Millennium Challenge Corporation

United States of America

Making a Difference

2008 Annual Report

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in **Ghana**. Rural credit assistance to farmers in **Armenia**.
Bridge construction in **Cape Verde**. Standardize land tenu
ure policies in **Nicaragua**. Water supply and sanitation in
mprovements in **Georgia**. Improve solid waste disposal in
n **Mali**. Construct fish landing sites in **Morocco**. Execute a
pilot wetlands restoration in **Lesotho**. Improve coconut p
producers' products in **Mozambique**. Introduce a long-ter
rangeland leasing system in **Mongolia**. Expand the capac
a water treatment plant in **Tanzania**. Strategic road maint
ntenance planning in **Armenia**. Modernize national interba
bank payment system in **Madagascar**. Road improvement
farmer access to credit in **Honduras**. Improve credit infor
ormation bureau in **Benin**. Services to efficiently perform
contracts in **Vanuatu**. Construct a blood transfusion cent
Millennium Challenge Corporation. Reducing poverty thr

Making a Difference

2008 Annual Report

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

This document is produced in accordance with Section 613 of the Millennium Challenge Act of 2003, codified at 22 U.S.C. §§7701, 7707 (a).

Every effort has been made to produce this document in a cost-efficient, user- and environmentally-friendly manner based on industry best practices and government printing protocols.

The paper used to print this document includes a minimum of between 10 percent (cover paper) and 30 percent (interior paper) postconsumer fiber as mandated by the U.S. Congress Joint Committee on Printing.

To reduce costs, waste and environmental impact, this document is made available on MCC's website at *http://www.mcc.gov/annualreport*.

Contents

Executive Summary

Cristiane Ratsia Anne Marie, a mother of three, is growing her business, increasing her income, and standing on her own with access to new microcredit loans provided with the help of Madagascar's Millennium Challenge Corporation (MCC) compact. With her first loan already repaid, she moved to her second and is planning to open a clothing store. Onion grower ***Jorge Anibal Flores*** is achieving higher yields, lower unit costs, and increased income because of the direct technical assistance he is receiving through Honduras's compact with MCC. Nearby, fellow Honduran and single mother ***Modesta Rodriguez*** struggles to support her family by washing and ironing in a makeshift home along the CA-5 North Highway. Under the country's comprehensive resettlement plan associated with the expansion of this major thoroughfare, drawn up with assistance and financing from MCC, Modesta accepted in-kind compensation so she can move from the side of the highway to safer housing with significantly improved living conditions.

Cristiane, Jorge, and ***Modesta*** are just three of the millions of people who will experience a meaningful, tangible difference in their lives because MCC is delivering U.S. Government development assistance in an innovative, demanding, and unprecedented way. By incorporating the innovation and patience necessary for long-term sustainable development, MCC's approach has taken root and is bearing results. From farmers in Nicaragua investing in their farms' productivity because they now have secure land titles, to children and young adults in Burkina Faso, Ghana, and El Salvador attending school—from business owners and residents in Georgia tapping into a reliable energy source thanks to an upgraded gas pipeline, to women in Madagascar using microloans to grow their small businesses—MCC is stimulating growth and reducing poverty by partnering with poor countries committed to change.

The ***2008 Annual Report***—covering the period from October 1, 2007 to September 30, 2008—explains what makes MCC's partnerships so different and outlines our early successes.

MCC's commitment to making a difference in the lives of the poor resulted in ***MCC compacts with 18 countries in Africa, Central America, Eurasia, and the Pacific*** totaling over $6.3 billion and ***MCC threshold programs in 19 countries worldwide,*** including MCC's first Stage II, or second, threshold program, totaling an additional $440 million. The aggressive implementation of these compacts and threshold programs is bringing new economic opportunities, raising standards of living, and creating a more prosperous future for the world's poorest citizens.

Message from Secretary of State Condoleezza Rice Chair of the Board

At the signing ceremony of Burkina Faso's $481 million Millennium Challenge compact on July 14, 2008, I concluded my remarks by recognizing that ***the future of the Millennium Challenge Corporation is bright.***

MCC's future is bright because of the real results emerging from MCC compacts and threshold programs. MCC has worked with partner countries that span the globe to design programs which tackle barriers to sustainable development specifically identified by partners. As of the end of fiscal year 2008, MCC will have committed over $6.7 billion to these programs to fulfill MCC's mission of poverty reduction through sustainable economic growth. Also, MCC's future is bright because of its innovative vision for foreign assistance, a vision that sees that aid can be more effective when it is provided to countries that govern justly, invest in their people, and foster economic freedom. Finally, MCC's future is bright because of the excellence of MCC's leadership and staff, who work in close partnership with countries worldwide to replace poverty with prosperity.

MCC's innovative approach to foreign assistance has revolutionized the way we promote development. This approach grew out of the United States' commitment at the 2002 *Monterrey Summit on Financing for Development*, where President Bush called for a "new compact for global development," linking greater contributions from developed nations to greater responsibility from developing nations. By encouraging partner countries to shoulder deeper responsibility for their own development, MCC helps these countries secure their futures, and ensures their ongoing commitment to political, economic, and social reform.

With continued support from Congress, the next administration, and the development community, I am confident of MCC's bright future and the transformational difference MCC will continue to make in the lives of the world's poorest. MCC is one of the best examples of America's positive international engagement, forging partnerships for progress that make a difference in the fight against global poverty.

Condoleezza Rice
Chair

Message from Ambassador John J. Danilovich Chief Executive Officer

Over four short years, the Millennium Challenge Corporation's investments in some of the world's poorest countries are yielding impressive results. In addition to documenting these early outcomes, our *2008 Annual Report* offers some perspective on the scope of MCC's contributions to the effective and innovative delivery of U.S. development assistance.

In 2008, through MCC investments, upgrades were completed on Georgia's gas pipeline to provide a reliable energy source for businesses and homes, roads were constructed in Cape Verde that integrate markets and reduce transportation costs, and women received assistance to grow small businesses in Madagascar. MCC compacts supported programs to distribute land titles in Nicaragua, to train farmers in Armenia on improving agricultural productivity, to rehabilitate elementary schools in Ghana, and to fund scholarships in El Salvador so students can attend college.

These are just a few of the unfolding results that we have seen in the past year. Proving that MCC is no longer a mere concept, these results on the ground demonstrate constructive and tangible effects on the lives of the world's poor. Alongside our growing portfolio of country partnerships, they confirm that MCC is successfully delivering development assistance and making a positive difference worldwide. Indeed, MCC's expectation that country partners commit to sound development policies and build country capacity to support their own sustainable results has not only motivated good governance and reforms, but also opened the door to new expectations in country empowerment.

MCC looks forward to continued cooperation with Congress, fellow U.S. Government agencies, nongovernmental organizations, the private sector, and friends and experts throughout the international development community to contribute even more constructively to helping partner countries lift themselves out of poverty and onto the path of opportunity and prosperity.

John J. Danilovich
Chief Executive Officer

Section 1: Expectations That Make a Difference

The MCC difference defined by our mission…

Reducing poverty through growth

The Millennium Challenge Corporation is an effective resource in America's toolbox of development assistance, charged with the singular mission of ***reducing poverty through sustainable economic growth.*** To do this, MCC expects more from ourselves, our partners, and the assistance we deliver.

Different expectations for ourselves

★ MCC delivers development assistance in a unique and demanding way that is changing not only the conversation about U.S. foreign assistance but also the practice of how to make aid most effective.

★ MCC's model demands the new realization that development occurs not just from the completion of a program but from a partner country's leadership of it.

★ MCC incorporates over half a century of best practices in development, challenging countries to practice sound policies and build their capacity to lead their development.

Different expectations for our partners

★ MCC raises expectations by partnering with those poor countries committed to good governance, to stamping out corruption, to investing in the health and education of their citizens, and to economic freedom.

★ MCC changes the expectations, supporting countries that are championing *their* development efforts with MCC funds, based on *their* homegrown solutions in extensive consultation with *their* citizens.

★ MCC expects countries to deliver tangible results that will make a difference in the lives of the poor.

Different expectations for our assistance

★ MCC boosts conditions for trade, investment, and entrepreneurship that fuel the private sector's ingenuity as the ultimate engine of growth.

★ MCC supports America's security and foreign policy objectives by working toward a safer and more prosperous world, where pockets of poverty do not become breeding grounds for extremism.

★ MCC's "smart aid" approach is one of the best examples of America's "smart power" strategy for global engagement.

The MCC difference defined by our programs...

Compacts in Signing Order (as of the end of fiscal year 2008)

Compact with	Grant Amount (in millions)	Entry Into Force on
1. Madagascar	$109.8	July 27, 2005
2. Honduras	$215.0	September 29, 2005
3. Cape Verde	$110.0	October 17, 2005
4. Nicaragua	$175.1	May 26, 2006
5. Georgia	$295.3	April 7, 2006
6. Benin	$307.3	October 6, 2006
7. Vanuatu	$65.7	April 28, 2006
8. Armenia	$235.7	September 29, 2006
9. Ghana	$547.0	February 16, 2007
10. Mali	$460.8	September 17, 2007
11. El Salvador	$461.0	September 20, 2007
12. Mozambique	$506.9	September 22, 2008
13. Lesotho	$362.6	September 17, 2008
14. Morocco	$697.5	September 15, 2008
15. Mongolia	$284.9	September 17, 2008
16. Tanzania	$698.0	September 15, 2008
17. Burkina Faso	$480.9	*Entry into Force projected for 4th quarter of fiscal year 2009*
18. Namibia	$304.5	*Entry into Force projected for 4th quarter of fiscal year 2009*

Compact
A compact is a multi-year grant agreement between MCC and an eligible country to fund specific programs aimed at reducing poverty and stimulating economic growth. It is a mutual promise between the U.S. government and a partner country, each with specific responsibilities to fulfill.

Entry Into Force
After compact signing, entry into force is the point at which funds are obligated and the implementation of compact programs commences.

Threshold Programs in Signing Order

Threshold Program with	Grant Amount (in millions)	Signed on
1. Burkina Faso	$12.9	July 22, 2005
2. Malawi	$20.9	September 23, 2005
3. Albania	$13.9	April 3, 2006
4. Tanzania	$11.2	May 3, 2006
5. Paraguay*	$34.6	May 8, 2006
6. Zambia	$22.7	May 22, 2006
7. Philippines	$20.7	July 26, 2006
8. Jordan	$25.0	October 17, 2006
9. Indonesia	$55.0	November 17, 2006
10. Ukraine	$45.0	December 4, 2006
11. Moldova	$24.7	December 15, 2006
12. Kenya	$12.7	March 23, 2007
13. Uganda	$10.4	March 29, 2007
14. Guyana	$6.7	August 23, 2007
15. São Tomé and Príncipe	$8.7	November 9, 2007
16. Kyrgyz Republic	$16.0	March 14, 2008
17. Niger	$23.0	March 17, 2008
18. Peru	$35.6	June 10, 2008
19. Rwanda	$24.7	September 24, 2008
20. Albania: *Stage II*	$15.7	September 29, 2008

* On the horizon

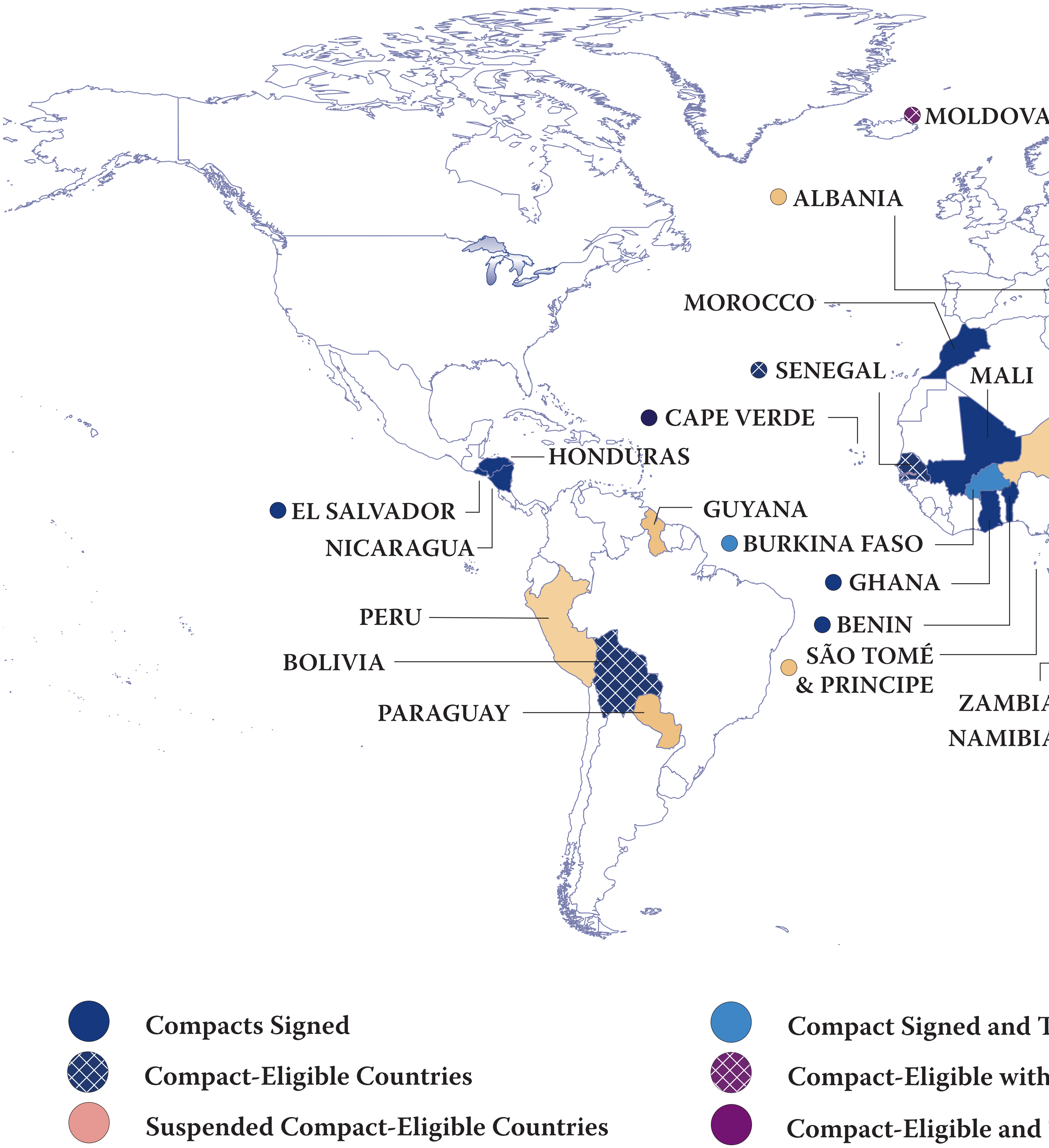
MCC received a *Stage II* threshold program proposal from Paraguay on September 30, 2008.

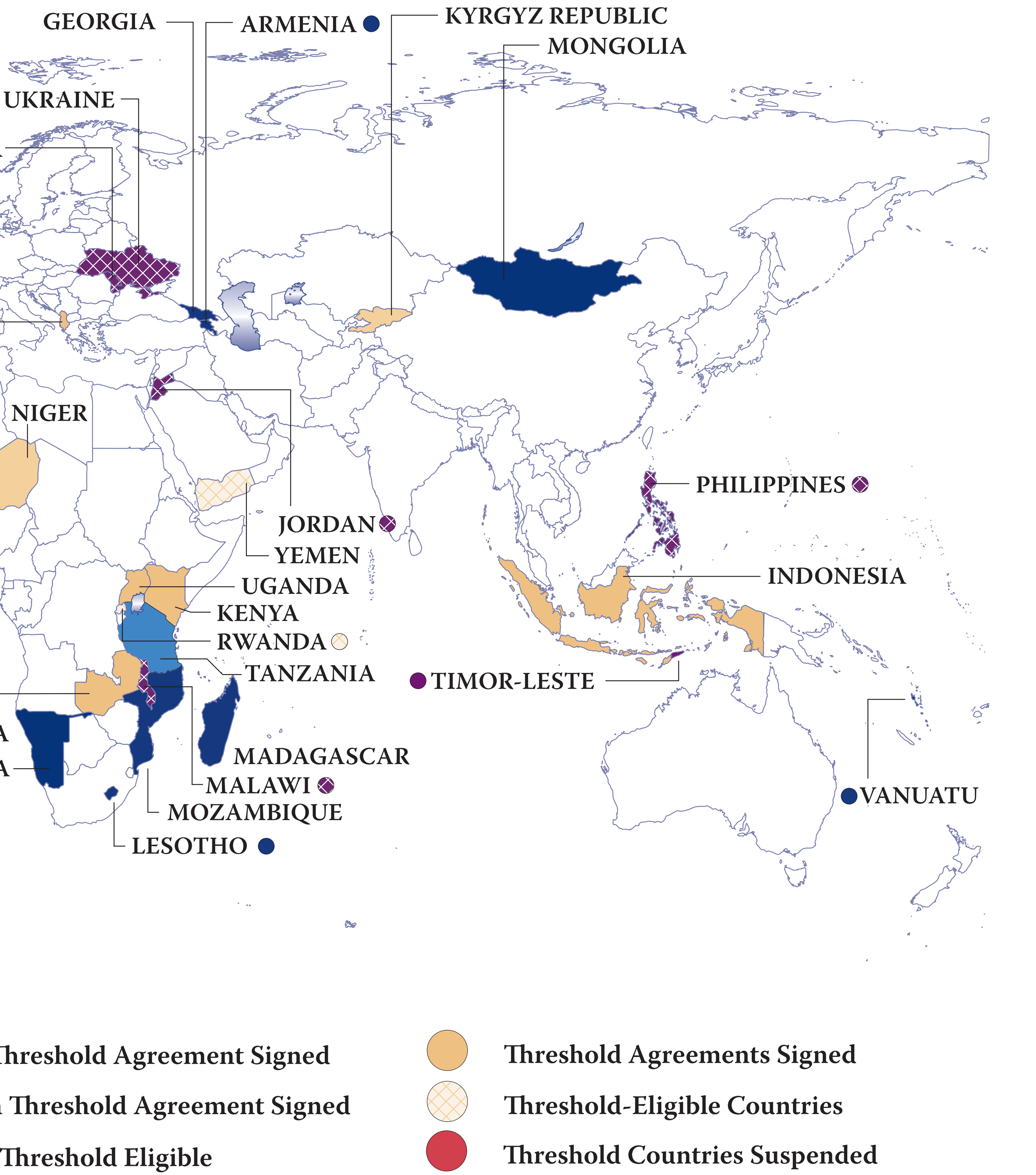
Threshold Program

A threshold program is designed to assist countries that are on the "threshold," meaning they have not yet qualified for compact funding, but demonstrate significant commitment to improving their performance on the eligibility criteria for full compact funding. Threshold programs are two to three years in duration.

A Stage II, or second, threshold program is designed for countries whose threshold programs are ending, but they (1) have yet to meet the compact eligibility criteria, (2) have successfully implemented their current threshold program, and (3) continue to pursue a policy reform agenda.

Map of Compact and Threshold Program Countries




GEORGIA
ARMENIA
KYRGYZ REPUBLIC
MONGOLIA
UKRAINE
NIGER
PHILIPPINES
JORDAN
YEMEN
INDONESIA
UGANDA
KENYA
RWANDA
TANZANIA
TIMOR-LESTE
MADAGASCAR
MALAWI
VANUATU
MOZAMBIQUE
LESOTHO
hreshold Agreement Signed
Threshold Agreement Signed
Threshold Eligible
Threshold Agreements Signed
Threshold-Eligible Countries
Threshold Countries Suspended

Compacts

Cumulative

Total Number of compacts approved through fiscal year 2008:........18

Total approximate value of compacts approved through fiscal year 2008:........$6.32 billion

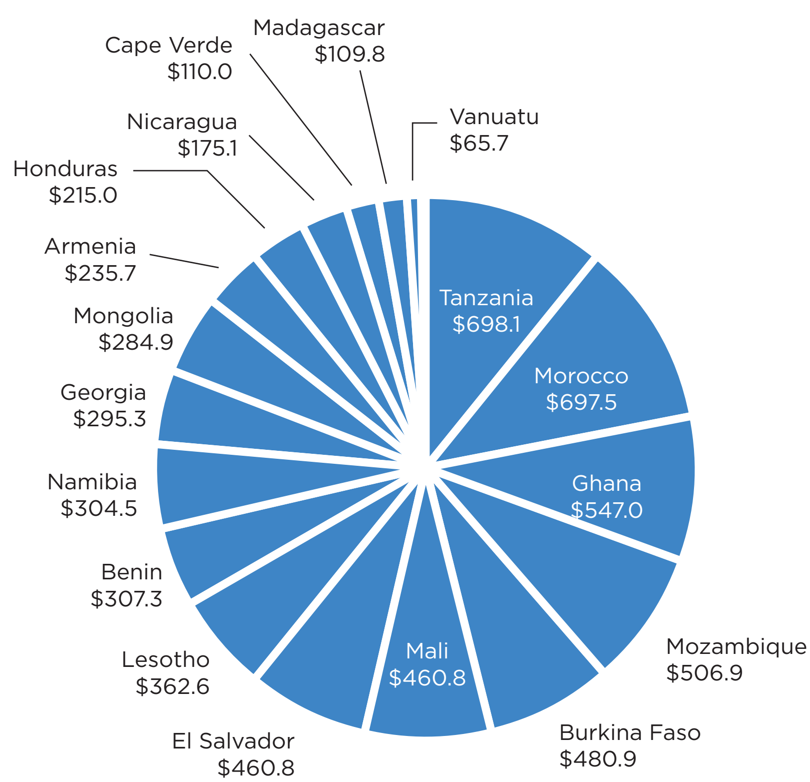
FY 2008

Total Number of compacts approved during fiscal year 2008:........4

Total approximate value of compacts approved during fiscal year 2008:........$1.77 billion

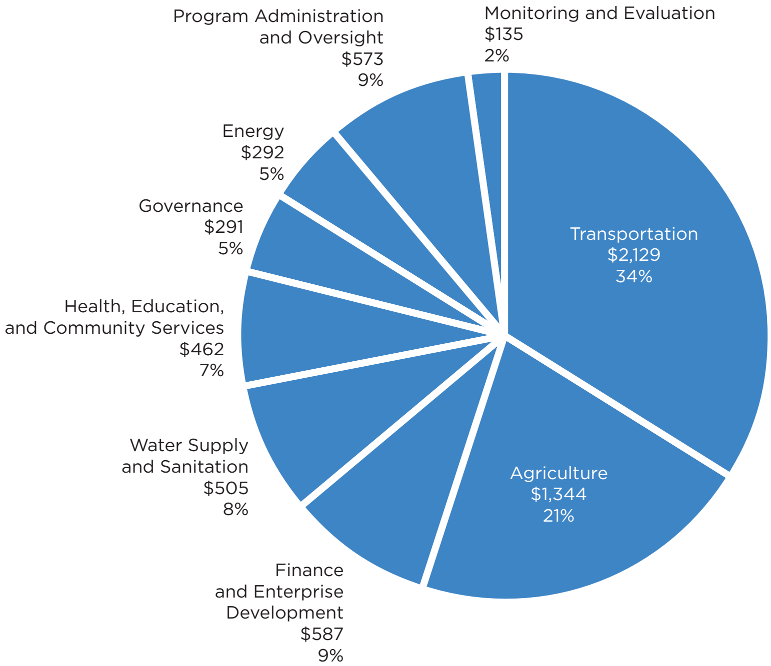
Values of MCC Signed Compacts

Over $6.3 billion, in millions of USD (as of September 30, 2008)



MCC Compact Program Results

Commitments by sector, in millions of USD (as of September 30, 2008), total $6.3 billion



Agriculture

- 55,730 farmers trained
- 750 agribusinesses assisted
- 5,447 hectares under production with MCC support
- $5.85 million in agricultural and rural loans

MCC investments in agriculture aim to increase incomes by creating jobs in the agriculture sector; increasing farmers' capacity, productivity and access to markets; improving access to credit; and strengthening agribusiness.

