focus on results—whether we're actually making improvements in people's lives."

— PRESIDENT BARACK OBAMA,
September 22, 2010, U.S. Global Development Policy

"The United States will focus our development efforts on countries… that promote good governance and democracy; the rule of law and equal administration of justice; transparent institutions, with strong civil societies; and respect for human rights."

— PRESIDENT BARACK OBAMA,
September 22, 2010, U.S. Global Development Policy

“We’ll insist on more responsibility—from ourselves and others… Guided by the evidence, we’ll invest in programs that work and end those that don’t. Because we need to be big-hearted and hard-headed.“

— PRESIDENT BARACK OBAMA,
September 22, 2010, U.S. Global Development Policy

“…Countries are more likely to prosper when they tap the talents of all their people. That’s why we’re investing in the health, education and rights of women, and working to empower the next generation of women entrepreneurs and leaders. Because when mothers and daughters have access to opportunity, economies grow and governance improves.”

— PRESIDENT BARACK OBAMA,
September 22, 2010, U.S. Global Development Policy

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