Data as of September 30, 2008

Property Rights and Land Policy

- 13,852 personnel trained in land registration, surveying, conflict resolution, land use planning, land legislation, land management and/or new technologies
- 25,180 hectares formalized
- 86,122 landholders reached
- 5 legal and regulatory reforms adopted

MCC investments in property rights and land policy aim to facilitate secure, efficient access to land and other real property. They support reforms to reduce transaction costs and improve tenure security and land access, thereby creating an effective property rights system. This, in turn, will catalyze the capitalization of land and immovable property, increasing investment, advancing land use and land productivity, and removing obstacles to land markets.

Irrigation

- $12.1 million, contracts for feasibility and/or design studies
- 78% disbursed, contracted feasibility and/or design studies for canals, pipes, and other water conveyance systems
- $5.5 million, contracts for irrigation system construction
- 41% disbursed, irrigation system works contracts

MCC investments in irrigation include construction and rehabilitation of irrigation systems and watershed management systems. They aim to increase the income and productivity of agricultural producers.

Data as of September 30, 2008

Roads

- $17.5 million, contracts for feasibility and/or design studies
- 69% disbursed, contracted feasibility and/or design studies
- 3,362 kilometers of roads under design
- $371 million, contracts for roads design and/or works
- 805 kilometers of road under works contracts
- 14% disbursed, road works contracts

In transportation projects, roads rehabilitation and construction aim to reduce transport costs, improve access to public transportation and basic services, and facilitate trade. In agriculture projects, roads aim to link producers to markets for their goods, and to inputs for their production. Roads in irrigation projects provide access to, from, and within irrigated areas.

Data as of September 30, 2008

The Compact Portfolio

MCC funds a portfolio of compacts in various stages of implementation by partner countries worldwide. These compacts are reducing poverty, stimulating growth, and making a difference in the lives of the poor by:

- ★ *providing small farmers with land titles in* Benin, Madagascar, *and* Nicaragua, *protecting their property rights and giving them collateral for credit to expand their farming activities or build their small businesses,*
- ★ *delivering a more dependable energy supply to people and businesses in* Georgia,
- ★ *awarding scholarships to students in* El Salvador *to prepare them to participate in the productive economy,*
- ★ *rehabilitating rural schools for young students in* Ghana,
- ★ *improving roads in* Armenia *and* Vanuatu, *giving farmers access to markets for their crops,*
- ★ *creating opportunities through training for farmers in* Mali *and* Honduras, *and*

Scholarship Opportunities

Maria Magdalena Flores Miranda, 19, is the recipient of a pilot program scholarship and is enrolled at the *Escuela Nacional de Agricultura Roberto Quinones*. Maria is one of the first 110 students from El Salvador's Northern Zone to benefit from a scholarship as part of the MCC compact. In all, up to 3,600 deserving youth from low income families will benefit from the competitive scholarship program. Investing in scholarships for these students enhances their earnings and employment opportunities, while contributing to overall economic growth and poverty reduction. In addition to El Salvador, MCC supports educational programs in Burkina Faso, Ghana, Mongolia, Morocco, Niger, and Namibia.

Land Tenure Reforms

Representatives from two villages in Benin show the cards selecting their villages to participate in the rural land tenure program, a component of the country's $307.3 million MCC compact. With secure land tenure rights, the rural poor are more willing to invest in higher yielding crops or use higher-value farming inputs, such as fertilizers. They are able to use their property as collateral to access capital to grow their operations. In these ways, secure tenure helps to increase rural incomes. In addition to Benin, MCC compacts with Madagascar, Nicaragua, Mongolia, Mozambique, Burkina Faso, and Namibia are among those that have components aimed at securing land tenure and strengthening property rights.

- ★ *expanding transparency and efficiency for those working in government ministries through an e-procurement system and improving transportation networks in* Cape Verde.

These compact programs are working to create opportunities that will:

- ★ *expand the rail network in* Mongolia *to create jobs and a more efficient way for businesses to export,*
- ★ *invest in artisan training and productivity in* Morocco,
- ★ *improve health clinics to benefit those living with HIV/AIDS in* Lesotho,
- ★ *bring reliable electricity service to businesses and to the residents of rural communities in* Tanzania,
- ★ *improve water systems in* Mozambique, *so girls and women can attend school and work rather than spend their day fetching water,*
- ★ *strengthen agricultural productivity in* Burkina Faso *to help avert future food price crises, and*
- ★ *improve the management and infrastructure of Etosha National Park in* Namibia *to enhance the vitality of Namibian tourism and attract investments in ecotourism.*

Artisan Training

With average monthly earnings of about $118, artisan workers in Morocco will invest MCC funds in their skills. These artisans will train in production techniques and business management and will have access to bank or micro-credit loans to invest in modern kilns and pottery workshops. They also will take advantage of improvements to Morocco's national training system for literacy and vocational education to benefit artisans and the general population, particularly women and girls.

Transportation Links

Through MCC grant funding, roads have already been paved in Cape Verde, which identified a lack of transportation infrastructure as a major barrier to developing a common national market, decreasing production costs, and facilitating the movement of people and goods between islands. Cape Verde is making strategic investments in roads and small bridges to ensure improved transportation links to social services, employment opportunities, local markets, ports, and airports. For these same reasons, many MCC partner countries include infrastructure upgrades as part of their compacts.

MCC Threshold Programs

For countries that demonstrate a significant commitment to meeting the eligibility criteria but fall short on some indicators, MCC turns to a **threshold program**. This program provides further incentive for policy reform, assisting countries become compact eligible by helping them address specific areas of policy weakness identified in the 17 selection indicators. Up to ten percent of MCC's appropriation may be spent on the threshold program.

★ **Four** countries—***Albania, Burkina Faso, Malawi,*** and ***Tanzania***—are scheduled to complete their threshold programs in 2008, resulting in significant improvements to increase government transparency, efficiency, and investments in people.

★ To date, **eight** threshold-eligible countries—including ***Burkina Faso, Jordan, Malawi, Moldova, Philippines,*** and ***Tanzania***—have been selected subsequently as compact-eligible due to improvements in their policy performance track records.

USAID'S Role in MCC's Threshold Program

The United States Agency for International Development serves as the lead administrator in 19 of MCC's 20 current threshold programs and contributes significantly to the success of MCC's threshold program.

Threshold Program Successes

★ ***Albania*** has made significant reforms to improve government administration. Through its MCC-supported electronic tax filing system, approximately 3,100 e-filed declarations were submitted between April and June 2008, compared with 90 between November and December 2007. Nearly 50,000 tax forms were downloaded by the end of June 2008 via the Internet, compared with 1,400 in January.

★ ***Indonesia's*** national immunization coverage has increased from 71 to 78 percent according to 2007-2008 survey data. MCC's support has helped nearly three million children under the age of one receive measles and DPT3 vaccines in threshold program-supported provinces.

★ ***Paraguay's*** Supreme Court has increased efficiencies with the support of the MCC threshold program. Cases now require an average of two and a half months for processing compared to an average of ten months before the threshold program began.

★ ***Tanzania's*** threshold program has audited procurement practices in 20 key ministries and departments. By uncovering non-compliance with procurement laws, the threshold program-funded Prevention and Combating of Corruption Bureau opened 36 new cases and obtained nine convictions on previous cases between April and June 2008.

★ In ***Zambia***, programmatic targets have been reached or surpassed in the number of days required to register a business (decrease from 10 days to one day), to register a property sale (decrease from 70 days to 35 days), to start a business (decrease from 35 days to 18 days), to export goods (decrease from 60 days to 30 days), and to import goods (decrease from 62 days to 31 days).

★ In ***Burkina Faso***, nearly 16,700 Burkinabe students—55 percent of whom are girls—are enjoying well-ventilated classrooms, access to potable water and new latrines, desks, school manuals, canteens, and take-home rations.

★ Through ***Jordan's*** threshold program, upgrades to the automated customs clearance system at King Hussein Bridge and Cyber City

in Irbid are complete. Through September 2008, this program has supported the upgrade at 10 of the 14 target customs centers.

For more information: Appendix B
Visit Appendix B for more information on the uses of all funds appropriated to MCC for fiscal year 2008.

Threshold Programs (including Stage II)

Cumulative

Total Number of threshold programs (including Stage II) approved through fiscal year 2008: 19

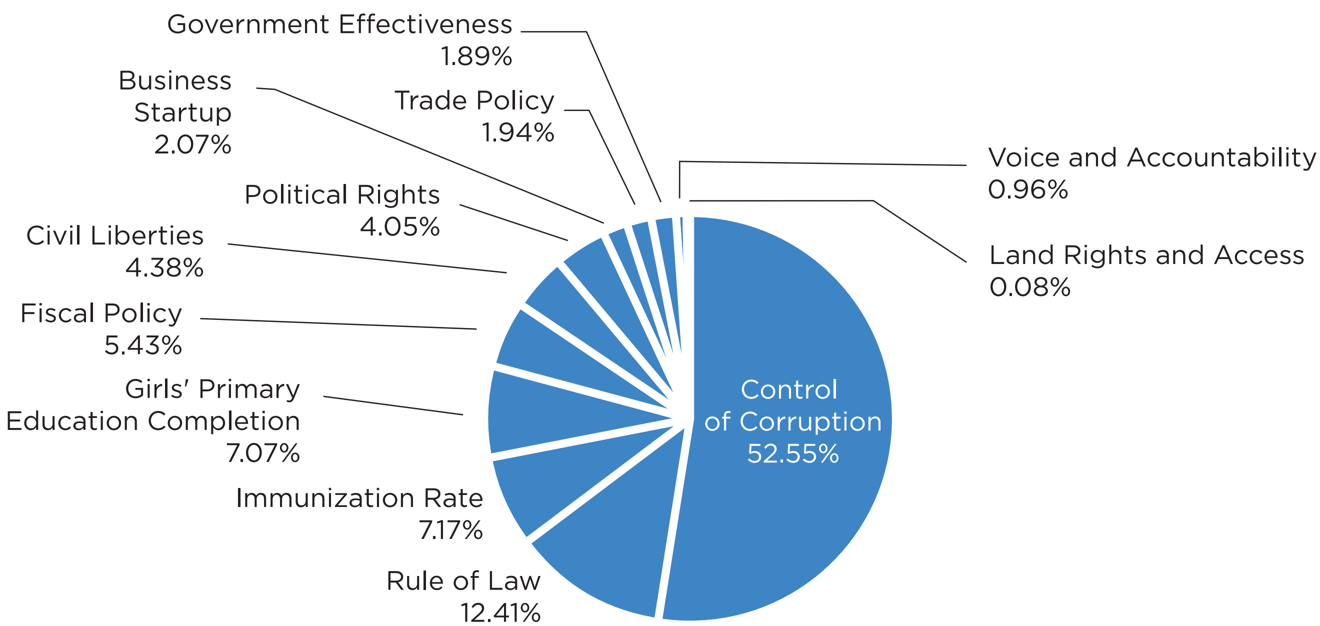
Total approximate value of threshold programs approved through fiscal year 2008: .... $440 million

FY 2008

Total Number of threshold programs (including Stage II) approved during fiscal year 2008: 6

Total approximate value of threshold programs approved during fiscal year 2008: .... $124 million

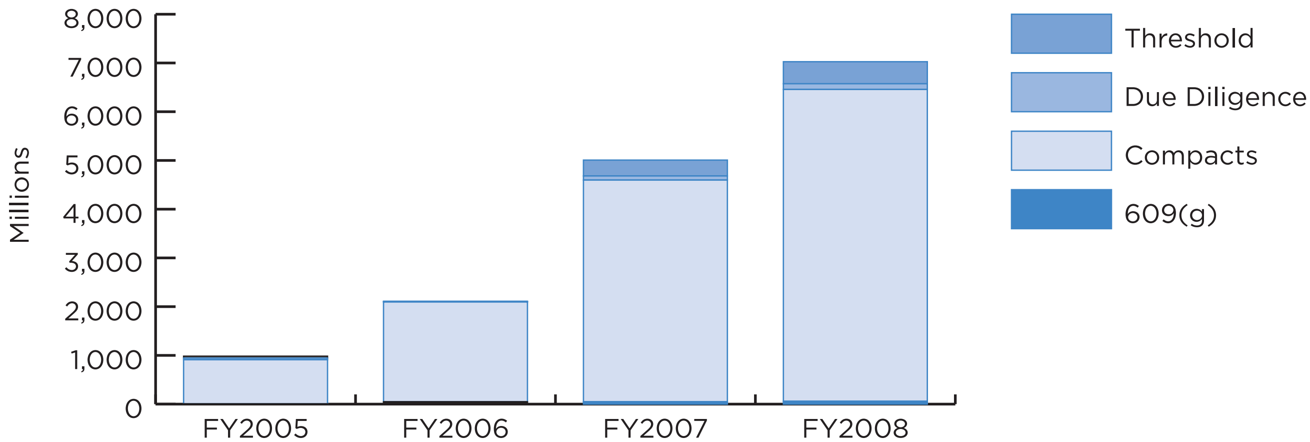
MCC Threshold Programs—All Countries
The following chart captures the indicators central to MCC's threshold programs during fiscal year 2008 as a percentage of total threshold funding. As of September 30, 2008



Financial Highlights

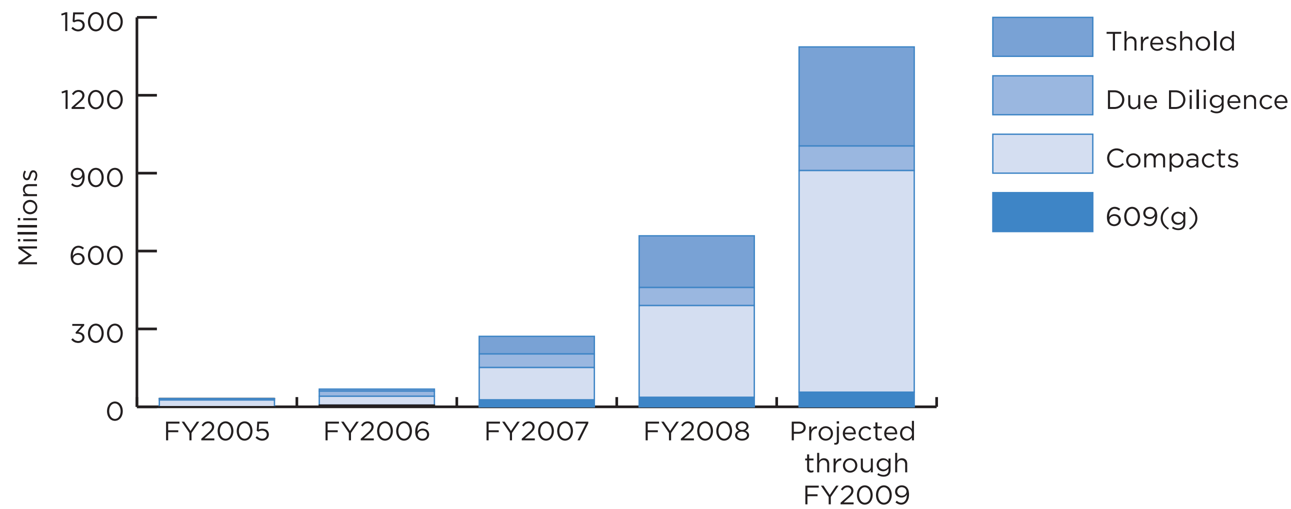
Total Cumulative Commitments by Program

As of September 30, 2008

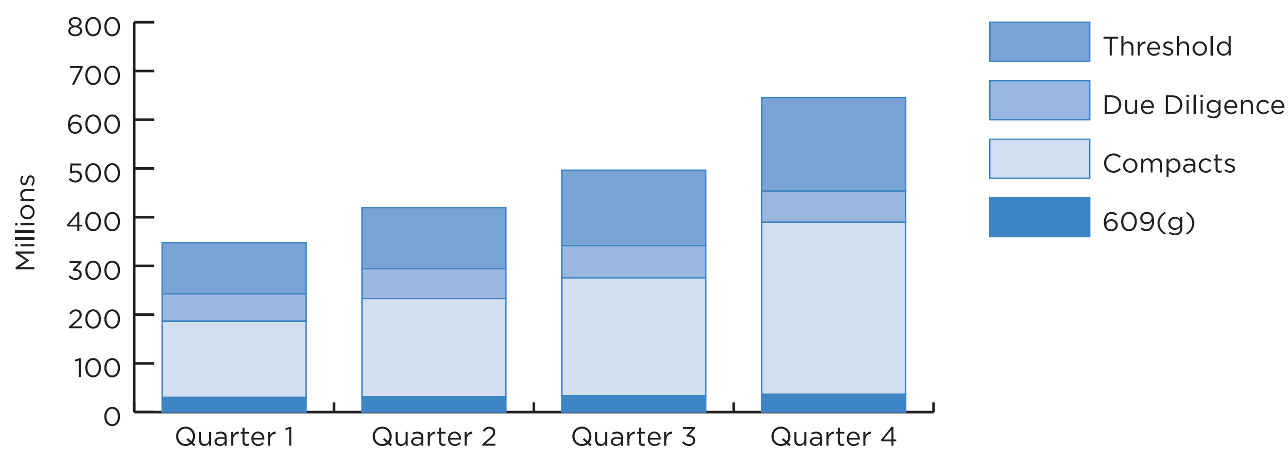


Total MCC Cumulative Program Disbursements

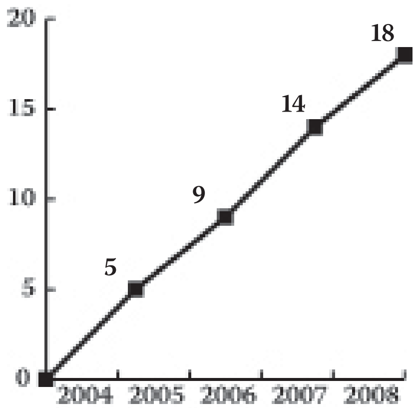
As of September 30, 2008



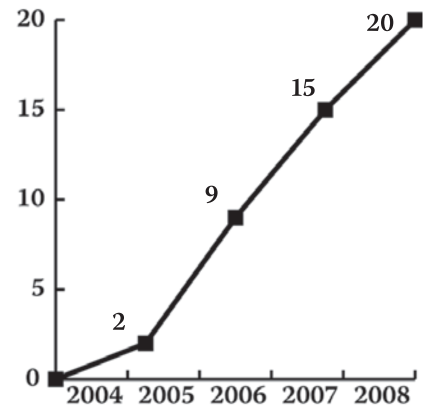
Cumulative Quarterly Program Disbursements, Fiscal Year 2008



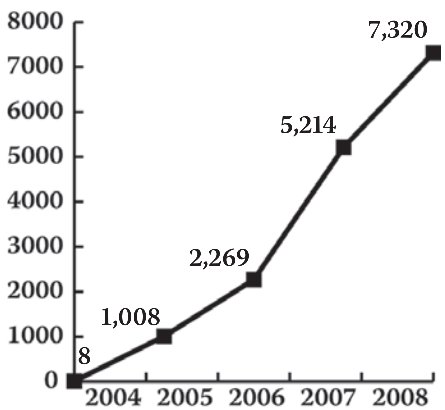
Cumulative Number of Compacts Signed



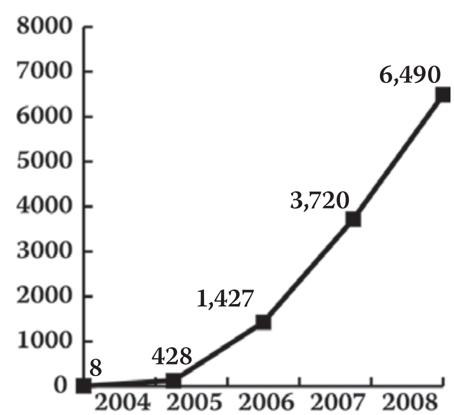
Cumulative Number of Thresholds Signed



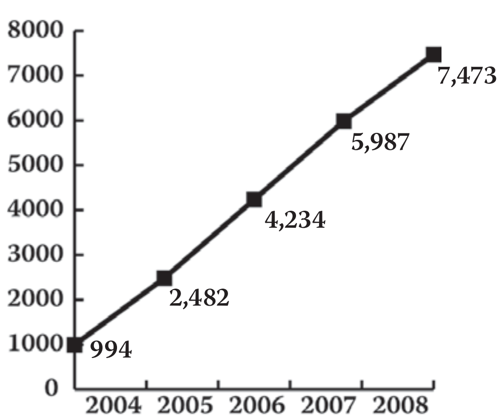
MCC Cumulative Commitments *(in $millions)*



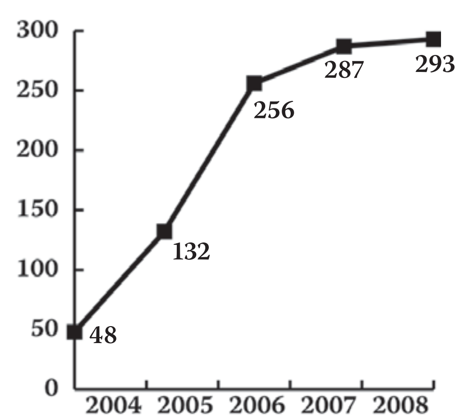
MCC Cumulative Obligations *(in $millions)*



MCC Cumulative Appropriations *(in $millions)*



Total Number of MCC Staff



The MCC difference defined by our leadership....

MCC's Board of Directors

MCC is managed by a Chief Executive Officer and is overseen by 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 CEO, and four individuals from the private sector appointed by the President with the advice and consent of the U.S. Senate. One of MCC's hallmark differences is the private sector component of our Board and the valuable insights and expertise these members contribute to fulfilling our mission. The private sector members are:

Lorne W. Craner
President, International

Republican Institute

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

Kenneth Hackett
President,

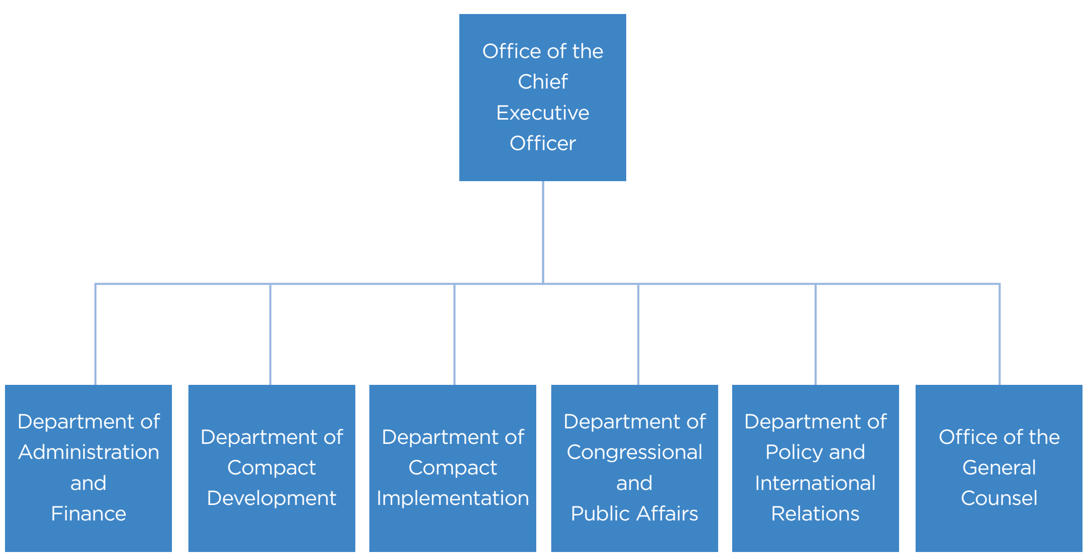
Catholic Relief Services

Alan J. Patricof
Founder and Managing

Director, Greycroft, LLC

MCC's Senior Management

With less than 300 employees at headquarters and an extremely limited global imprint of just two U.S. employees (a resident country director and a deputy resident country director) in each partner country, MCC is designed to be a nimble organization that can respond with speed, creativity, and ingenuity.



Section 2: A Different Model

The Millennium Challenge Corporation awards grants—not loans—to partner countries through an innovative process built upon four fundamental principles that are essential for the effective and efficient use of development assistance—***good policy performance, country ownership, country responsibility,*** and ***tangible results.*** These principles drive the process of country selection as well as compact development and implementation.

Spotlighting Selection

Performance-based selection

Core to the MCC model is the use of 17 independent policy indicators to evaluate a country's performance in three categories—*ruling justly, investing in people,* and *encouraging economic freedom.* MCC's Board of Directors considers the policy performance scorecard, produced annually to assess a country's performance in these three areas, together with other information that compensates for data lags, to determine whether a country is eligible to apply for MCC assistance.

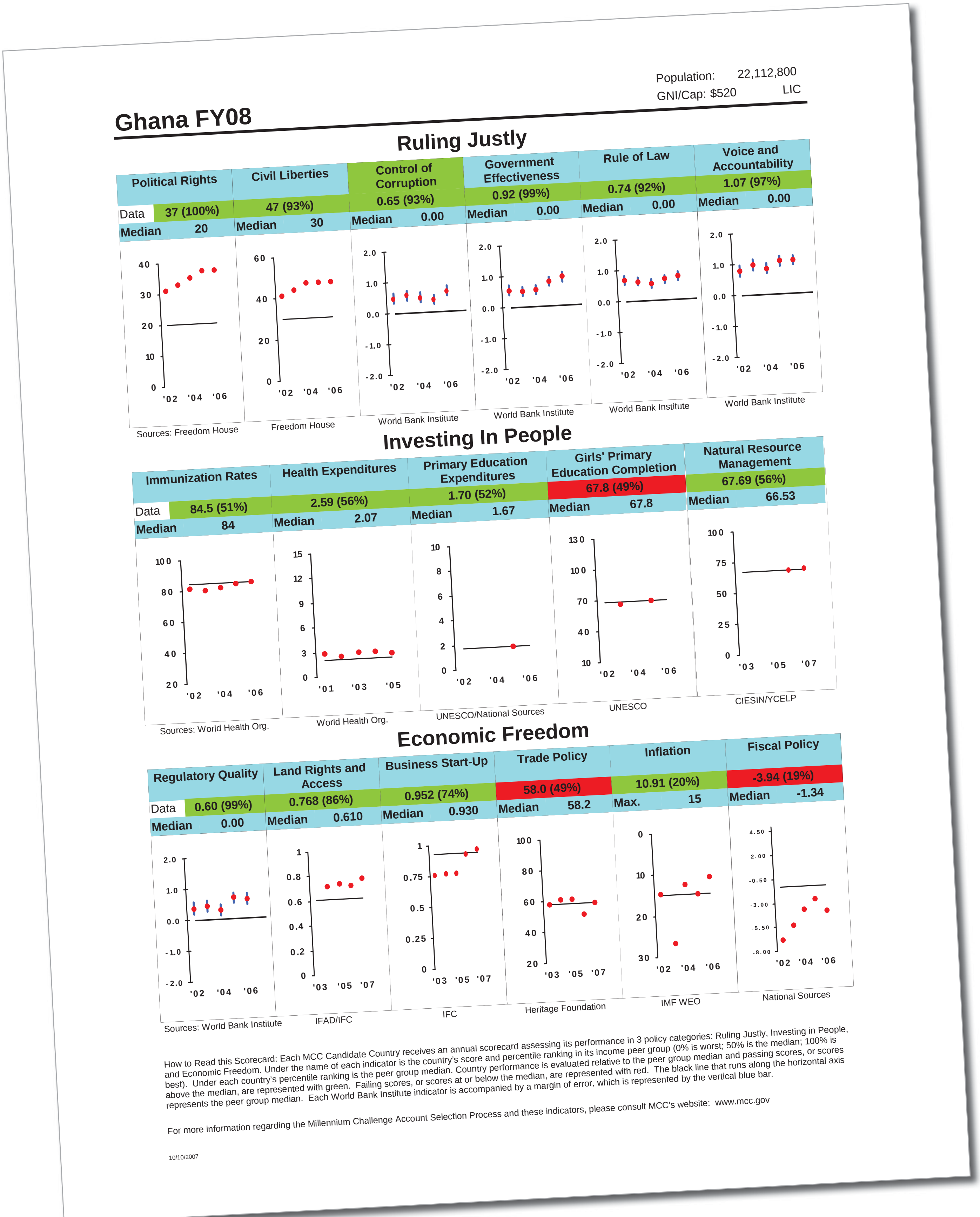
For more information about MCC's selection process, visit www.mcc.gov.

Selection
What makes MCC different is our use of a policy performance-based selection process to determine our partner countries.

Development
Once countries are selected to participate in the full MCC program, they are invited to engage in a consultative process with their civil societies to determine how best to overcome their constraints to poverty reduction and economic growth. Furthering country ownership, countries are responsible for developing a proposal for funding—a compact—to address their development priorities.

Implementation
Once a partner country's compact proposal is fully vetted for quality and viability, the country also is responsible for implementing its compact programs, maintaining policy performance, and achieving program results.

RESULTS



Population: 22,112,800
GNI/Cap: $520 LIC

Ghana FY08

Ruling Justly

	Political Rights	Civil Liberties	Control of Corruption	Government Effectiveness	Rule of Law	Voice and Accountability
Data	37 (100%)	47 (93%)	0.65 (93%)	0.92 (99%)	0.74 (92%)	1.07 (97%)
Median	20	30	0.00	0.00	0.00	0.00
Sources	Freedom House	Freedom House	World Bank Institute	World Bank Institute	World Bank Institute	World Bank Institute

Investing In People

	Immunization Rates	Health Expenditures	Primary Education Expenditures	Girls' Primary Education Completion	Natural Resource Management
Data	84.5 (51%)	2.59 (56%)	1.70 (52%)	67.8 (49%)	67.69 (56%)
Median	84	2.07	1.67	67.8	66.53
Sources	World Health Org.	World Health Org.	UNESCO/National Sources	UNESCO	CIESIN/YCELP

Economic Freedom

	Regulatory Quality	Land Rights and Access	Business Start-Up	Trade Policy	Inflation	Fiscal Policy
Data	0.60 (99%)	0.768 (86%)	0.952 (74%)	58.0 (49%)	10.91 (20%)	-3.94 (19%)
Median	0.00	0.610	0.930	58.2	Max. 15	-1.34
Sources	World Bank Institute	IFAD/IFC	IFC	Heritage Foundation	IMF WEO	National Sources

How to Read this Scorecard: Each MCC Candidate Country receives an annual scorecard assessing its performance in 3 policy categories: Ruling Justly, Investing in People, and Economic Freedom. Under the name of each indicator is the country's score and percentile ranking in its income peer group (0% is worst; 50% is the median; 100% is best). Under each country's percentile ranking is the peer group median. Country performance is evaluated relative to the peer group median and passing scores, or scores above the median, are represented with green. Failing scores, or scores at or below the median, are represented with red. The black line that runs along the horizontal axis represents the peer group median. Each World Bank Institute indicator is accompanied by a margin of error, which is represented by the vertical blue bar.

For more information regarding the Millennium Challenge Account Selection Process and these indicators, please consult MCC's website: www.mcc.gov

10/10/2007

Sample MCC Country Scorecard

Spotlighting Compact Development

Compact Development Process

The proposals developed by countries are their priorities for development. By engaging in a participatory, timely, and meaningful consultative process with the rural and urban poor, women, private and voluntary organizations, the business community, and other donors, countries themselves—not MCC—determine how they would use an MCC grant. Overwhelmingly, countries are applying their MCC funds toward rural development—to increase agricultural productivity and to transport their goods to market through investments in roads, ports, and bridges.

MCC awards grants that promote systemic change and that are based in results-driven partnerships. Building upon our early years of experience, MCC added critical elements to the compact development process during fiscal year 2008, both to strengthen the quality of a country's proposal and to enhance readiness for implementation. These changes include:

★ *Constraints Analysis:* At the beginning of the process, MCC works with the country team to undertake a *constraints analysis* to identify major barriers to economic growth.

★ *Results-focused project design tools:* MCC equips the country team to use *results-focused project design tools* to strengthen its project conceptualization and planning and to facilitate substantive stakeholder engagement and participatory project design in country.

★ *Project concept paper guidance:* To assist countries in submitting focused, well-prepared proposals, MCC provides them with specific *project concept paper guidance*, which also helps improve the dialogue between MCC and our partner countries on the potential benefits, costs, and risks of a proposed investment.

★ *Peer reviews:* MCC conducts internal and external *peer reviews* of these country-developed concept papers to bring to bear best practices and lessons learned in order to strengthen the final compact design.

★ *Two-staged economic analyses:* MCC works with the country team to conduct *two-staged economic analyses*—a preliminary and then a more detailed analysis—to enhance decision-making through an earlier assessment of potential program impact.

★ *Detailed planning and analytical work up-front:* MCC and the country team undertake more *detailed planning and analytical work up-front* during this enhanced compact development process, completing much of the environmental and social assessments, technical feasibility studies, and detailed engineering design studies so as to ensure better cost certainty and reduce implementation risk.

These refinements are giving a significant boost to the compact development process. Investing more time and resources in upstream project definition and design will lead to quicker and more predictable disbursements, and enhance the likelihood of successfully completing a compact on time and within budget.

Economic Rates of Return

As any other investor would, MCC analyzes each program to determine its sustainability and its likely economic impact, as reflected in its economic rate of return (ERR), defined as a comparison of the costs and benefits of a public investment. Estimating the ERR of a proposed project before the investment is made gives MCC a forecast of the project's likely economic impact. In a groundbreaking move for any government agency or donor, MCC made its ERR spreadsheets used in our funding decisions available to the public through our website during fiscal year 2008.

The Making of a Compact

1. Startup and Preliminary Analysis

- ★Country names Point of Contact (POC)
- ★Country establishes Core Team
- ★Country commences Consultative Process
- ★Country completes Constraints and Sector Analyses
- ★MCC provides feedback on Constraints and Sector Analyses
- ★MCC provides guidance and training on Concept Paper development

2. Project Definition

- ★Initial consultative process completed
- ★Country develops and provides Concept Paper for each potential project
- ★MCC reviews Concept Papers
- ★MCC sends mission to country, if necessary, to determine studies needed to develop project(s)
- ★MCC provides formal response to Concept Paper(s)
- ★MCC makes 609(g) funding available if appropriate

Implementation Preparations

3. Project Development and Appraisal

- ★Country further develops projects
- ★MCC disburses 609(g) funding and assists with feasibility studies, environmental impact assessments, framework resettlement plans, preliminary designs, etc.
- ★At an appropriate time, MCC prepares and submits Congressional Notification to commence negotiations
- ★MCC conducts formal appraisal of developed projects, including second peer review
- ★MCC begins to develop Investment Memo

4. Compact Negotiation and Signing

- ★MCC and country conduct Compact negotiations (technical content)
- ★MCC prepares and submits Investment Memo to MCC Investment Committee
- ★MCC and country negotiate Compact documents (legal)
- ★MCC Board approves Compact
- ★Compact signing

Implementation

5. Pre-Entry Into Force Activities

- ★Compact ratification, if necessary
- ★Completion of stand-up of MCA Accountable Entity
- ★Completion of Implementing Entity agreements
- ★Completion of annual budgets and implementation plans
- ★Completion of Terms of Reference and work plans for implementation and procurement
- ★Pre-qualification of consultants and contractors for early procurements

Implementation

- ★Entry into Force occurs
- ★Compact provisions in full force and effect in the country
- ★Accountable Entity is responsible for overseeing implementation of projects
- ★Submission of quarterly progress reports
- ★Disbursements occur
- ★Ongoing public awareness campaigns about Compact progress
- ★Monitoring and evaluation of project impacts

Accountable Entity, Fiscal Agent, Procurement Agent, and Implementing Entities are established and trained.

Spotlighting Implementation

MCA Accountable Entities

While MCC provides technical support and oversight, partner countries principally drive compact implementation, setting up accountable entities, which are responsible for the daily management, operation, coordination, implementation, and monitoring and evaluation of the compact. The accountable entity becomes the central point of contact for MCC, other donors, contractors, consultants, and the country's citizens. The accountable entity develops and is responsible for the implementation of compact activities, including financial plans, procurement plans, the monitoring and evaluation plan, the fiscal accountability plan, work plans, and any audit plan. Existing accountable entities (often referred to as *MCAs*) in partner countries include:

Country	MCA Name	Website
Armenia	MCA-Armenia	http://www.mca.am/new/enversion/index.php
Benin	MCA-Benin	http://www.mcabenin.bj/
Burkina Faso	MCA-Burkina Faso	
Cape Verde	MCA-Cape Verde	http://www.mca.cv/
El Salvador	FOMILENIO	http://www.mca.gob.sv/fomilenio/index.php
Georgia	Millennium Georgia Fund	http://www.mcg.ge/
Ghana	MiDA	http://www.mida.gov.gh/
Honduras	MCA-Honduras	http://www.mcahonduras.hn/
Lesotho	MCA-Lesotho	
Madagascar	MCA-Madagascar	http://www.mcamadagascar.org/
Mali	MCA-Mali	http://www.mcamali.org/
Mongolia	MCA-Mongolia	

Country	MCA Name	Website
Morocco	Agence du Partenariat pour le Progrès	
Mozambique	MCA-Mozambique	
Namibia	MCA-Namibia	
Nicaragua	MCA-Nicaragua	http://www.cuentadelmilenio.org.ni/
Tanzania	MCA-Tanzania	http://www.mca-t.go.tz/
Vanuatu	MCA-Vanuatu	http://www.governmentofvanuatu.gov.vu/mca-vanuatu/Home/tabid/54/Default.aspx

Coordinating with other donors, U.S. agencies, and development partners

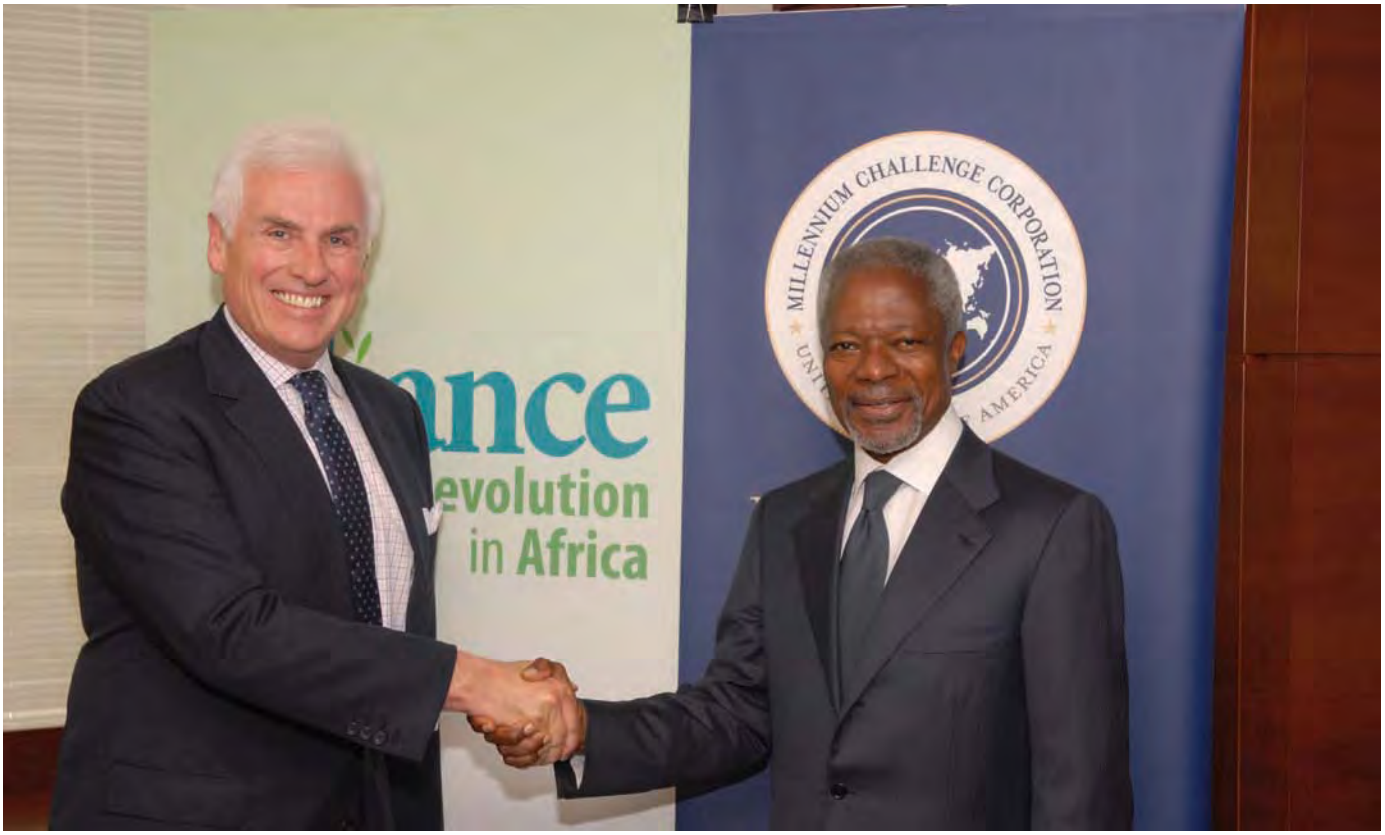
Coordinating with other donors and development actors in partner countries is critical for successful compact development and implementation. Such coordination avoids costly duplications, saves time and money, and better leverages MCC investments to maximize impact. MCC identifies mutually beneficial partnerships with other donors and development actors, and MCC compact activities build upon, complement, and benefit from their work.

★ As part of MCC's compact development process in **Malawi**, the government conducted a joint economic growth diagnostic with the **United Kingdom's Department for International Development, the World Bank,** and the **African Development Bank**.

★ In **Burkina Faso**, MCC consulted with major road sector donors—the **World Bank**, the **European Union**, the **African Development Bank**, the **Arab Bank for Economic Development in Africa**, the **Saudi Fund for Development**, the **Kuwait Fund for Arab Economic Development**, and the **Islamic Development Bank**—to connect MCC's road activities with those of other donors.

★ MCC coordinates with the **U.S. Trade and Development Agency** (USTDA) in multiple countries. In **Ghana**, MCC/USTDA assistance is being coordinated in transportation infrastructure, where USTDA is funding a master plan to modernize the port of Tema, where MCC's upgrade of the National Highway connects. In **Morocco**, USTDA awarded a $531,810 grant to the Ministry of Agriculture and Maritime Fishing to support MCC's *Fruit Tree Productivity project*, which includes cold storage infrastructure and facilities to reduce losses in palm date production.

★ In **Tanzania**, MCC is working within the government's five-year *Transport Sector Investment Program* alongside the **World Bank**, the **African Development Bank**, the **European Union**, **Norway**, **Denmark**, and the Netherlands to help Dar es Salaam develop a newly enacted *Roads Act* that nearly doubles funding for road maintenance on the mainland through an increased fuel levy.



MCC CEO Ambassador John Danilovich and former U.N. Secretary General Kofi Annan shake hands after the Alliance for a Green Revolution in Africa (AGRA) MOU signing at MCC on June 11, 2008.

Forging alliances to maximize results

MCC has signed various memoranda of understanding (MOUs) during fiscal year 2008 to leverage the resources of those in the private sector. These MOUs demonstrate MCC's work to augment U.S. taxpayer money, prevent duplication of effort, improve the impact of each project activity, and help our partners attract long-term growth opportunities.

★ *October 22, 2007:* MCC signs a memorandum of understanding with **Microsoft Corporation**, the **U.S. Agency for International Development**, and the **President's Emergency Plan for AIDS Relief** to pursue common development goals.

★ *February 19, 2008:* MCC and the **United Kingdom's Department for International Development** sign a memorandum of understanding to increase on-the-ground cooperation in partner countries—including Ghana, Malawi, Mozambique, Tanzania, and Zambia—in the priority sectors of education, water and sanitation, transportation, and governance.

★ *April 2, 2008:* MCC and **General Electric Company** sign a memorandum of understanding to pursue development goals in partner countries.

★ *May 15, 2008:* MCC and the **Phelps Stokes Fund** sign a memorandum of understanding to promote diversity by expanding and deepening minority involvement in the international arena.

★ *June 11, 2008:* MCC and the **Alliance for a Green Revolution in Africa (AGRA)**, under the leadership of former UN Secretary General Kofi Annan, sign a memorandum of understanding to help African countries improve the productivity and incomes of small-scale farmers and poor rural households.

MCC and Aid Effectiveness

For the development community, 2008 marked an important year for aid effectiveness. Major events like the United Nations Economic and Social Council's Development Cooperation Forum and the Third High-Level Forum on Aid Effectiveness in Accra, Ghana provided opportunities to assess progress made toward greater aid effectiveness. MCC participated actively in these events, together with other donors and partner countries from around the world. In line with the *Paris Declaration on Aid Effectiveness* and aid effectiveness more broadly, MCC's model actually builds upon a number of key aid effectiveness principles. First, **country ownership** is at the heart of aid effectiveness and MCC's approach: we ask partner countries to identify their own constraints to poverty reduction, design their own programs, and implement their own compacts. Second, in line with **aid predictability**, MCC commits all funding up-front at the time of compact signing, so partner countries know exactly how much they can expect to receive over the life of an MCC grant. Third, MCC compact assistance is **untied**, which means procurements are open to international competitive bidding. Finally, through the use of rigorous tools, including economic rate of return analysis and impact evaluation, MCC ensures that both we and our partner countries are focused on delivering **results**.

What others are saying about MCC's different model for development

The Los Angeles Times: "Millennium Challenge is a bold approach to foreign aid, targeted at creating important economy-building infrastructure in poor countries."

Indianapolis Star: "The Millennium Challenge Account...is the kind of smart and strategic foreign aid that can earn back the U.S. public's confidence in our ability to make a meaningful and compassionate response to the world poverty crisis."

Oxfam America: "If the US wants to become a smart development leader, US policy makers should... [r]ecommit to supporting the MCC."

Sheila Herrling, from the Center for Global Development: "...We are a big supporter...always in support of the success of the MCA. It continues to be...the greatest experiment we've had in U.S. foreign assistance since the Marshall Plan. It brings together a lot of the lessons that we've learned over the past 50 years in development effectiveness that countries should be owning and driving and designing and implementing their programs..."

Foreign Policy Advisor to the President of Mongolia: "If I could give a piece of advice to the next U.S. president, it would be to continue with the Millennium Challenge Account...The novelty of the mechanism of assistance is that it is supposed to be based on recipient country ownership so it is the recipient countries who are identifying their primary problems..."

Section 3: Results That Make a Difference

International development must measure results in many ways. The impact of compacts and threshold programs being implemented in partner countries is evidence of MCC's success. Incentives provided through the MCC model also leverage significant changes in policies and procedures that countries institutionalize to ensure the sustainability of this programmatic progress. The marriage of policies and programs creates a strong foundation for poverty reduction and economic growth that can make a difference in the lives of the poor in meaningful ways.

The MCC Effect

The *MCC Effect* captures the powerful incentive MCC provides for poor countries to make reforms *on their own* to qualify for MCC assistance. To date, the most significant impact has been the incentive created for countries to adopt legal, policy, regulatory, and institutional reforms related to the MCC eligibility criteria. In addition to a significant amount of grant funding, MCC eligibility can lead to international recognition and increased private sector investment, which also has encouraged many countries to implement economic, social, and political reforms. MCC has catalogued a long list of examples of the *MCC Effect* in action, including:

- ★ A December 2007 *New York Times* front-page article reported that "**Burkina Faso** has gone to great lengths to meet the agency's good governance standards. ... [The government] has also halved the number of days it takes to start a business, and reduced by a third the cost of registering property." The World Bank similarly notes in its *Doing Business 2008* report that it has observed a significant "MCC Effect" in Burkina Faso.

- ★ The World Bank's 2007 *Celebrating Reform* report hails MCC as a catalyst for reform in **Georgia**. In the last three years, Georgia has catapulted from 112th place to 18th place on the International Finance Corporation's *Ease of Doing Business Index*. They have overhauled tax and customs administration, business and property registration, the courts, and the civil service.

- ★ In response to a late 2006 discussion between MCC and Niger about indicator performance, Niger's government took swift action to reduce the cost of starting a business by almost 60 percent and the time and cost of property registration by a third.

- ★ Nathaniel Heller, the Managing Director of Global Integrity, an independent, nonprofit organization that tracks governance and corruption trends around the world, stated in February 2008 that *"[w]hether people like it or not, countries are, in practice, responding to what has been coined the MCC Effect...and they are undertaking reforms, sometimes some of the tough ones."*

For more information on the MCC Effect, visit *www.mcc.gov/mcceffect* to download a complete report.

> *…it's simply too early to measure the end-of-compact results of income growth and beneficiary impact. But there are certainly sufficient outcome results to demonstrate the effect that the MCC model is having on changing the way U.S. development assistance is viewed by partner countries and on reforming local policies that pave the way for sustained development. Repairing a gas pipeline in Georgia to prevent environmental and safety hazards and prevent the disruption of gas delivery, enhancing transparency of government operations and budgeting in Cape Verde, increasing access to credit by women in Madagascar, raising crop productivity and farmer incomes in Honduras are but a few of the very real results from MCC investments. These kinds of outcomes are the building blocks of long-term, country-owned development that can build a better safer world and ultimately transition countries away from foreign assistance."*
>
> *—Center for Global Development MCA Monitor*
> *July 28, 2008*

Results: Policy Reforms That Make a Difference

By awarding development assistance in a different and demanding way, MCC is a strong catalyst for reform. During fiscal year 2008, partner countries made progress in their policy reforms to fight corruption, deepen democracy, empower women, engage the private sector, and build trade capacity.

Fighting corruption

Because transparency and good governance are essential ingredients for sustainable economic growth, MCC only selects those countries for compact eligibility that pass our *control of corruption* indicator. As a result, countries seeking MCC eligibility—and even those that have already been selected as eligible—are adopting tough anticorruption laws, opening up the public policymaking process to greater scrutiny, and stepping up corruption-related investigations and prosecutions. Specifically, MCC threshold programs are helping reform-minded governments implement aggressive anticorruption programs by cleaning up tax administration, customs administration, public financial management, and business licensing; training investigative journalists, investigators, public prosecutors, and magistrates; providing assistance in the drafting and implementation of anticorruption legislation; strengthening civil society watchdog units and government auditing agencies; and establishing mechanisms for income and asset disclosure.

★ Albania is implementing electronic tax filing to reduce opportunities for corruption. These and other reform efforts are having an impact: the percentage of Albanians who paid a bribe to the tax authorities declined from 46 to 27 percent between 2006 and 2007.

★ With threshold program support, Malawi put into operation an *Integrated Financial Management System*. Malawi's sovereign credit rating was upgraded from CCC+ to B-. A higher rating indicates improved financial transparency and practices, increasing the country's prospects for foreign direct investment

★ Indonesia is using its MCC threshold program to reduce corruption in the judiciary. The number of Indonesians reporting that they had to pay a bribe to receive legal or judicial services declined from 36 percent in 2006 to 16 percent in 2007.

★ Lesotho's Parliament passed the *Money Laundering and Proceeds of Crime Act 2008* in April 2008 that will establish an *Anti-Money Laundering Authority* and a Financial Intelligence Unit, enabling the confiscation of unlawful proceeds from all serious crimes and requiring accountable institutions to take prudent measures to help combat money laundering.

Deepening democracy

MCC deepens democracy by linking aid to policy performance on such indicators of democratic standing as *political rights, civil liberties,* and *voice and accountability*. We encourage a consultative process that works through domestic institutions, and that continues through democratic institutions during the implementation of their compacts.

★ El Salvador, Jordan, Indonesia, Guatemala, Dominican Republic, Philippines, Moldova, and Ukraine have established ministerial commissions or committees to coordinate democratic reforms that are related to MCC eligibility.

★ To ensure transparency and accountability, MCC grant resources appear as a line item in the budgets of our partner countries. In Vanuatu, this triggered new debates about funds for road maintenance and tax procedures. In Georgia, the inclusion of MCA budget data prompted civic actors to examine the MCA budget more closely.

★ In Mali, advisory councils representing direct beneficiaries and comprised of members of the private sector, civil society, and local government met in August 2008 to discuss airport improvements and Alatona irrigation projects. Councils meet periodically to provide their feedback and recommendations to MCA-Mali as part of a collaborative decision-making process and to promote transparency and accountability.

> MCC's commitment to strengthening good governance was captured in a November 2007 research paper, *"MCC and the Long Term Goal of Deepening Democracy,"* unveiled during an event at the Carnegie Endowment for International Peace.
>
> To download the paper, visit *www.mcc.gov*.

Empowering women

As captured in MCC's groundbreaking *Gender Policy*, we are committed to ensuring that gender is considered in all stages of our work with partner countries—from the selection of eligible countries, the development and design of compacts, the assess¬ment and implementation of projects, the monitoring of program results, and the evaluation of program impacts.

★ During Nicaragua's consultative process and throughout implementation, the *Northwest Women's Council* has helped shape the rural business development and land titling projects. The work of MCA-Nicaragua in developing and implementing a gender policy has been recognized by *Women Thrive Worldwide*, a U.S. nongovernmental organization.

Women in Honduras Benefit from MCC Compact

Honduras is using MCC funding to encourage women's participation in agricultural activities with customized technical assistance and training for improving yields, incomes, and market access. Assistance is targeted to women in the agriculture sector because they are traditionally underrepresented and undertrained.

The Progress

- 3,580 women so far have participated in training events, covering subjects from horticulture production, business skills, postharvest handling, and market information.
- Diversifying their crops to include a range of high value fruits and vegetables, women farmers of the program have planted 152 hectares and have generated local and export sales of more than $206,700 as of June 2008.
- The program's women clients have generated 132 full-time equivalent positions for women jobs in their communities, generating an estimated income of $100,000.

The Women Farmers
Iris Sagrario Acosta
Plantain grower, Colón

Iris Sagrario Acosta's husband went to the United States and left her in charge of their farm. Despite having no experience in agriculture, she used the technical assistance she received in basic production practices to turn her farm into a profitable business. She increased her planting area from 3.5 hectares of plantains in 2006 to 8.9 hectares in 2007. Iris's net sales increased in that period from $7,300 to $12,100.

"This has been a great experience, and I enjoy farm activities. I have learned how to select plants, clean filters, and manage a drip irrigation system. I envision a good future, when [the program] is no longer here. I know that it will go well now that I have the skills to carry on."

Norma Dalila Castillo
Flower grower, Santa Cruz de Yojoa, Cortes

Norma Dalila Castillo started with the program in September 2007. She has one hectare of tropical flowers where she implemented the program's recommended production practices. Her net income earned as of March 2008 increased to $2,760.

"…We have implemented new production practices and the results are great. We have improved yields, quality, and shelf-life of our flowers, which we are currently selling in Tegucigalpa, and [are] looking into export markets."

- Compact projects in Benin, Madagascar, Mali, and Mongolia are securing land titles and furthering property rights for women.

- Lesotho ensured that gender equality in economic rights was legally guaranteed before sign¬ing its MCC compact.

- In Ghana, agricultural training for women participants from 600 farmer-based organizations has been tailored to increase the likelihood that they will feel comfortable with adopting new technology.

Engaging the private sector

MCC knows that the true engine of sustainable growth is private sector investment. Our partner countries are reforming in ways that attract not only MCC's attention but also that of the private sector. Private enterprise strengthens supply chain linkages, encourages local entrepreneurs to meet global standards, generates incentives to open markets, and ultimately creates higher-paying jobs. Private sector engagement—from development through implementation—contributes to successful compacts by ensuring that private sector trade and investment follow MCC investments.

- In September, Chiquita Brands began discussions with major pineapple producers in Ghana benefitting from MCC's investment in agriculture productivity regarding potential long-term (12–15 year) fixed price contracts to source pineapple for the European market. Chiquita will build upon MCC's investment in post-harvest infrastructure and cold storage, collaborate on training initiatives, strengthen the existing supply chain, and lower input costs for growers.

- All compact countries are learning about new models of public-private partnership through MCC's private sector toolkit. This toolkit illustrates four global best practices to leverage and sustain compacts: private financing of infrastructure, outsourced management, output-based aid, and social franchise.

- MCC's compact programs in Benin, Cape Verde, El Salvador, Georgia, Ghana, Madagascar, Mali, Morocco, and Namibia contain finance and enterprise development components. Other compact programs focus on farmer training and technical assistance that enhance agriculture's role in increasing incomes and economic growth.

- The *Georgia Regional Development Fund*, created through Georgia's MCC compact to support small businesses outside of Tbilisi, invested $2 million in Bazi, a food cannery, to expand its tomato and apple juice concentrate production. By sourcing the raw materials from farmers in the Gori region, Bazi will drive private sector-led economic activity among enterprising local producers of tomatoes and apples.

Building trade capacity

- For the five MCC compacts that entered into force in fiscal year 2008, over half of their grant funding supports aid-for-trade activities. This builds on efforts in fiscal year 2007, when MCC obligated more aid-for-trade than any other U.S. Government agency.

- Ghana provided an MCC-funded grant to the *Sea-Freight Pineapple Exporters of Ghana* for their member farmers to purchase prefabricated walk-in coolers. This increases the competiveness of Ghana's horticulture by keeping produce fresh longer and allows exporters to attract a better price from European buyers.

- Mongolia's compact will modernize and increase the capacity of the rail sector, which moves 97 percent of the ton-kilometers of freight transport in this landlocked coun-

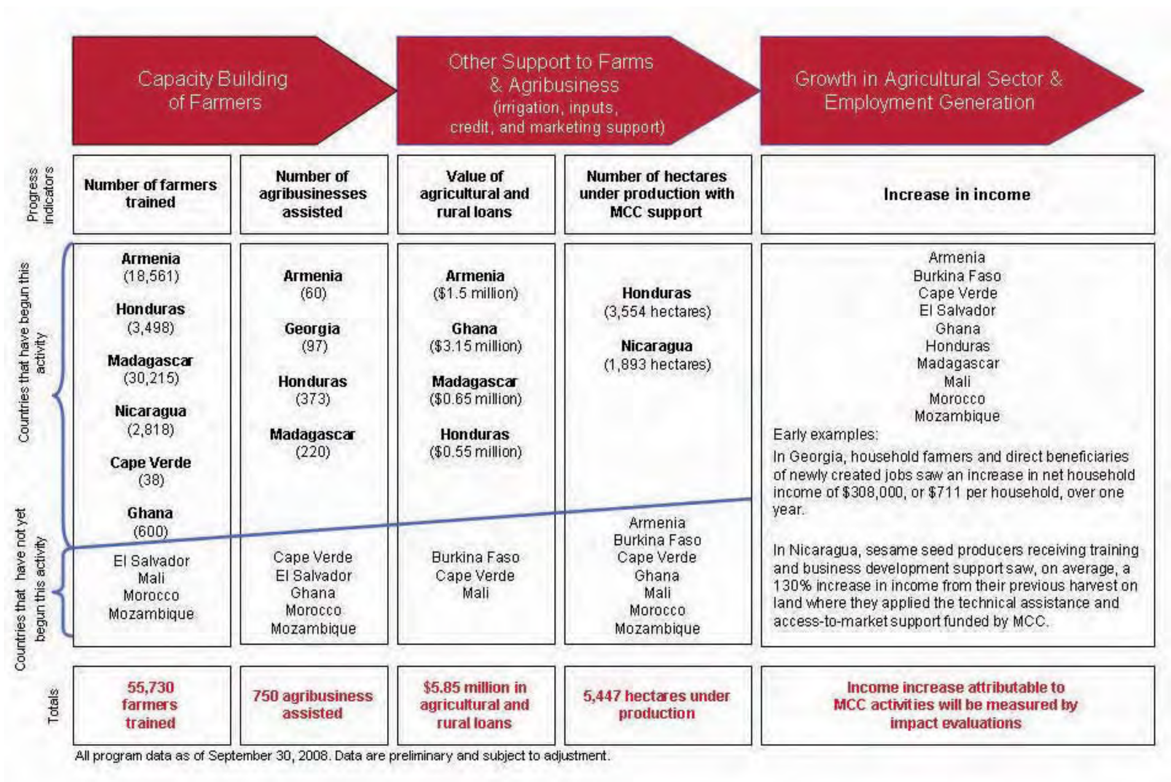
Reuters News Service reported that "MCC's list of eligible countries is closely watched by development groups and investment firms which see it as a confidence vote in governments in the developing world." Major Wall Street banks often cite a country's eligibility for MCC assistance as a signal that it has a good policy framework in place to support economic growth.

try. Increasing transport efficiencies is vital for moving domestic shipments as well as imports and exports.

★ More than 2,300 producers and entrepreneurs in Nicaragua are leveraging the MCC compact to implement business plans to export products such as sesame seeds, cashews, honey, beans, cheese, cassava, and plantains to the United States, Japan, Germany, Honduras, and El Salvador.

★ Benin is using its MCC compact to expand the Port of Cotonou and streamline customs procedures to attract importers and facilitate exporters in the highly competitive West African shipping trade. This will translate into lower priced goods in the Beninese marketplace—helping Benin with preferential trade agreements like the *African Growth and Opportunity Act*—and will position the country as a service provider of choice for inland African countries like Burkina Faso and Niger.

MCC Investments in Agriculture



MCC Investments in Roads

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (12 to 36 months)		Procurement for Construction Contractors (6 to 9 months)		Construction (1 to 3 years)	Expected Outcomes (up to 15 years)
Progress indicators	**Signed contracts for feasibility and/or design studies**	**% of contracted studies disbursed, kilometers (km) of roads under design**	**Signed contracts for roads works**	**Kilometers (km) of roads under works contracts**	**% of contracted roads works disbursed**	
Countries that have begun this activity	**Armenia** ($2.0 M) **Cape Verde*** **Georgia** ($3.7 M) **El Salvador*** **Ghana** ($4.4 M) **Honduras** ($3.5 M) **Mali*** **Nicaragua** ($3.8 M) **Vanuatu****	**Armenia** (80%; 892km) **Cape Verde** (N/A; 63km) **El Salvador** (N/A; 150km) **Georgia** (99%; 253 km) **Ghana** (37%; 1,186 km) **Honduras** (42%; 200 km) **Mali*** (81 km) **Nicaragua** (96%; 384 km) **Vanuatu**** (154 km)	**Armenia** ($65 M) **Cape Verde** ($18 M) **Georgia** ($98 M) **Honduras** ($94 M) **Nicaragua** ($41 M) **Vanuatu**** ($54 M)	**Armenia** (297 km) **Cape Verde** (40 km) **Georgia** (171 km) **Honduras** (98 km) **Nicaragua** (68 km) **Vanuatu** (131 km)	**Armenia** (13%) **Cape Verde** (36%) **Georgia** (16%) **Honduras** (4%) **Nicaragua** (13%) **Vanuatu** (23%)	**Reduced transportation costs** **Improved access to basic services** **Increased farm to market access** **Increased incomes for farmers** **Trade facilitation**
Countries that have not yet begun this activity	Burkina Faso Mozambique Tanzania	Burkina Faso Mozambique Tanzania	Burkina Faso El Salvador Ghana Mali Mozambique Tanzania	Burkina Faso El Salvador Ghana Mali Mozambique Tanzania	Burkina Faso El Salvador Ghana Mali Mozambique Tanzania	
Totals	**$17.5 million in studies contracted**	**69% of contracted studies disbursed; 3,362 km of roads under design**	**$371 million in roads works contracted**	**805 km of roads under works contracts**	**14% of contracted roads works disbursed**	**Expected upon completion of construction**

*Studies primarily funded by the Government or another donor in El Salvador and Cape Verde, respectively. In Mali, study costs included in MCC's Alatona Irrigation Feasibility and Design contract.
**Design-Build contract, where the value of design work is included in the value of the works contract.

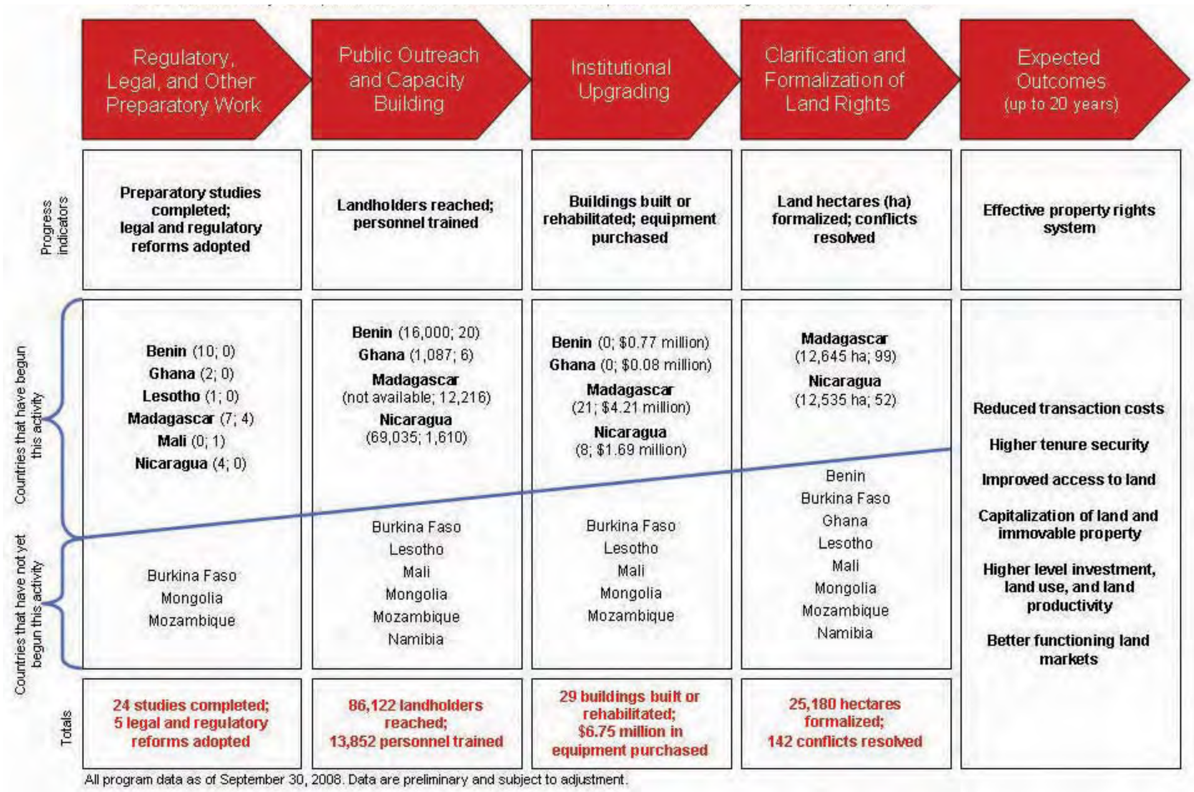
All program data as of September 30, 2008. Data are preliminary and subject to adjustment.

MCC Investments in Irrigation

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (6 to 12 months)		Procurement for Works (4 to 8 months)	Construction (1 to 5 years)	Expected Outcomes (up to 15 years)
Progress indicators	**Value of signed contracts for feasibility and/or design studies**	**% disbursed for contracted studies**	**Value of signed contracts for works for irrigation systems**	**% contracted irrigation works disbursed**	
Countries that have begun this activity	**Armenia** ($3.78 million) **Cape Verde** ($0.09 million) **Mali** ($8.19 million)	**Armenia** (35% disbursed for canals, pumps, and other water conveyance systems) **Cape Verde** (100% disbursed for watershed management) **Mali** (97% disbursed for canals)	**Armenia** ($0.32 million for 6.5km of tertiary canals) **Cape Verde** ($5.17 million for many small works including dikes, reservoirs, and distribution systems)	**Armenia** (66% disbursed) **Cape Verde** (39% disbursed)	**Increased production and income from irrigated agriculture**
Countries that have not yet begun this activity	Burkina Faso Ghana Morocco	Burkina Faso Ghana Morocco	Burkina Faso Ghana Mali Morocco	Burkina Faso Ghana Mali Morocco	
Totals	**$12.1 million in studies contracted**	**78% disbursed for contracted studies**	**$5.5 million in works contracted**	**41% of contracted irrigation system works disbursed**	**Expected upon completion of works**

All program data as of September 30, 2008. Data are preliminary and subject to adjustment.

MCC Investments in Property and Land Rights



Results: Compact and Threshold Program Progress that Makes a Difference

Results Overall

In 2008, MCC made a major transition in emphasis from signing compacts to implementing them. MCC partner countries are now awash in implementation activity to fight poverty. Farmers are being trained, roads are being paved, bridges are being constructed, and land titles are being issued. Projects in some locations are already completed, where vehicles now travel on roads that link rural areas to new markets and community services; water runs through new irrigation systems to increase agricultural productivity; and gas flows through pipelines to provide energy to homes and businesses. And, with project starts around the world ramping up each week, the pace of implementation will accelerate further in 2009 and beyond to deliver on the promise of MCC. This section illustrates the progress being made in four major sectors of MCC activity: agriculture, roads, irrigation, and property rights and land policy. We see results unfolding worldwide in MCC partner countries in Africa, Eurasia and the Pacific, and Latin America.

Results: Africa

Compacts and threshold programs in **Africa** amount to over **70 percent** of MCC's total grants worldwide.

Compact with	Grant Amount *(in millions)*
Madagascar	$109.8
Cape Verde	$110.0
Benin	$307.3
Ghana	$547.0
Mali	$460.8
Mozambique	$506.9
Lesotho	$362.6
Morocco	$697.5
Tanzania	$698.0
Burkina Faso	$480.9
Namibia	$304.5
TOTAL compacts in Africa	**$4.6 billion 11 compacts**

Threshold Program with	Grant Amount *(in millions)*
Burkina Faso	$12.9
Malawi	$20.9
Tanzania	$11.2
Zambia	$22.7
Kenya	$12.7
Uganda	$10.4
São Tomé and Príncipe	$8.7
Niger	$23.0
Rwanda	$24.7
TOTAL threshold programs in Africa	**$147.2 million 9 threshold programs**

Chart: MCC Commitments by Sector—Africa Compacts

Millions USD, Total: $4.6 billion (as of September 30, 2008)

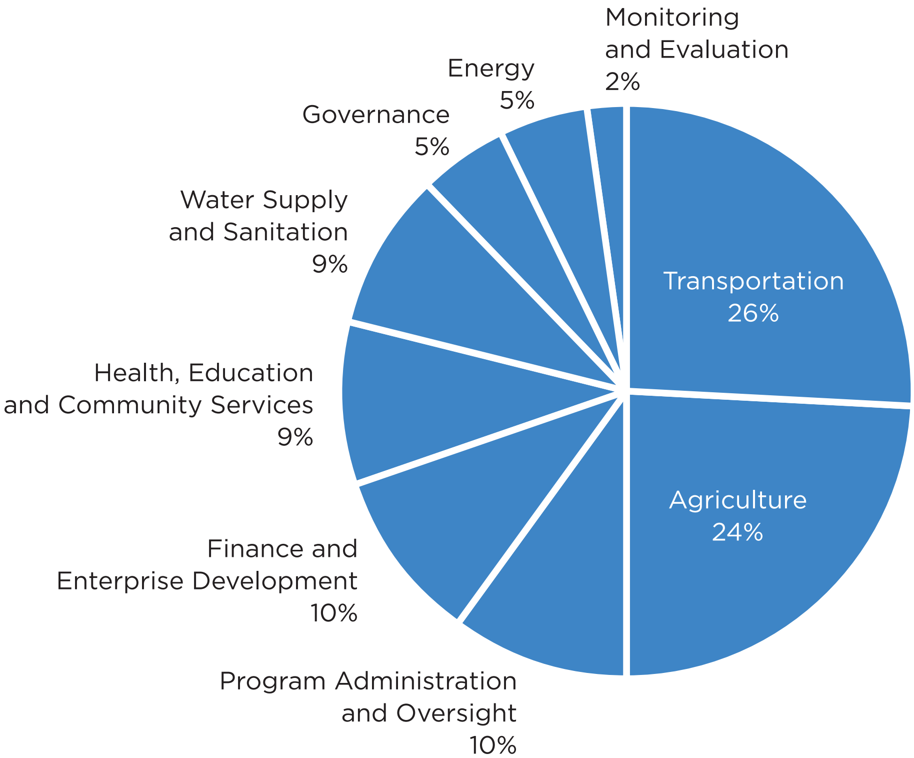
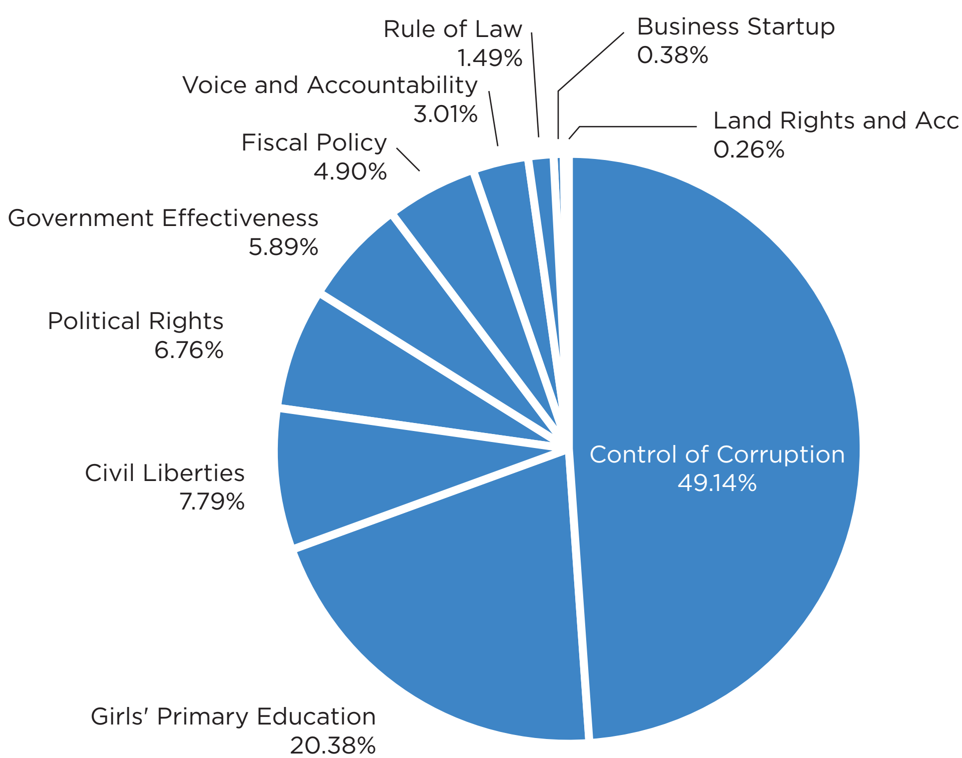


Chart: MCC Commitments by Indicator—Africa Threshold Programs

(as of September 30, 2008)



Making a difference in Madagascar: A creative solution helps women gain access to credit

Sylvie Faramihaja (pictured) moves around her native town of Toamasina and its surrounding villages in eastern Madagascar with ease on her moped. Equipped with this vehicle, and with training on how to help women access microcredit, she is helping to reduce poverty as part of Madagascar's $110 million MCC compact. Sylvie is one of 20 credit counselors who have been trained to help women in their quest to access credit. She spends her days coaching women in microcredit support groups that were established in partnership with the region's largest microfinance institution. Through these groups, women acquire small loans without collateral and are responsible for repaying them on a weekly basis. Loans vary from under $100 to up to $2,000 and help women buy supplies and goods for their shops or small cottage industries that include artisan crafts and food production. Sylvie is aware of the cultural, economic, and practical issues that are part of these women's daily lives—and of just how important microcredit can be to their future. "More and more women are taking advantage of credit…and they are paying back their loans while improving their businesses," she proclaims with pride. This group-based credit approach has proven to be very effective, with almost a 100 percent loan repayment rate.

Making a difference in Ghana: Rural schools help children reach their potential

One of the biggest challenges for the children of Ghana's Awutu-Effutu-Senya district (pictured with MCC Associate Country Director Troy Wray) in realizing their basic right to an education is the lack of adequate school infrastructure. Ghana's MCC compact offers the students of four schools in this rural district something they have never had: functioning classrooms. In April 2008, Ghana's accountable entity for implementing its MCC compact—MiDA—began renovating the first four of a total of 35 schools in seven different rural districts scheduled for rehabilitation under the initial phase of the school project. The project is a joint effort among MiDA, the beneficiary communities themselves, the district-level government, and the Ministry of Education. MiDA hired local builders to rehabilitate the schools and provide furnishings. The project's second phase will focus on the construction of new schools designed specifically to meet community needs. This $2.8 million school rehabilitation project is part of Ghana's $547 million MCC compact. Over time, the construction and rehabilitation of hundreds of schools in the *Agricultural Intervention Zones* will not only supplement other MCC projects and Ghana's agricultural development, but also buttress long-term sustainability by decentralizing and expanding the provision of basic community services throughout Ghana.

Making a difference in Cape Verde: E-Procurement system a model of transparency and efficiency

Imagine the difficulty of governing a nation of ten islands scattered over 4,033 square kilometers of the Atlantic Ocean. No wonder the government of Cape Verde developed an e-government system to facilitate public administration of its territory through a computer network. This system includes, among other features, real access to government expenditures and a consolidated public registry database. As

part of its $110 million MCC compact, Cape Verde will expand upon its e-government system to elevate efficiency and transparency of its procurement system to world class standards. Roughly $1 million in compact funds will provide equipment, software, and technical expertise to strengthen Cape Verde's e-government system, which will serve as the backbone of compact procurements in the areas of infrastructure, agriculture support, and private sector development. For the average citizen, this translates into a more efficient use of government resources. Eventually, the system will be applied to enhance transparency across all government ministries, and Cape Verde will take over its costs and maintenance to ensure sustainability over the long run.

For more information: Appendix A
Visit *Appendix A* for compact country results.

Results: **Eurasia and the Pacific**

Compacts and threshold programs in **Eurasia** and the **Pacific** amount to over **16 percent** of MCC's total grants worldwide.

Compact with	Grant Amount *(in millions)*
Georgia	$295.3
Vanuatu	$65.7
Armenia	$235.7
Mongolia	$284.9
TOTAL compacts in Eurasia and the Pacific	**$881.6 million 4 compacts**

Threshold Program with	Grant Amount (in millions)
Albania	$13.9
Albania: Stage II	$15.7
Philippines	$20.7
Jordan	$25.0
Indonesia	$55.0
Ukraine	$45.0
Moldova	$24.7
Kyrgyz Republic	$16.0
TOTAL threshold programs in Eurasia and the Pacific	$216.0 million 8 threshold programs

Chart: MCC Commitments by Sector—Eurasia and the Pacific Compacts
Millions USD, Total: $882 million (as of September 30, 2008)

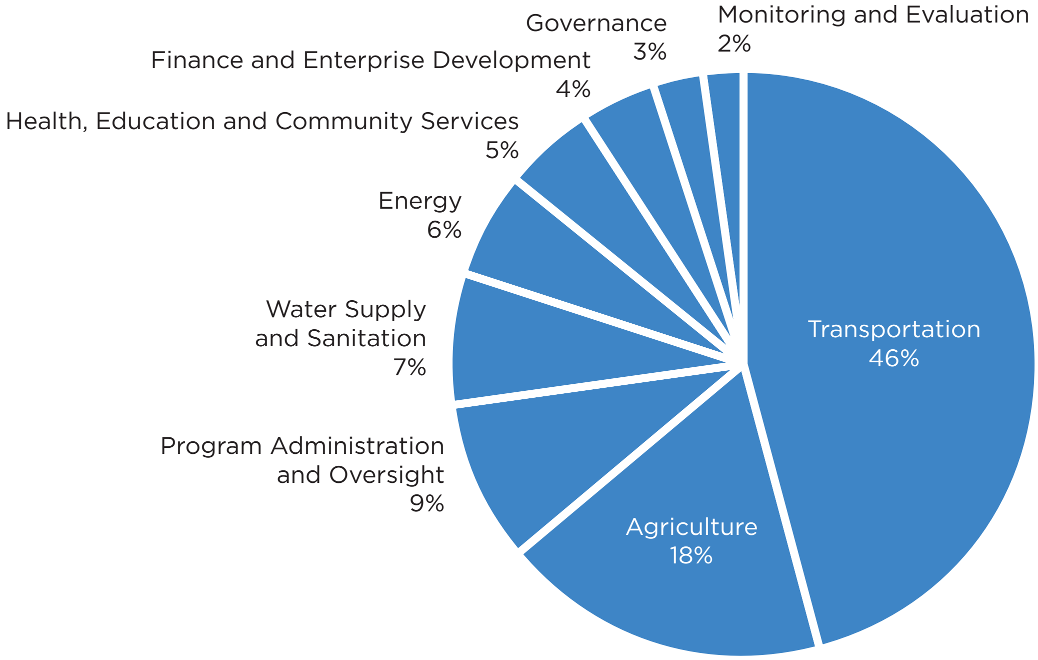
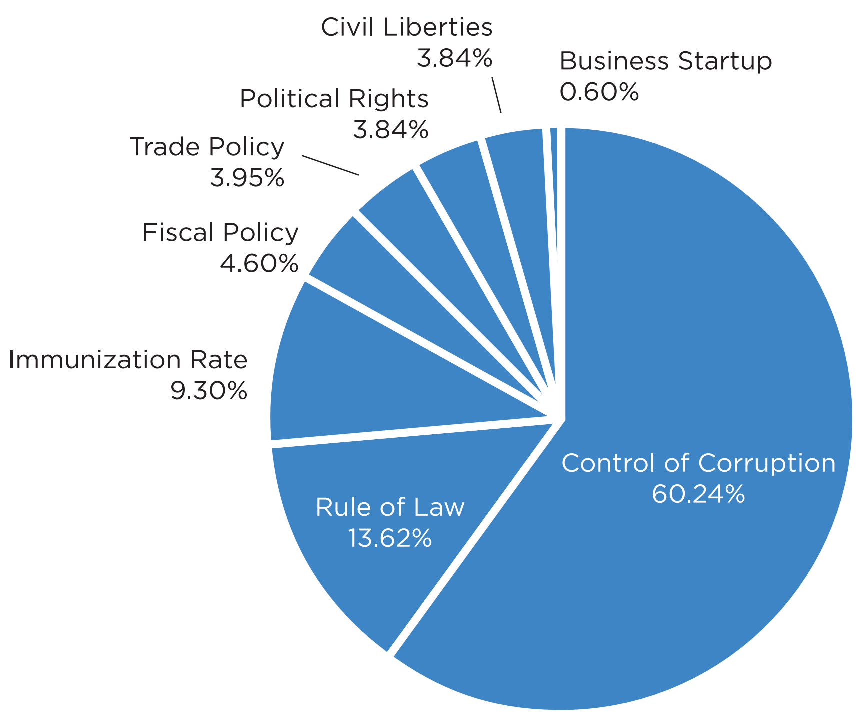


Chart: MCC Commitments by Indicator—Eurasia and the Pacific Threshold Programs
(as of September 30, 2008)



Making a difference in Armenia: Higher incomes for farmers

Armenian farmer Sevan Jamalyan (pictured with CEO Ambassador Danilovich) has become a celebrity in his village of Griboyedov. Not only is he among the first farmers in the Armavir region to complete the water management training offered through MCC's $235.7 million compact with Armenia, but also his farm has been selected as a demonstration site for future water-to-market program trainings, an overall $33 million initiative that will improve farmers' skills and capabilities in this critical area. With new technologies, training, and equipment—ranging from irrigation pipes to sensors and water meters—farmers like Sevan are improving farm production and management, increasing their productivity, and transitioning into higher value agricultural activities. "Many farmers have no idea about such elementary things like fertilizing or irrigating; they do it intuitively or just follow what their senior or elder peers do," Sevan explains. There will be 220 demonstration sites all over the country by the end of the compact; 120 of them will illustrate water management techniques and the remaining 100 will be devoted to high value agriculture.

Making a difference in the Philippines: Mediation program utilizes resources more efficiently

In late 2007, a private lending company filed a complaint before the Office of the Ombudsman of the Philippines against 50 government employees, including school teachers and police and fire department personnel, to collect outstanding amounts on their delinquent personal loans. The Office of the Ombudsman decided to recommend the case for mediation, a new alternative dispute resolution program made possible through the Philippines $20.7 million MCC threshold program. After both parties presented their points of view during mediation, the lending company agreed to restructure the employees' payment schedules. This outcome benefited all parties involved; the employees and the company were able to reach an agreement, and the Office of the Ombudsman had 50 fewer complaints, reducing the number of pending cases and shifting more resources from administrative work to the fight against corruption. This is one example of the threshold program's effectiveness in the Philippines, and contributed to the March 2008 decision by MCC's board of directors to select the country as eligible to apply for an MCC compact.

Making a difference in Georgia: Equipping Georgian farmers to increase productivity

Local entrepreneur Tamaz Niparishvili (pictured) is the director of Kaspi's Farm Service Center, a one-stop agricultural shop created through a grant provided through the Millennium Challenge Georgia *Agribusiness Development project*, a key component of Georgia's $295.3 million MCC compact. Tamaz used the grant from Millennium Challenge Georgia to buy a tractor, a delivery van, and an initial inventory of farm supplies to expand his small shop. He also devoted personal funds to equip it with a warehouse and training facilities. Farmers in Kaspi now have access to this state-of-the-art Farm Service Center that sells fertilizers, seeds, tools, veterinary preparations, disinfectants, and pest management solutions. Tamaz's shop not only will rent machinery and tractors to farmers, but also will provide consultants who can

offer training on how to use them. These basic services create previously unavailable opportunities for farmers in this promising agricultural region in central Georgia. Tamaz states, "There is a lot to do. We want to increase the competitiveness of Georgian agribusiness. The development of the agricultural sector in the region will bring stable incomes and improve farmers' standard of living." Kaspi's Farm Service Center is among the first of a network of 30 planned by Millennium Challenge Georgia.

For more information: Appendix A
Visit *Appendix A* for compact country results.

Results: **Latin America**

Compacts and threshold programs in **Latin America** amount to over **14 percent** of MCC's total grants worldwide.

Compact with	Grant Amount *(in millions)*
Honduras	$215.0
Nicaragua	$175.1
El Salvador	$461.0
TOTAL compacts in Latin America	**$851.1 million 3 compacts**

Threshold Program with	Grant Amount *(in millions)*
Paraguay	$34.6
Guyana	$6.7
Peru	$35.6
TOTAL threshold programs in Latin America	**$76.9 million 3 threshold programs**

Chart: MCC Commitments by Sector—Latin America Compacts
Millions USD, Total: $851 million (as of September 30, 2008)

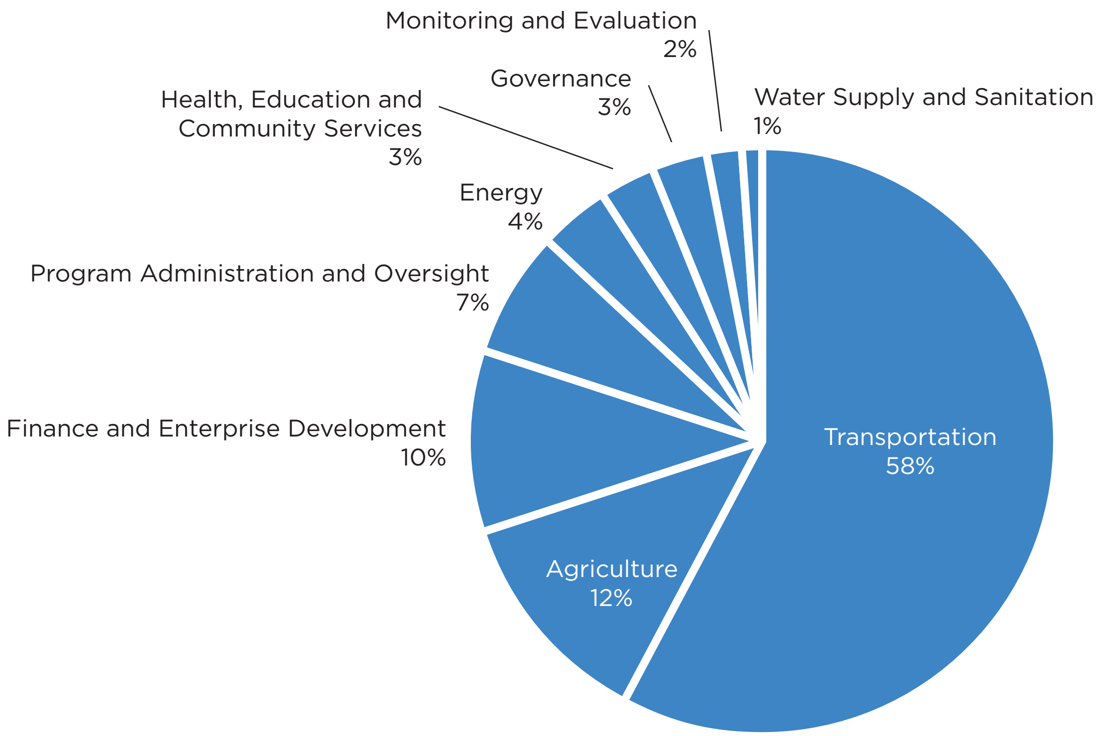
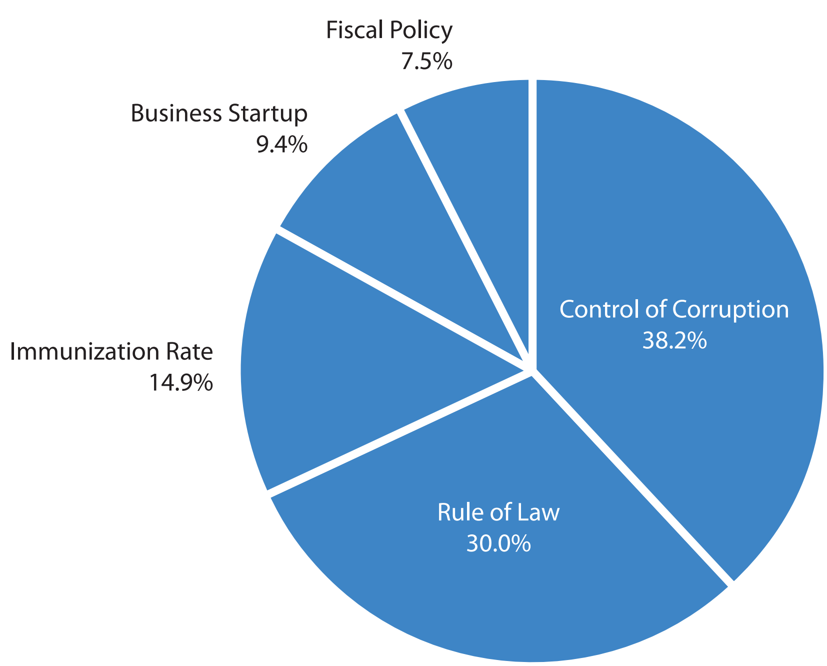


Chart: MCC Commitments by Indicator—Latin America Threshold Programs
(as of September 30, 2008)



Making a difference in Honduras: Assistance to onion growers increase production yields

The *Farmer Training and Development* program under Honduras's $215 million MCC compact is providing technical assistance to help Honduran farmers transition to the production and marketing of high value horticultural crops. In Guinope, a municipality in the department of El Paraíso, 300 small farmers have been using traditional production practices to produce onions on 80-100 hectares of land. Average yield has been only 40,000 pounds per hectare, and weather, pests, and diseases often result in lower yields or entire crop failures. Now, direct technical assistance covering the entire production system is being offered to 29 growers by expert agronomists who have already facilitated major changes and improvements, including higher density plantings. These practices have improved all stages of agricultural production. In the planting process, for instance, this assistance has provided improved soil management techniques, improved plantlet production practices, demonstrated higher density planting, and introduced the use of "starter solution" and biological controls during transplant. These onion farmers are reaping the benefits of higher yields, lower unit costs, and increased incomes. Additional farmers have seen these results and are now being trained by those farmers who have already successfully diversified their crop base.

Making a difference in Paraguay: Strengthening institutions by increasing ethical awareness among public servants

Public servants in Paraguay's Ministry of Education and Culture have been energized by a comprehensive ethics campaign resulting in the creation of a *Code of Ethics and Good Governance.* Five other government ministries and institutions responsible for administering a considerable amount of Paraguay's public

budget have also benefited from this program, conducted through MCC's $34.6 million threshold program in Paraguay. Wide employee participation and consultation as well as leadership from the ministries themselves have been at the core of the ethics program, which was launched with a survey among public employees about perceptions on ethical and unethical behavior within their ministries. Designated individuals were then invited to volunteer for an *Ethics and Good Governance* training, featuring a series of workshops that guided them in developing the Code of Ethics to incorporate ethics at an institutional level. A total of 131 individuals from different ministries participated in the training, including 26 from the Ministry of Education and Culture. The program also included a train-the-trainer module, which trained 74 government employees to pass on their knowledge and continue raising awareness about ethics in public service. Paraguay's new government administration is committed to sustaining these efforts by assigning a qualified staff and allocating a budget to the ethics programs established.

Making a difference in Nicaragua: Women's incomes and trees sprout up

Until recently, the ten members of the Cooperativa Forestal de Múltiples Servicios de Chinandega Norte (CO-FOCHINORTE), a tree nursery co-operative in Chinandega, were struggling to make ends meet. The women, mostly single mothers, split their time between the tree nursery and other jobs. The co-op in which they had set their hopes for a better future made barely enough money to cover the tree nursery's overhead expenses but not enough to pay its members' salaries. All that changed in 2007 when CO-FOCHINORTE, together with five other local microenterprises, won a public bid to supply trees for an innovative forestry development project funded through Nicaragua's $175.1 million MCC compact. The project stimulates the rural economy by expanding tree plantations for commercial use and developing all components of the value chain—nurseries, timber companies, carpenters, and export activities. According to Danelia Rivera (pictured), CO-FOCHINORTE's vice-chairwoman, the contract with MCA-Nicaragua allowed them to produce trees on a large scale and to pay their members a decent salary—salaries the members used to buy food and clothing for their children, among other things. CO-FOCHINORTE produced 100,000 trees in 2007, and the group performed so well that it secured a second, larger contract in 2008. "We have increased our business' capital with the support of MCA-Nicaragua. As a result, our tree nursery will yield increased profits and we will bring home higher salaries," confirms Danelia.

For more information: Appendix A

Visit *Appendix A* for compact country results.

Moving Forward: Making a Difference Beyond 2008

The Millennium Challenge Corporation is a groundbreaking way of delivering development assistance that is changing the global conversation not only about aid effectiveness, but also about its practice. MCC bundles the best lessons learned in development assistance. The MCC model relies on sound policy performance and country ownership to reduce poverty through sustainable economic growth in meaningful, tangible ways that will benefit and transform the lives of those living in poverty. MCC already has incorporated and put into action the most fundamental reforms discussed in connection with the future direction of foreign assistance.

The principles that define MCC will inform the future architecture of a new and improved foreign aid approach. The development community agrees that the types of approaches and reforms that MCC has instituted merit attention and should be adopted as appropriate by donors; many donors are now looking at ways to emphasize performance-based development assistance.

MCC will move into the next chapters of its history by continuing to improve operations and encouraging countries to shoulder deeper responsibility for their own development. MCC will lead sound compact development and support aggressive implementation of large-scale poverty reduction programs with tangible results. With ongoing support and resources, MCC will remain a strong and effective model for delivering results-focused development assistance that makes a positive and sustainable difference in the global fight against poverty.

Management's Financial Comments

A Message from the Acting Vice President of the Department of Administration and Finance

The 2008 Annual Report of the Millennium Challenge Corporation reflects our continued commitment to achieve the highest standards of federal management. Since its inception, MCC has received an unqualified or "clean" audit opinion from the Office of Inspector General (OIG) on its financial statements including the latest unqualified opinion for FY 2008.

We are pleased to report that MCC's *Department of Administration and Finance* has made significant progress on a number of key initiatives during the past fiscal year:

★ MCC has established an electronic workflow and authorization process for all personnel actions. This will ensure that all personnel actions are properly authorized, documented, and retained prior to processing.

★ We have continued our development of the MCC Integrated Data Analysis System (MIDAS) to improve financial reporting, and further integrate programmatic, performance, and financial information. When fully implemented, the system will improve the timeliness and use of financial and performance data to manage the cost of our programs and support decision-making.

★ In August 2008, MCC completed its implementation of a "Common Payment System" (CPS). CPS centralizes the payment of compact expenses with MCC's financial services provider and eliminates the need to "advance" large amounts of funds to partner countries. The use of CPS will improve MCC's management reporting capabilities by providing real time data on compact disbursements and will limit the exposure of cash balances in foreign banks.

★ MCC reorganized its information technology management structure, and implemented new technologies and policies to improve the stability and security of the MCC information technology infrastructure. Since May 2008, MCC has reduced the vulnerability level of MCC systems by 80 percent, and MCC has developed action plans to address all 17 findings in the OIG FY 2008 *Federal Information Security Management Act (FISMA)* audit before the end of the current fiscal year.

MCC also resolved a large number of outstanding OIG recommendations from prior year financial, performance, and compliance audits. MCC closed 29 of the 32 recommendations that were open at the beginning of the fiscal year, and a total of 40 including those from prior years.

We are pleased to report that the FY 2008 *Independent Auditor's Report* cites only one material weakness in MCC's controls over financial reporting, an improvement over the two material weaknesses identified during the FY 2007 audit. The FY 2008 Report also identifies four other matters that are considered significant deficiencies in the areas of authorization for personnel actions, expense accruals, general ledger postings, and management of information systems. MCC agrees with all of the OIG

recommendations, and is in the process of developing action plans to address and resolve these findings in the current fiscal year.

MCC's key milestone for FY 2009 is to achieve concrete results under our compacts. The achievements highlighted in this Annual Report for FY 2008, and the continued progress we plan for FY 2009 will provide the financial, administrative, and technology support needed for successful compact development and implementation, and will help MCC demonstrate real results toward our goal of poverty reduction through growth.

Michael Casella
Acting Vice President,
Administration and Finance

For more information: Appendix B
Visit *Appendix B* for MCC's operational and programmatic financial statements.

Appendices

Appendix A: Individual Compact Country Highlights

Armenia

Millennium Challenge Corporation
United States of America

Compact Implementation Status Report
September 30 2008 | www.mcc.gov

Armenia Compact Progress

- **Rural Road Rehabilitation:** Rehabilitation works continue on a 25 kilometer segment of rural road linking northern farmers to major agricultural markets in the region. By the end of 2008, nine villages will benefit from access to the new road.
- In September 2008, MCA-Armenia began the re-habilitation of 273 kilometers of rural road segments impacting all regions of Armenia. The Government of Armenia is contributing $14 million (excluding VAT) toward this $60.4 million project.
- **Irrigation Infrastructure Activity:** Repairs to 6,500 meters of irrigation canal that service 1,137 acres of farmland were completed in August 2008. The 637 farmers who will benefit from the improved irrigation resulting from these repairs provided 15% of the funds required for the repairs project.
- **Water-to-Market Activity:** An additional 3,000 farmers have been trained in the use of new and improved farming technologies, bringing the total to 15,000. In 2008, over 125 farmers received a total of $1.5 million in credit to develop their agribusinesses.
- *Note: Compact funding allocations for Armenia have not changed since compact signature, although irrigated infrastructure and road construction works have been adjusted in scope/size due to escalating global construction costs and currency fluctuations.*

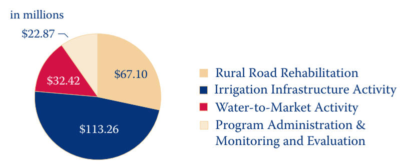
Compact At-A-Glance

Signed 3/27/2006

Entry Into Force 9/29/2006

The five year, $235.7 million compact aims to reduce rural poverty by increasing the agricultural sector's economic performance. This goal will be achieved through strategic investments in rural roads and irrigation systems.

Obligations by Project



$86,422,882 total contract commitments
$24,193,593 disbursed to date

Country At-A-Glance

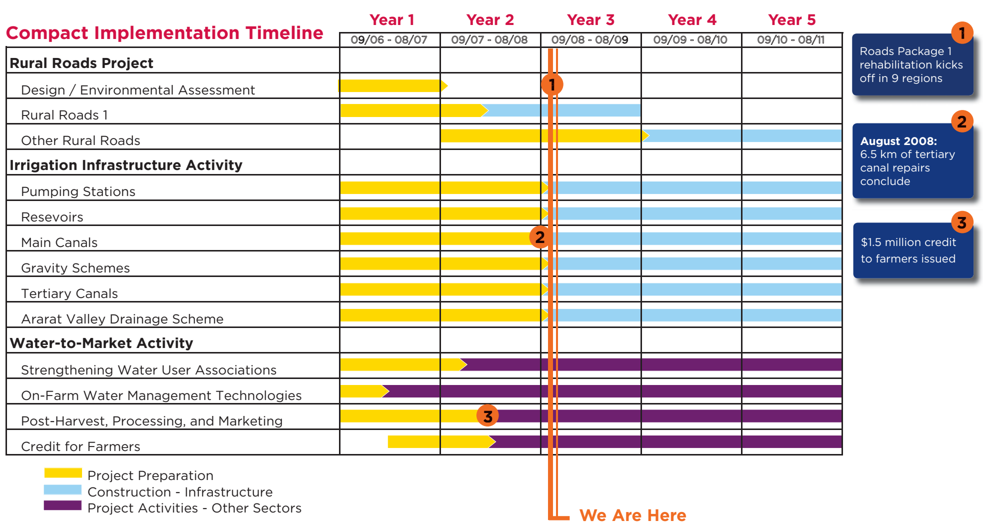
Population 3,007,195*

GNI per Capita $2,640*

On the Web:
www.mcc.gov
MCA-Armenia:
www.mca.am

World Development Indicators World Bank 2007

Compact Implementation Timeline



As of September 30, 2008
Disbursements to Date................ $24,193,593
Total Contract Commitments...... $86,422,882

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Armenia

Millennium Challenge Corporation
United States of America

Compact Implementation
Status Report
September 30 2008 | www.mcc.gov

Benin Compact Progress

★ **Access to Justice Project:** In October 2008, the Parliament of Benin enacted new legal procedural codes, thereby replacing codes that had been out of date for 10 years. Having now achieved that milestone, MCA-Benin may proceed with the construction of 9 courthouses in various sites throughout the country. The Arbitration, Mediation and Conciliation Center (CAMeC) has now been fully staffed and is starting operations in new office space in Cotonou.

★ **Access to Land Project:** MCA-Benin completed construction on five of seven global positioning stations that will collect data for land mapping and titling activities. MCA-Benin also trained more than a dozen trainers on surveying and mapping with the most sophisticated GPS equipment in the region. MCA-Benin has also completed an in-depth assessment of the national urban land permit commission.

★ **Access to Financial Services Project:** MCA-Benin established the Management Unit for the Financial Innovation and Expansion Challenge Facility, which launched its first request for grant applications in September 2008. The team trained 27 delegates throughout Benin to ensure that institutions in remote areas would have access to information and application materials regarding the Challenge Facility.

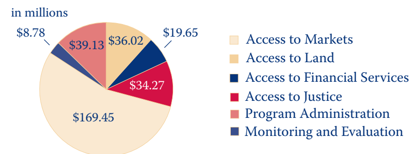
Compact At-A-Glance

Signed 2/22/2006

Entry Into Force.......... 10/6/2006

The five-year, $307.3 million compact will increase access to land through more secure tenure, expand access to financial services through grants to enterprises, provide access to justice by bringing courts closer to rural populations and improve access to markets through improvements to the Port of Cotonou.

Obligations by Project



$52,255,019 total contract commitments
$24,396,415 disbursed to date

Country At-A-Glance

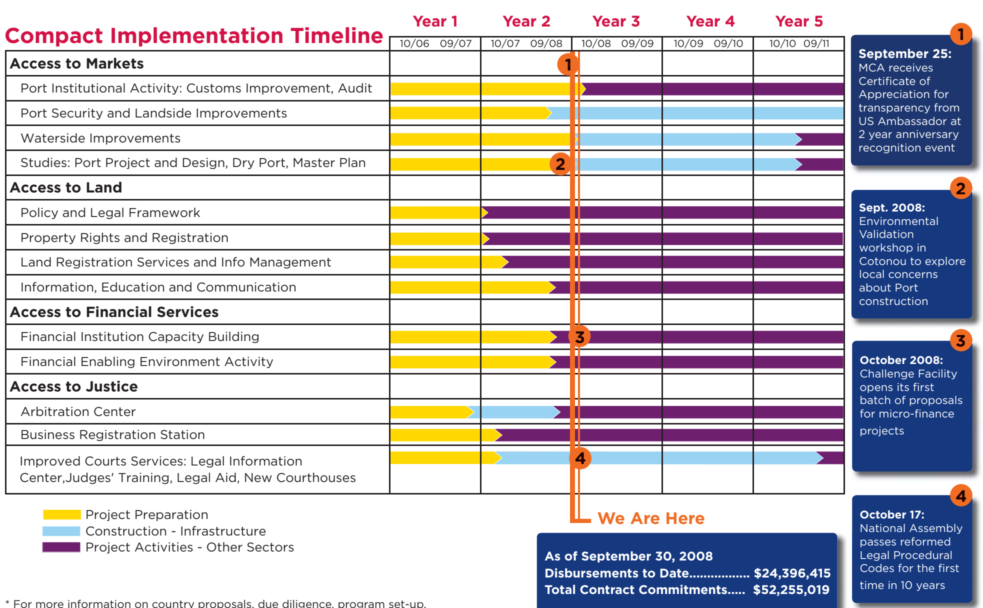
Population.......... 8,177,208*

GNI per Capita $570*

On the Web:
www.mcc.gov
MCA-Benin:
www.mcabenin.bj

World Development Indicators World Bank 2007

Millennium Challenge Corporation



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Benin

Benin

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Compact-Eligible
Country Report
September 30, 2008 | www.mcc.gov

Burkina Faso Program Summary

The five-year, $480.94 million compact seeks to reduce poverty and accelerate economic growth throughout Burkina Faso. The compact aims to increase investments in land and rural productivity through improved land tenure security and land management, expand the productive use of land in order to increase the volume and value of agricultural production in project zones, enhance access to markets through investments in the road network and increase primary school completion rates for girls.

Program Highlights

- ★ The MCC Resident Mission was established in July 2008. Recruitment of locally employed staff is underway.
- ★ MCA-Burkina Faso's Board of Directors held their first official meeting on September 17, 2008. During this meeting, the Board reviewed the decree establishing the Accountable Entity (MCA-Burkina Faso), and approved its bylaws, the recruitment of key officers, and the process for the selection of the National Coordinator.
- ★ In September, following a competitive selection process, Mr. Bissiri Sirima, who had served as the National Coordinator for the "MCC Program's Coordination Unit" during the Compact Development phase, was formally chosen as MCA-Burkina's National Coordinator. MCA-BF has hired all its key officers and is in the process of hiring the second tier staff.
- ★ In September, the 632(b) interagency agreement between MCC and USAID was signed for the implementation of the BRIGHT 2 Schools Project.

Compact Status

Status................Compact Signed

Country Information

Population 13,586,485*
GNI Per Capita $400*

Compact Process

	Stage	
☑	Eligibility Notification	11-08-2005
☑	Proposal Receipt	10-24-2006
☑	Opportunity Memo	11-09-2006
☑	Congressional Notification on Compact Negotiations	01-10-2008
☑	Investment Memo	04-18-2008
☑	Board Approval	06-17-2008
☑	Compact Signing	07-14-2008
	Entry Into Force	
	Initial Disbursement	

Millennium Challenge Corporation
United States of America

Compact Implementation
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Cape Verde Compact Progress

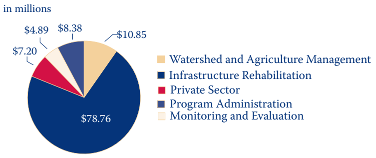
- **Infrastructure Project:** The Pedra Badejo-Orgãos (10km), Cruz Grande -Calhetona (14km) and Assomada - Rincão (16 km) roads, as well as two bridges and a 1km connecting road in Paul are presently under construction.
- On October 11, 2008, in a ceremony witnessed by citizens, members of the Cabinet, diplomats and donors, the Prime Minister of Cape Verde, José Maria Neves, launched the Phase I works for the upgrade and modernization of the Port of Praia. This $42.3 million project is funded by MCC.
- **Watershed Management and Agricultural Support:** Significant progress has been made with 11 dikes and 9 reservoirs built. Twenty additional reservoirs and sixty more dikes are under construction on three islands. All three Rural Extension Centers in each of the watersheds have been rehabilitated and equipped for operation. These centers will provide training of and outreach to farmers including courses in drip irrigation and environmentally sustainable agriculture practices.
- **Access to Credit Activity** The first contract and funds disbursement to microfinance institutions under the Access to Credit Activity was signed on October 6th, 2008. This activity will benefit urban and rural poor through increased access to micro-credit funds building on capacities developed in the last decade through support from the US P.L 480 food program.

Compact At-A-Glance

Signed 7/4/2005
Entry Into Force 10/17/2005

The five-year $110.0 million compact seeks to improve investment climate, reform the financial sector, develop infrastructure to support increased economic activity and provide access to markets, employment, and social services. Other goals include increasing agricultural productivity and rural incomes.

Obligations by Project



$89,451,435 total contract commitments
$27,039,198 disbursed to date

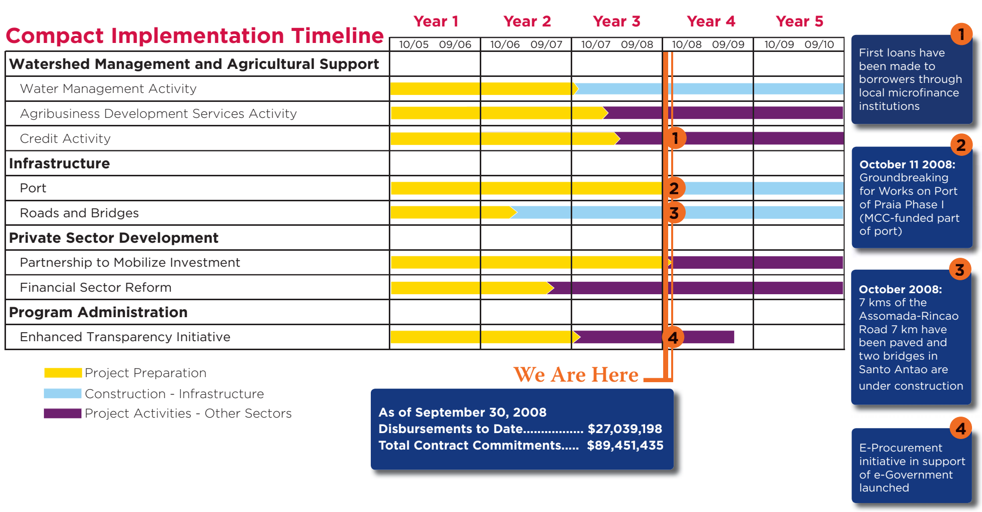
Country At-A-Glance

Population 518,600*
GNI per Capita $2,430*

On the Web:
www.mcc.gov
MCA-Cape Verde:
www.mca.cv

*World Development Indicators, World Bank, 2007

Millennium Challenge Corporation



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Cape Verde

Cape Verde

El Salvador

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United States of America

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El Salvador Compact Progress

- ★ **Productive Development Project:** To date, FOMILENIO, the Salvadoran entity responsible for implementing the MCC compact, has signed 13 grant programs valued at $6.8 million benefitting over 3,000 farmers and small business owners. FOMILENIO also signed a $25.5 million contract to implement the technical assistance activity, including reaching approximately 1,815 beneficiaries, creating approximately 781 new jobs and guaranteeing funds to incentivize local lending in the underserved northern zone.

- ★ **Human Development Project:** Installation of the first 250 photovoltaic systems and community training in the most remote regions of the northern zone has begun. In addition, FOMILENIO has contracted for the feasibility studies and final designs of 24 municipal water & sanitation systems. FOMILENIO and the Ministry of Education have approved the 20 middle-technical institutes which will benefit from MCA investments in infrastructure and modern equipment.

- ★ **Connectivity Project:** As implementation gathers momentum entering compact year 2, FOMILENIO has opened the first two of its regional offices in Metapan and Nueva Concepcion. These regional offices will provide closer relationships with the community of beneficiaries in the northern zone and will provide strategic outposts for work on implementing the Resettlement Action Plan, a prerequisite for all future construction activities related to the Connectivity Project.

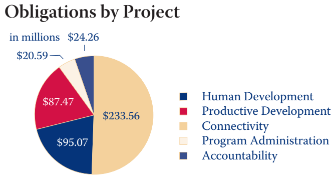
Compact At-A-Glance

Signed 1/29/2006

Entry Into Force 9/20/2007

The five-year, $461.0 million compact seeks to improve the lives of Salvadorans through strategic investments in education, public services, agricultural production, rural business development and transportation infrastructure.

Obligations by Project



$53,762,988 total contract commitments
$12,484,214 disbursed to date

Country At-A-Glance

Population 6,880,951*

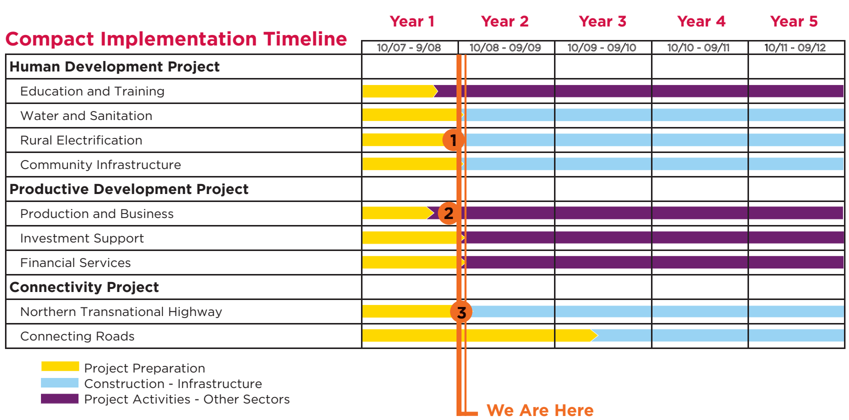
GNI per Capita $2,850*

On the Web:
www.mcc.gov
FOMILENIO:
www.fomilenio.gov.sv

World Development Indicators World Bank 2007

Millennium Challenge Corporation

Compact Implementation Timeline



As of September 30, 2008
Disbursements to Date................ $12,484,214
Total Contract Commitments..... $53,762,988

1. The installation of the first 250 photovoltaic systems has commenced. Contracts for feasibility studies and designs have been signed for the first 24 municipal water and sanitation systems.

2. FOMILENIO has a) signed 13 grant programs (valued at $6.8M) benefitting 3,074 farmers and small business owners; b) signed a $25M contract with Chemonics to reach 1,815 beneficiaries and create 781 new jobs in year 2; and C) capitalized key insurance and guarantee funds to incentivize local lending in the underserved nothern zone.

3. FOMILENIO hired Wilbur and Associates as its Connectivity Project Manager (CPM). In preparation for initial construction of the Northern Highway, FOMILENIO has begun the process of acquiring rights of way with the first 48 cases to be completed in October.

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, El Salvador

Georgia

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UNITED STATES OF AMERICA

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tatus Report
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Georgia Compact Progress

- ★ **Regional Infrastructure Development**: The first of three construction seasons is nearing completion in the rehabilitation of the roads system in the Samtskhe-Javakheti region. Two companies are working in parallel to complete 171 km of road that will connect the region to Tbilisi, improve travel time, reduce vehicle operating costs, and provide an important trade link with Armenia.
- ★ **Energy Sector Rehabilitation**: Phase II of natural gas pipeline repairs are now underway. The repairs include the replacement of 6 kilometers of pipeline and major earthworks to protect the pipeline from landslides. The works are being conducted by a consortium of three Georgian engineering firms led by New Energy Ltd.
- ★ **Regional Infrastructure Development Project** Six contracts, totaling $15.5 million, have been approved to rehabilitate municipal water supply systems in three cities. The projects will assure that the populations of Poti, Kutaisi and Bakuriani have a 24-hour supply of potable water.
- ★ **Georgia Regional Development Fund**: The Georgia Regional Development Fund invested $2.0 million in Bazi, a Georgian food processing and cannery operation. The investment will be used to expand the company's facilities that produce apple and tomato concentrate. This was GRDF's third investment.

Compact At-A-Glance

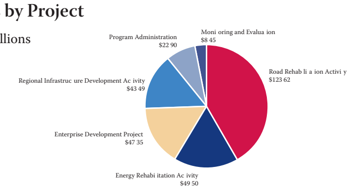
Signed 9/12/2005

Entry Into Force 4/7/2006

The five-year, $295.3 million compact will rehabilitate key regional infrastructure, stimulate regional trade by improving transportation, ensure a reliable energy supply, improve the delivery of regional and municipal services and develop regional enterprises by investing in farms and other enterprises.

Obligations by Project

in millions



$213,694,749 total contract commitments
$73,162,510 disbursed to date

Country At-A-Glance

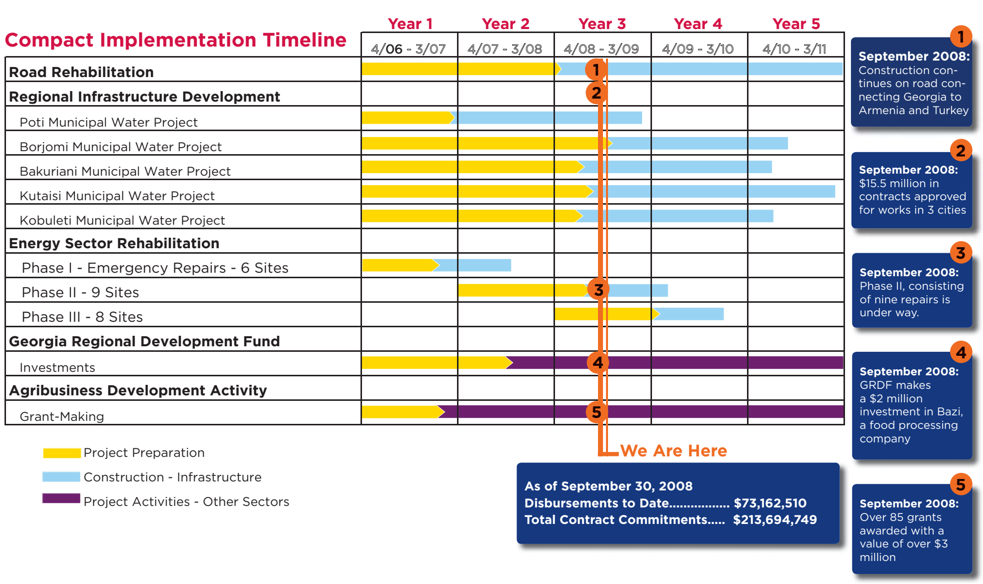
Population 4,474,404*

GNI per Capita $2.120*

On the Web:
www.mcc.gov
Millennium Challenge Georgia Fund:
www.mcg.ge

*World Development Ind cators World Bank 2007

MILLENNIUM CHALLENGE CORPORATION



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Georgia

Ghana

Millennium Challenge Corporation
United States of America

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Ghana Compact Progress

★ Agriculture Project: Training in commercial agriculture has begun for 600 farmers in the MiDA zones. By December 2008, it is expected that 15,000 farmers will have been trained.

★ Cold Chain Activity: Seven pineapple farms procured walk-in coolers in order to keep their produce fresh longer. MiDA and MCC, in partnership with Association for a Green Revolution in Africa, have supported the drafting of a new seed law and a new law on plant protection, which is pending approval from Parliament.

★ Agricultural Credit Activity: The Bank of Ghana has provided $3.5 million to 35 local Participating Financial Institutions to lend to credit recipients, including commercial banks, savings and loan banks and rural banks.

★ Land Activity: MiDA co-sponsored the first National Land Policy Forum in Ghana March 2008. MiDA installed a Continuously Operating Reference Station and trained local staff. MiDA consultants have educated participating communities about the benefits of land registration.

★ Transportation Project: In November, MiDA expects to sign its largest contract to date worth $42 million to upgrade the first part of a 14-kilometer stretch of highway around the capital of Accra, known as National Highway 1. Consultants have also completed a key feasibility study on 227 kilometers of trunk roads in the Afram Plains Basin.

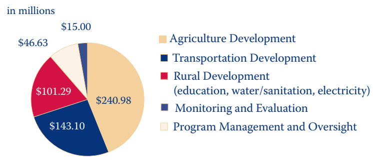
Compact At-A-Glance

Signed....................8/1 /2006

Entry Into Force....................2/16/2007

The five-year, $547.0 million compact seeks to increase farmer incomes through private sector-led agribusiness development. The compact aims to spur the production and productivity of both staple and high-value crops to make Ghana's agricultural products more competitive in regional and global markets.

Obligations by Project



$100,467,187 total contract commitments
$25,957,953 disbursed to date

Country At-A-Glance

Population....................22,931,299*

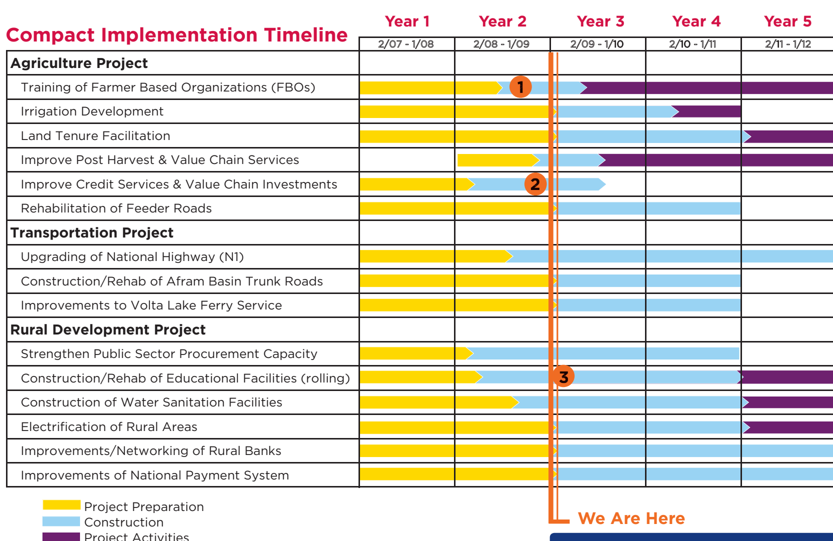
GNI per Capita....................$590*

On the Web:
www.mcc.gov
MiDA:
www.mida.gov.gh

World Development Indicators World Bank 2007

Millennium Challenge Corporation

Compact Implementation Timeline



1 **September 2008:** Farmer Based Organization training begins with 600 farmers

2 **October 2008:** First members of the Seafreight Pineapple Exporters of Ghana (SPEG) association procure pre-coolers for crop storage

3 **December 2008:** 100% of Phase 1A schools rehabilitation complete

As of September 30, 2008
Disbursements to Date................. $25,957,953
Total Contract Commitments..... $100,467,187

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Ghana

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United States of America

Compact Implementation
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Honduras Compact Progress

- **Rural Development Project:** As of September 2008, nearly 3,500 Program farmers cultivating over 4, 900 hectares of high value horticulture crops are receiving technical assistance and training in best agriculture practices, integrated pest management, appropriate technology for increased productivity, and sanitary and phytosanitary measures.

- Over the last quarter, the response of financial intermediaries to the revised trust fund guidelines has been impressive. As of September 2008, 18 applications for lines of credit have been received, eight of which have been approved for a total value of $4.2 million. The approved lines of credit are being provided to a wide variety of financial institutions which will help strengthen the farmers' access to a diverse pool of financial products.

- **Transportation Project** Construction is underway and 83 kilometers of the CA-5 highway project are under contracts totaling close to $88 million. Resettlement works for 29.5 kilometers of the CA-5 highway are in progress and procurement continues for the remaining resettlement works contracts

- Contracts for two of the three planned secondary roads have been signed for a combined value of $16 million and construction is underway.

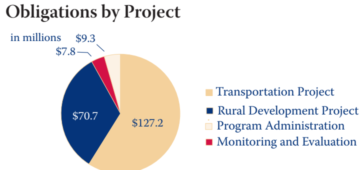
Compact At-A-Glance

Signed 6/13/2005

Entry Into Force 9/29/2005

The five-year, $215.0 million compact's two main objectives are to increase the productivity and business skills of farmers and to reduce transportation costs between targeted production centers and national, regional and global markets.

Obligations by Project



$180,385,494 total contract commitments
$34,944,531 disbursed to date

Country At-A-Glance

Population 7,483,763*

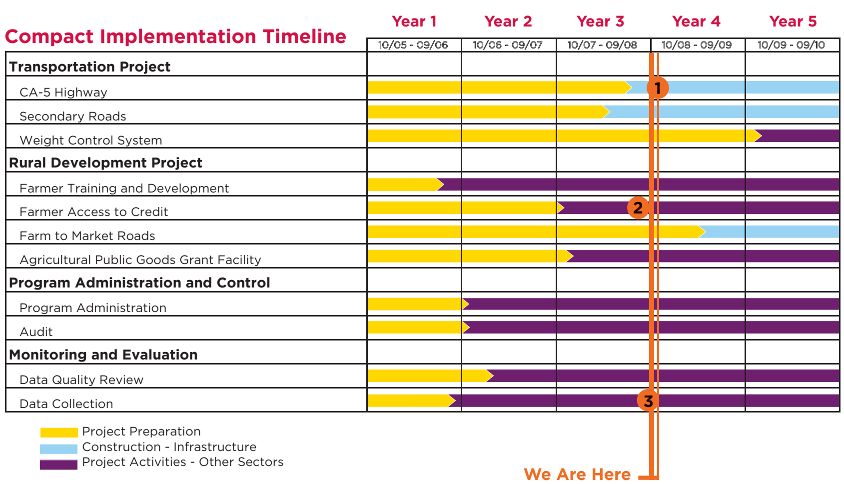
GNI per Capita $1,600*

On the Web:
www.mcc.gov
MCA-Honduras:
www.mcahonduras.hn

World Development Indicators World Bank 2007

Millennium Challenge Corporation

Compact Implementation Timeline



1 **September 2008:** Construction is underway for the North Segment of the CA-5 Highway.

2 **September 2008:** Farmers have begun to access credit from financial intermediaries that have signed contracts for a total value of $4.5M.

3 **September 2008:** Traffic count and the origin/destination survey began. It will provide baseline and ongoing data to monitor the effects of Transportation projects.

As of September 30, 2008
Disbursements to Date................ $34,944,531
Total Contract Commitments..... $180,385,494

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Honduras

Lesotho

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Compact Implementation
Status Report
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Lesotho Compact Progress

- ★ **Program Set-Up:** The compact program is being administered by MCA-Lesotho, an independent entity established under the laws of Lesotho, with oversight from a mixed public-private Board of Directors. All key staff of MCA-Lesotho are now in place. In addition, 12 implementing entities that will support MCA-Lesotho in executing the compact program are now staffed and operational.
- ★ **Water Sector Project:** The Metolong Program Management Unit (MPMU) and the Water and Sewage Authority Project Implementation Unit contracts, both extremely critical to the compact, have been approved and signed. Mobilization of the MPMU is a condition precedent to the initial disbursement of compact funds.
- ★ **Health Sector Project:** The Health Project Implementation Unit has been established within the Ministry of Health and Social Welfare. All core Health PIU staff members are on board. Mobilization of the Health PIU is a condition precedent to the initial disbursement of compact funds.
- ★ **Private Sector Development Project:** An important condition precedent to the initial disbursement of compact funds relates to the harmonization of other laws with Lesotho's Legal Capacity of Married Persons Act and was satisfied in August 2008. Additionally, Lesotho-based banks have signed on to the Common Monetary Area Cross Border Payment Committee Oversight Agreement.

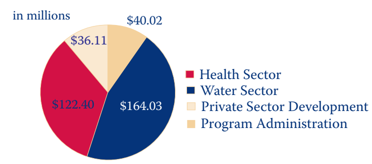
Compact At-A-Glance

Signed............7/23/2007

Entry Into Force............9/17/2008

The $362.6 million compact with Lesotho seeks to improve health outcomes and productivity through strengthening the health system, removing barriers to foreign and local private sector investment and providing water supply for industrial and domestic use.

Obligations by Project



$7,275,016 total contract commitments
$4,009,994 disbursed to date

Country At-A-Glance

Population............2,125,262*

GNI per Capita............$1,000*

On the Web:
www.mcc.gov
MCA-Lesotho:

*World Development Indicators World Bank 2007

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UNITED STATES OF AMERICA

Compact Implementation
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Madagascar Compact Progress

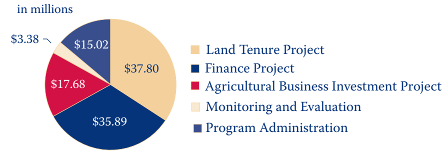
- ★ **Land Tenure Project:** The project has restored and digitized 130,000 disintegrating land rights documents in 10 of the country's 29 regional land service offices. A total of 128 local land management offices are operational and have issued 6,046 land certificates, securing land rights for 4,043 families.
- ★ **Finance Project:** The project is on track in establishing the national inter-bank payment system at the Central Bank. The project's assistance to the National Savings Bank in modernizing its information management system has helped increase the bank's capacity to provide services to its clientele. A fund set up to increase available capital at microfinance institutions has resulted in additional loans worth $421,000, benefitting 643 farmers.
- ★ **Agricultural Business Investment Project:** MCA-Madagascar has provided technical assistance to over 28,000 farmers and 220 small businesses, and has facilitated farmer groups in mobilizing microfinance loans.
- ★ **Other Highlights:** In mid-2008, the government of Madagascar created a separate ministry to oversee the implementation of the land tenure reform program in Madagascar. To date, MCC is financing roughly 80% of this program through the compact. In late September, the new Ministry of Land Reform, Estate and Country Planning organized a donor conference to increase understanding of the land tenure reform program, highlight its successes to date, and solicit support and financing to expand the program to all regions of Madagascar.

Compact At-A-Glance

Signed 4/18/2005
Entry Into Force 7/27/2005

The four-year, approximately $109.8 million compact seeks to increase land security, expand competition in the financial sector and spur investment in farms and other rural businesses.

Obligations by Project



$78,055,109 total contract commitments
$50,044,288 disbursed to date

Country At-A-Glance

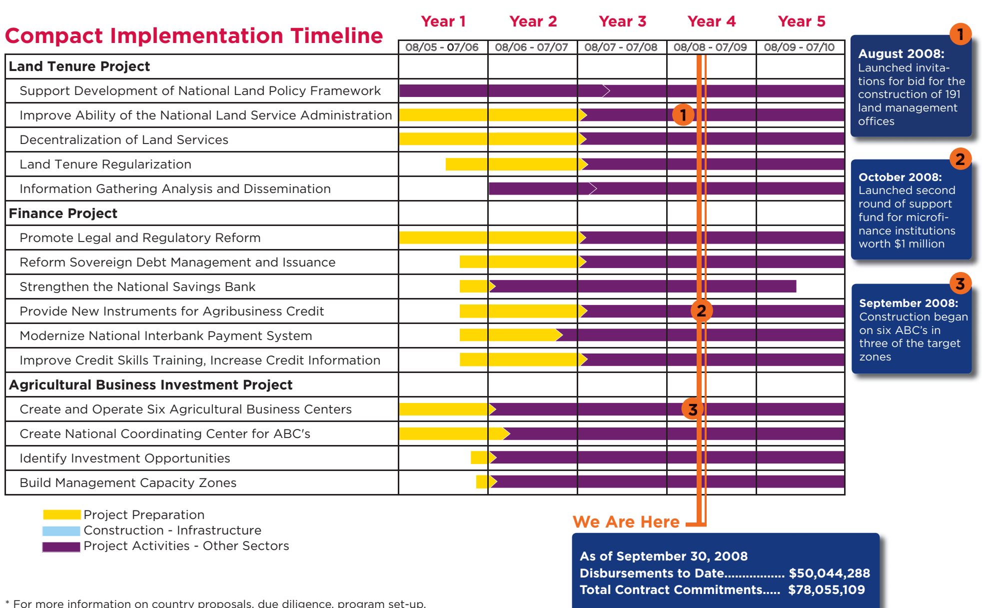
Population 19,448,815*
GNI per Capita $320*

On the Web:
www.mcc.gov
MCA-Madagascar:
www.mcamadagascar.org

World Development Indicators, World Bank, 2007

MILLENNIUM CHALLENGE CORPORATION

Compact Implementation Timeline



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Madagascar

Madagascar

Mali

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

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tatus Report
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Mali Compact Progress

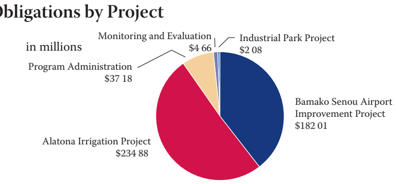
- ★ **Alatona Irrigation Project**: Procurement actions were launched for the agricultural systems development services, upgrades to the main water conveyance system and construction of irrigation canals, as well as the supervision of irrigation construction and design of social infrastructure such as health clinics and schools.
- ★ A local NGO is providing communication and coordination assistance to 800 families in preparation for their relocation to new villages which are adjacent to the irrigated land parcels they will receive as part of their resettlement compensation package.
- ★ The Niono-Goma Coura road construction and supervision contracts are expected to be signed in late October or early November; road resettlement compensation will be complete by December 2008 when construction is scheduled to begin.
- ★ **Bamako-Sénou Airport Improvement Project:** Selection of design and supervision consultants for airside and landside activities is underway with mobilization projected for December 2008. Airside construction activities are scheduled to start in 2009
- ★ *Note: The Mali Compact was formally restructured due to escalating global construction costs, currency fluctuations, and feasibility and operational efficiencies. Funds formerly designated for the Industrial Park Project have been dedicated towards the completion of the Airport Project, as requested by the Government of Mali.*

Compact At-A-Glance

Signed 11/13/2006
Entry Into Force 9/17/2007

The five-year, $460.8 million compact will increase the productivity of agriculture. The compact will expand Mali's access to markets and trade through key infrastructure investments that capitalize on the Bamako-Sénou Airport and the Niger River for irrigated agriculture.

Obligations by Project



$59,614,246 total contract commitments
$10,300,831 disbursed to date

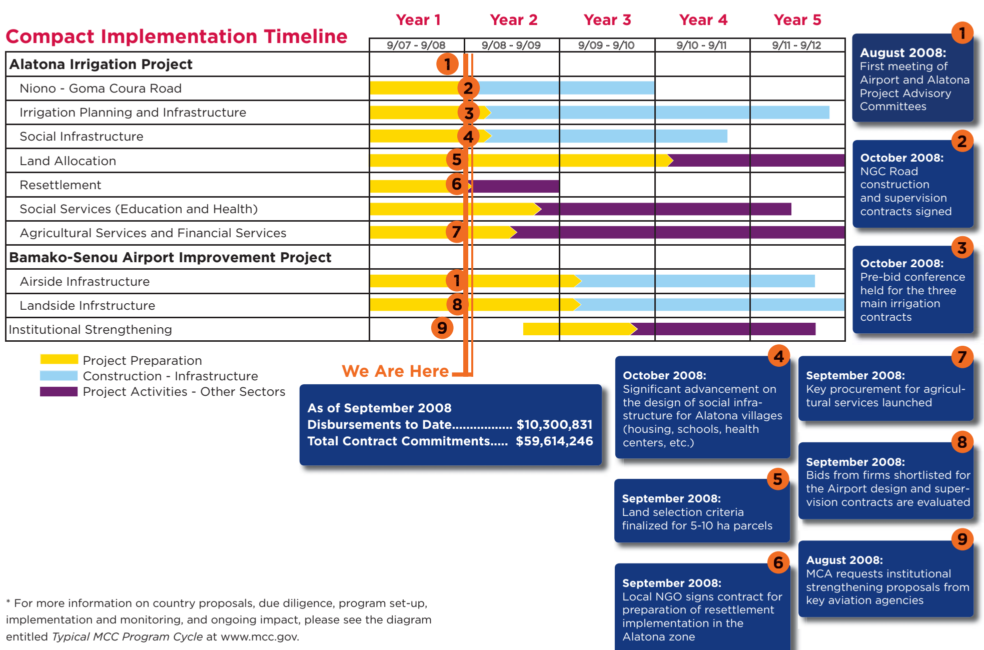
Country At-A-Glance

Population 11,995,402*
GNI per Capita $500*

On the Web:
www.mcc.gov
MCA-Mali:
www.mcamali.org

*World Development Ind cators World Bank 2007

Millennium Challenge Corporation



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Mali

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Challenge Corporation
United States of America

Compact Implementation
Status Report
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Mongolia Compact Progress

- Program Set-Up: The Mongolia Compact entered into force on September 17, 2008, completing the obligation of $284.9 million and officially begining the five-year term for implementation of the Compact.
- MCA-Mongolia (MCA-M), the accountable entity implementing the program, completed the process of hiring its project implementation unit experts and support staff.
- MCA-M has received proposals for key consulting services including: the Rail Project Manager, Rail Audit, Rail Environmental Impact Assessment, and the Technical and Vocational Education Training Evaluations are currently underway.
- MCA-M has conducted comprehensive orientation training for local media representatives about the MCC Compact project.
- A Memorandum of Understanding was signed between MCA-Mongolia and the Ministry of Health, establishing key areas for cooperation and coordination in the Health Program.

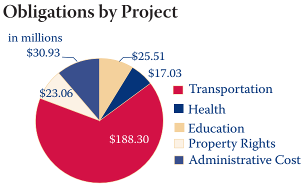
Compact At-A-Glance

Signed 10/22/2007

Entry Into Force.......................... 9/17/2008

The five-year, $284.9 million compact seeks to better enable the country's burgeoning urbanized market based economy and help Mongolians to increase their incomes by becoming healthier and better trained, by using their land assets more productively and by increasing their capacity to trade with the world.

Obligations by Project



$2,290,213 total contract commitments
$1,656,805 disbursed to date

Country At-A-Glance

Population.................................... 2,554,000*

GNI per Capita $1,290*

On the Web:
www.mcc.gov
MCA-Mongolia:
www.mca.mn

World Development Indicators World Bank 2007

Mongolia

Morocco & Mozambique

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Compact Implementation
Status Report
September 30 2008 | www mcc gov

Morocco Compact Progress

★ **Program Set-Up:** After a competitive recruitment process, the steering committee for the Agency of Partnership for Progress (APP) named an APP Director General and six other key directors. APP is the organization responsible for the implementation of the MCA Compact on behalf of the Moroccan government.

★ Major procurements related to all five project activities have been released and contracts are being finalized.

★ The Morocco Compact entered into force on September 15, 2008 completing the obligating of $698 million and officially beginning the five-year term for implementation of the compact program.

★ **Other Highlights:** The U.S. Trade and Development Agency signed a grant agreement with the Moroccan Ministry of Agriculture and Maritime Fishing totaling $531,810 to support development of cold chain storage in sectors targeted by the MCA-funded Fruit Tree Productivity project.

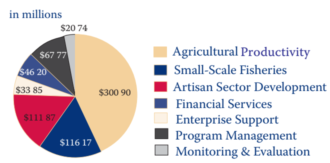
Compact At-A-Glance

Signed 8/3½007

Entry Into Force 9/15/2008

The five-year, $697.5 million compact seeks to increase productivity in high potential sectors, including investments in fruit tree productivity, small-scale fisheries and artisan crafts. Small business creation and growth will also be supported by investments in financial services and trainings for entrepreneurs.

Obligations by Project



$7,971,796 total contract commitments
$775,894 disbursed to date

Country At-A-Glance

Population 30,168,080*

GNI per Capita $2,250*

On the Web:
www.mcc.gov

World Development Indicators World Bank 2007

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Compact Implementation
Status Report
September 30 2008 | www mcc gov

Mozambique Compact Progress

★ **Program Set-up:** The Mozambique Compact entered into force on September 22, 2008, completing the obligation of $506.9 million and officially beginning the five-year term for implementation of the Compact program.

★ MCA continues to launch international competitions for the provision of services required to implement the compact projects. Several outreach events and conferences were held in Mozambique, as well as South Africa, Brazil and United States, countries with strategic alliance with Mozambique, in order to promote the business opportunities financed under the Compact.

★ **Road Rehabilitation Project:** The Government of Mozambique has issued a letter of sector policy that outlines substantial and significant changes to the delivery and management of urban water and sanitation services. This fulfills a condition precedent for the Compact program and is supported by the other donors in the water sector, including the World Bank and other bilateral donors.

★ MCA-Mozambique and MCC hosted a water sector outreach event in Johannesburg, South Africa with the US Foreign Commercial Service to give an overview of MCC and its water sector investments in Southern Africa to potential bidders.

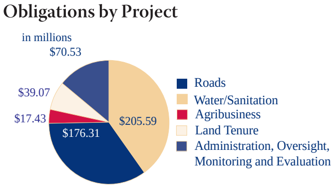
Compact At-A-Glance

Signed 7/13/2007

Entry Into Force 9/22/2008

The five-year, $506.9 million compact seeks to improve rural and urban water and sanitation, roads, land administration, and agriculture. It will also address policy reforms and capacity building initiatives. Work will focus on the economically lagging northern provinces, home to half of the country's population.

Obligations by Project



$5,260,796 total contract commitments
$2,842,952 disbursed to date

Country At-A-Glance

Population 19,792,300*

GNI per Capita $320*

On the Web:
www.mcc.gov

World Development Indicators World Bank 2007

Millennium
Challenge Corporation
United States of America

Compact-Eligible
Country Report
September 30, 2008 | www.mcc.gov

Namibia Program Summary

The Millennium Challenge Corporation's $304.5 million compact with Namibia seeks to reduce poverty and accelerate economic growth throughout the country. The compact focuses on improving the quality of education and providing training for underserved populations, and attempts to capitalize on Namibia's comparative advantages (e.g., large areas of semi-arid communal land suitable for livestock and diverse wildlife and unique landscapes ideal for ecotourism) to increase the incomes of poor Namibians

Program Highlights

★ The MCC resident mission is now fully staffed. MCA-Namibia is currently hiring permanent staff to manage and implement the different compact projects.

★ Upcoming key milestones include compact ratification by the Namibian parliament, the mobilization of the standby Fiscal and Procurement Agents, the signing of the Program Implementation Agreement and Tax Agreement and MCA-Namibia's first request for Compact Implementation Funding.

★ On September 30th the strategic environmental assessment was presented to MCC. The document summarized potential environmental and social impacts of compact activities and presented mitigation strategies to minimize or avoid these issues. This information will be used to expedite environmental assessments and inform compact implementation moving forward.

★ In September, MCC staff travelled to Namibia and led a workshop for MCA-Namibia's Supervisory Board. The event addressed issues relevant to the compact, MCC's structure, the roles and responsibilities of the board and best practices for compact implementation.

Compact Status

Status................Compact Signed

Country Information

Population 2,050,821*

GNI Per Capita $3,230*

Compact Process

	Stage	
☑	Eligibility Notification	11-08-2005
☑	Proposal Receipt	09-29-2006
☑	Opportunity Memo	12-072006
☑	Congressional Notification on Compact Negotiations	04-18-2008
☑	Investment Memo	06-12-2008
☑	Board Approval	07-10-2008
☑	Compact Signing	07-28-2008
	Entry Into Force	
	Initial Disbursement	

Nicaragua

Millennium Challenge Corporation
Challenge Corporation
United States of America

Compact Implementation
Status Report
September 30 2008 | www mcc gov

Nicaragua Compact Progress

★ **Transportation Project:** Nicaragua has made major advancements with the signing of three road construction contracts worth $41.1 million: Villanueva-Guasaule, León-Poneloya and Somotillo-Cinco Pinos. These three contracts will provide for the rehabilitation of approximately 60 kilometers of important economic corridors and access-to-market feeder roads.

★ **Rural Development Project:** The program continues to improve rural income with 2,331 agricultural and livestock business plans under implementation producing higher yields and increasing exports. Of these, 873 livestock and dairy business plans are under implementation supplying quality milk to local and regional industries and leveraging US $ 804,000 in productive loans from local banks.

★ **Land Tenure Regularization Activity:** After successfully completing the aerial photography and mapping of the Department of León, the program has completed its pilot phase in the Department of Nagarote, issuing 2,256 cumulative land titles and property certifications.

★ ***Note:*** *Compact funding allocations for Nicaragua were adjusted in October 2007 to accommodate the construction of the Villanueva-Guasaule primary road, a critical segment of the Pan-American Highway linking Nicaragua and Honduras.*

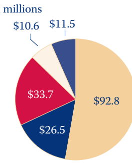
Compact At-A-Glance

Signed..7/14/2005

Entry Into Force..........................5/26/2006

The five-year, $175.1 million compact seeks to reduce transportation costs, improve rural communities' access to markets, and increase wages and profits from farming and related enterprises in the region. Additionally, the compact aims to increase investments by strengthening property rights.

Obligations by Project



$80,585,674 total contract commitments
$33,982,460 disbursed to date

Country At-A-Glance

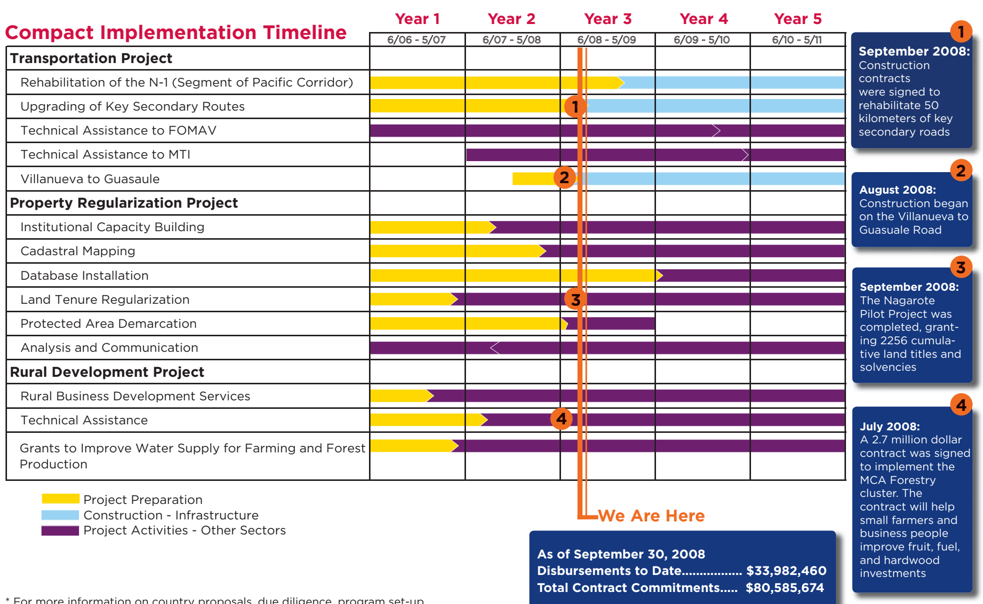
Population...................................5,486,685*

GNI per Capita...................................$980*

On the Web:
www.mcc.gov
MCA-Nicaragua:
www.cuentamilenio.org.ni

World Development Indicators World Bank 2007

Millennium Challenge Corporation



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Nicaragua

Millennium
Challenge Corporation
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Compact Implementation
tatus Report
September 30 2008 | www mcc gov

Vanuatu Compact Progress

- ★ **Transportation Infrastructure Project**: MCA-Vanuatu has signed a $54 million design and build contract for the construction of the Efate Ring Road and segments of the Santo East Coast Road. Design work for the Efate Ring Road is well underway and construction began in September 2008.
- ★ Environmental and social assessments for the island of Efate have been finalized and mitigation measures are in progress. Resettlement agreements are being signed ahead of schedule.
- ★ **Institutional Strengthening:** MCA is in the final stages of the procurement process for maintenance equipment for the Public Works Department. This equipment will help increase the department's maintenance capacity and ensure the sustainability of the projects. A new Engineering Support Unit has been established within PWD with a current staffing of four dedicated to the compact programs.
- ★ *Note: Compact funding allocations for Vanuatu have been adjusted to reflect higher than expected infrastructure project costs. MCC will fund up to 70% of the road rehabilitation planned in the compact which now will be on the two main islands of Vanuatu rather than the eight islands originally planned. MCC has actively supported the Government of Vanuatu in negotiations with other donors to finance as much as possible of the remaining original project components.*

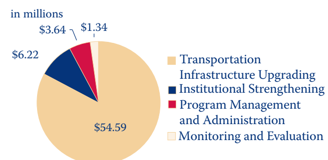
Compact At-A-Glance

Signed 3/29/2006

Entry Into Force.......................... 4/28/2006

The five-year, $65.7 million compact focuses on improvements to the country's transportation infrastructure. The program will benefit rural agricultural producers and the tourism sector by reducing transportation costs and improving transportation services.

Obligations by Project



$61,275,541 total contract commitments
$24,160,429 disbursed to date

Country At-A-Glance

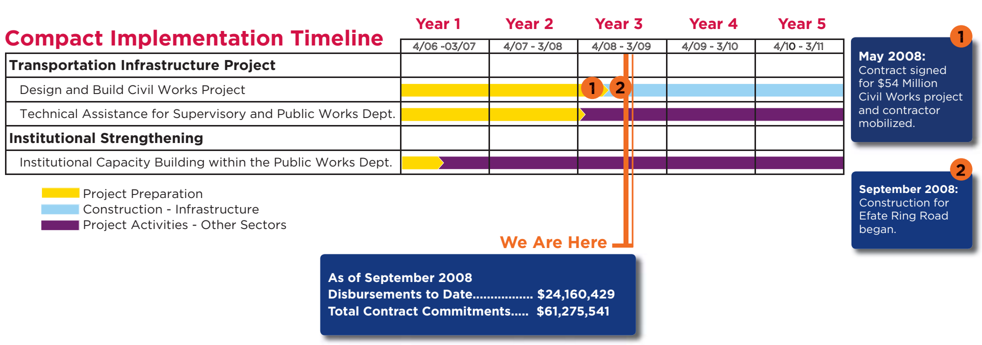
Population.. 211,400*

GNI per Capita $1,840*

On the Web:
www.mcc.gov
MCA-Vanuatu:
www.governmentofvanuatu.gov.vu/mca-vanuatu

*World Development Indicators World Bank 2007

Compact Implementation Timeline



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Vanuatu

Vanuatu

Tanzania

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Compact Implementation Status Report
September 30 2008 | www mcc gov

Tanzania Compact Progress

★ **Program Set Up:** The Tanzania Compact entered into force on September 17, 2008, officially obligating the full $698 million and beginning the five-year term for implementation of the Compact program.

★ MCA-Tanzania, the accountable entity responsible for implementing the Compact, is fully staffed and working to complete the preparatory work necessary for successful implementation of Compact activities.

★ MCA-Tanzania signed implementing entity agreements with the Tanzania Electric Supply Company and the Tanzania National Roads Agency. The former will facilitate the implementation of the Energy Sector Project and the latter a significant portion of the Transport Sector Project. Additional implementing entity agreements are expected to be signed with other Government of Tanzania agencies later this year.

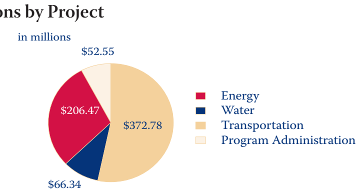
★ **Other Highlights:** In October 2008 MCA-Tanzania signed the first consulting and supervising engineer contract for the energy sector work, for a total of nearly $20 million over five years. This is the first of several such contracts that will assist MCA-Tanzania in preparing for, procuring and then supervising the various works contracts under the Compact.

Compact At-A-Glance

Signed	2/17/2008
Entry Into Force	9/15/2008

The five-year, $698.1 million compact seeks to stimulate economic growth, increase household incomes, and raise the quality of life in program areas through targeted infrastructure investments in transportation, energy and water.

Obligations by Project



$1,032,644 total contract commitments
$315,187 disbursed to date

Country At-A-Glance

Population	39,477,000*
GNI per Capita	$400*

On the Web:
www.mcc.gov
MCA-Tanzania:
www.mca-t.go.tz

World Development Indicators World Bank 2007

Appendix B: Financial Statements

Millennium Challenge Corporation
Fund Summary
As of September 30, 2008 (in $)

FUND Grouping	FY 2008 Quarter 4 Obligations	FY 2008 Obligations*	Cumulative Obligations FY 2004-2008	FY 2008 Quarter 4 Disbursements	FY 2008 Disbursements	Cumulative Program Disbursements* FY 2004-2008	Projected Cumulative Program Disbursements* FY 2004-2009	Cumulative MCC Disbursements FY 2004-2008	Projected Cumulative Disbursements FY 2004-2009
609(g)**	0	10,513,525	59,673,783	2,734,824	9,823,797	36,499,170	56,499,170	36,499,170	56,499,170
ADMINISTRATIVE*** EXPENSES	25,821,273	84,513,336	283,361,246	24,104,879	85,154,483			256,058,809	341,058,809
AUDIT EXPENSES	2,500,000	3,101,934	10,127,487	747,847	2,387,919			7,947,146	11,447,146
COMPACTS****	2,495,044,663	2,512,696,287	5,568,027,238	111,604,236	228,896,745	353,602,831	853,602,831	353,602,831	853,602,831
DUE DILIGENCE	12,881,415	32,870,260	117,652,067	-2,238,704	17,258,480	69,501,216	94,501,216	69,501,216	94,501,216
THRESHOLD††	41,769,059	125,746,893	451,696,147	36,672,853	131,236,090	199,108,794	381,608,794	199,108,794	381,608,794
Total	2,578,016,410	2,769,442,236	6,490,537,969	173,625,935	474,757,513	658,712,012	1,386,212,012	922,717,967	1,738,717,967

*Program Disbursements include all fund groupings, except administrative and audit expenses.

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

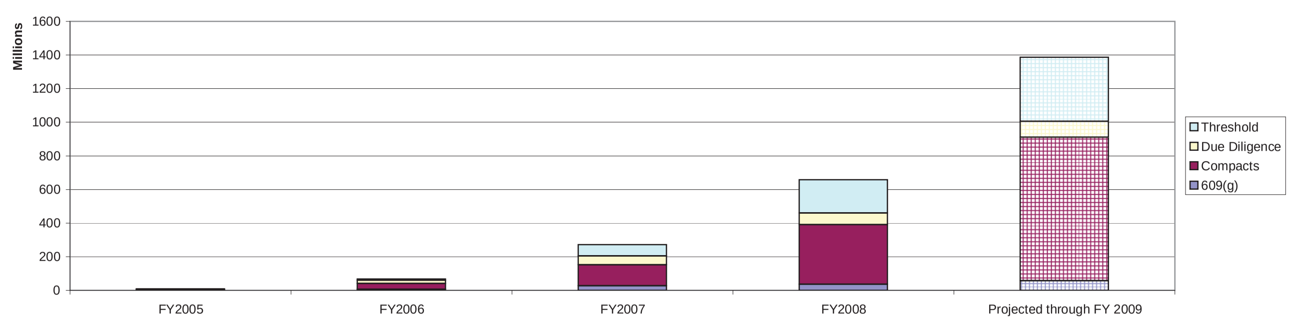
***Administrative Funds for FY 2008 "Obligations" are the net of obligations and deobligations occurring within the fiscal year.

****The fund grouping "Compacts" includes Compact Implementation Funding, Compacts, and other grants except those made using threshold program and 609(g) fund groupings. "Obligations" and "Disbursements" (FY 2008 and Cumulative) for "Compacts" are understated by $289,110. This discrepancy is being researched and will be corrected in a future update.

†The negative Quarterly Disbursement amount is due to the reversal of an accrual from a prior period that exceeded the amount of the actual.

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

Total MCC Cumulative Program Disbursements
As of September 30, 2008



Administration and Finance
Quarterly Report to Congress - Compact and Compact Related

As of September 30, 2008

($; in millions)

Country	FUND Grouping***	Status	Signing Date	Entry Into Force	Obligations				Projected Obligations		Disbursements				Projected Disbursements					
					FY2005	FY2006	FY2007**	FY2008	FY2009	FY2010	FY2005	FY2006	FY2007**	FY2008***	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Armenia	609g					0.5	(0.5)					0.0	(0.0)							
	COMPACTS	EIF	3/27/2006	9/29/2006		235 2	0 5						7 9	16 3	*31 1*	*89 0*	*92 7*			
	DDILIGENCE				0.4	0.7	1.1	1.3			0.1	0.2	0.9	0.6						
Benin	609g					1 5	(1 5)					0 5	(0 5)							
	COMPACTS	EIF	2/22/2006	10/6/2006			307.3						13.4	11.0	*42.5*	*99.3*	*141.1*			
	DDILIGENCE				0 7	1 3	1 3	0 9			0 0	1 2	0 6	0 4						
Burkina Faso	609g							9.4						2.2						
	COMPACTS	Signed	7/14/2008	*Estimated Quarter 4 FY2009*				16 1	*464 8*					3 3	*1 7*	*74 1*	*96 5*	*163 4*	*108 0*	*34 1*
	DDILIGENCE				0.0	0.3	4.4	1.8			0.0	0.0	1.0	4.0						
Cape Verde	609g				0.2						0.2	0.0	0.1							
	COMPACTS	EIF	7/7/2005	10/17/2005		110.1						7.5	6.4	13.1	*24.2*	*55.8*				
	DDILIGENCE				1.7	0.2	0.2	1.8			0.5	0.3	0.6	0.4						
Georgia	609g				4.2	1.1	(0.5)	(0.6)			0.0	2.4	1.1	0.3						
	COMPACTS	EIF	9/12/2005	4/7/2006		294.7		0.6				10.1	19.9	43.1	*36.2*	*121.3*	*64.6*			
	DDILIGENCE				0 8	4 0	2 3	1 6			0 2	1 9	2 5	1 2						
Ghana	609g				0.1	13.5	(10.4)				0.1		2.8	0.4						
	COMPACTS	EIF	8/1/2006	2/16/2007			547 0						9 3	16 6	*94 4*	*248 3*	*128 5*	*50 5*		
	DDILIGENCE				0.2	4.6	0.2	2.2			0.0	1.8	2.0	0.4						
Honduras	COMPACTS	EIF	6/13/2005	9/29/2005	215 0							3 0	8 0	24 0	*48 8*	*124 1*				
	DDILIGENCE				0.7	1.0	0.5	0.7			0.3	0.6	0.5	0.5						
Jordan	COMPACTS	Draft Concept Papers	TBD	TBD						*350.0*										
	DDILIGENCE							0.0												
Lesotho	609g				0 6	0 6	0 1					0 3	0 6	0 1						
	COMPACTS	EIF	7/23/2007	9/17/2008			15.7	346.9						4.0	*12.3*	*67.8*	*114.1*	*98.4*	*66.8*	
	DDILIGENCE					0 1	3 4	2 8				0 0	2 8	0 9						
Morocco	COMPACTS	EIF	8/31/2007	9/15/2008			32.4	665.1					-	0.8	*21.2*	*194.1*	*221.1*	*157.2*	*103.7*	
	DDILIGENCE					0 2	4 7	2 3				0 0	3 3	0 8						
Madagascar	609g				1.3		(1.3)													
	COMPACTS	EIF	4/18/2005	7/27/2005	109 8						2 5	7 1	13 1	27 3	*25 8*	*30 3*				
	DDILIGENCE				0.3	0.5	2.3	0.3			1.3	0.4	0.1	0.5						
Mali	609g					5 1	4 6					0 7	6 2	2 7						
	COMPACTS	EIF	11/13/2006	9/17/2007			460.7	0.1					2.1	8.2	*41.6*	*129.7*	*161.8*	*117.5*		
	DDILIGENCE				0 2	1 5	0 9	1 6			0 0	0 7	1 1	0 9						
Moldova	COMPACTS	Program Development	TBD	TBD					*25.0*	*475.0*										
	DDILIGENCE							0.1						0.0						
Mongolia	COMPACTS	EIF	10/22/2007	9/17/2008				284 9						1 7	*16 3*	*97 1*	*73 0*	*78 2*	*18 6*	
	DDILIGENCE					1.4	2.1	1.7				0.3	1.8	1.1						
Mozambique	609g					13 9	(0 4)					0 9	6 6	1 8						
	COMPACTS	EIF	7/13/2007	9/22/2008			25.3	481.6						2.8	*12.8*	*173.8*	*168.8*	*74.0*	*74.7*	
	DDILIGENCE				0 0	1 0	2 8	1 6				0 1	1 8	1 0						
Nam bia	609g							3.2						0.9						
	COMPACTS	Signed	7/28/2008	*Estimated Quarter 4 FY2009*				19.5	*284.9*						*3.2*	*41.0*	*71.8*	*95.2*	*65.8*	*27.5*
	DDILIGENCE					0 0	2 4	0 9				0 0	0 9	1 9						
Nicaragua†	609g					0.1	(0.1)					0.0	(0.0)							
	COMPACTS	EIF	7/14/2005	5/26/2006		174.9	0.1	(0.3)				2.2	7.8	24.3	*32.5*	*62.1*	*46.3*			
	DDILIGENCE				0 5	0 9	0 8	0 8			0 2	0 7	0 3	0 4						
Senegal	609g							(1.6)				1.6	3.0	0.1						
	COMPACTS	Program Development	TBD	TBD					*21.3*	*403.8*										
	DDILIGENCE							(0 2)			0 0	0 1	0 1	0 0						
El Salvador	COMPACTS	EIF	11/29/2006	9/20/2007			460.9	0.0					2.2	10.0	*32.9*	*145.8*	*91.2*	*169.4*		
	DDILIGENCE					2 0	1 7	1 5				1 2	0 9	1 2						
Tanzania	609g						9.8							1.3						
	COMPACTS	EIF	2/17/2008	9/15/2008				698 1						0 3	*11 1*	*149 3*	*249 4*	*196 8*	*91 2*	
	DDILIGENCE					0.2	5.4	3.8				0.0	3.7	1.6						
Timor-Leste	COMPACTS	Concept Paper Submitted	TBD	TBD					*10.0*	*190.0*										
Vanuatu	COMPACTS	EIF	3/2/2006	4/28/2006		65 7						1 6	0 4	22 2	*11 5*	*22 4*	*9 9*			
	DDILIGENCE					2.1	1.1	0.6				0.6	0.9	0.2						
Non-Compact/ Cross-Cutting Initatives	609g					6 5														
	COMPACTS																			
	DDILIGENCE				6 3	7 5	5 7	4 7			2 8	4 2	6 5	(0 7)						
Total					343.0	953.0	1,893.1	2,556.1	*806.0*	*1 418.8*	8.3	52.3	142.9	256.0	*500.0*	*1 925.4*	*1 730.6*	*1 200.5*	*528.8*	*61.6*

Footnotes

*MCC anticipates FY 2009 disbursements to be within 10 percent of the projections. MCC's assessment of risks across the whole portfolio of compacts and is, therefore, lower than the sum of all compact countries' MCA work plan projections. FY 2009 Projections are based on detailed project planning and represent the full year's projection. Projections for FY 2010 and beyond are based on general program plans and are subject to revision as more detailed planning occurs. Program implementation involves uncertainty associated with factors such as procurement process, construction schedules, and capacity of Accountable Entities and Implementing Entities. Projected disbursements will be contingent on contract deliverables meeting expected timelines and quality standards. The projected obligations for Jordan, Moldova, Senegal and Timor-Leste are notional and are likely to increase or decrease based on negotiations with the countries and Board Approval.

**During FY 2007, the Compact Implementation Funding (CIF) was created as a new fund type. CIF, originally classified as 609(g), was then reclassified to CIF (COMPACT). This change caused several of the obligations and disbursements to become negative for 609(g) due t the timing of this accounting event.

***Disbursements before FY 2008 were adjusted to be in line with a new accounting po icy

†FY 2008 Obligations and Disbursements for Nicaragua are understated by $289,110. This issue is being researched and will be corrected in a future update.

Compacts in Development

Estimates as of September 30, 2008

Country	Expected Signing	Current Status	Estimated Grant Amount (in $ millions)
Burkina Faso	FY 2008 - Quarter 4	Signed, moved to Compact Implementation	$481
Namibia	FY 2008 - Quarter 4	Signed, moved to Compact Implementation	$304
Bolivia	*TBD*	Proposal	N/A
Jordan	*TBD*	Draft Concept Papers in development	$300-350
Malawi	*TBD*	Constraints and Sector Analyses	$400-450
Moldova	*TBD*	Program Development	$450-550
Philippines	*TBD*	Draft Concept Papers submitted	$500-700
Senegal	*TBD*	Program Development	$400-500
Timor-Leste	*TBD*	Concept Papers submitted	$150-200
Ukraine	*TBD*	Core Team Established	N/A

TBD--The date for expected compact signing depends on a country's progress in the compact development process and on the availability of funds.

Major stages in compact development process:
1. Selected
2. Core Team Established
3. Public Consultations Commenced
4. Constraints and Sector Analyses
5. Concept Paper(s) or Proposal (in development or submitted)
6. Program Development & Appraisal
7. Investment Memo
8. Negotiations
9. Board Approval
10. Signed

Millennium Challenge Corporation
MCC Quarterly Report to Congress - Threshold Country Programs
As of September 30, 2008
(in millions)

				Obligations*				Projected Obligations****		Disbursements				Projected Disbursements			
Country	Status	Signing Date	FY	2005	2006	2007	2008	2009	2010	2005	F2006	2007	2008	2009	2010	2011	2012
Albania 1	Signed	4/3/2006			13.9							4.9	7.7	1.2			
Burkina Faso	Signed	7/22/2005		12.9							0.3	10.9	1.5	0.1			
Guyana	Signed	8/23/2007			0.1	6.7					0.1		1.2	2.8	2.8		
Indonesia	Signed	11/17/2006				55.0						1.8	19.6	21.0	12.7		
Jordan	Signed	10/17/2006				25.0						3.2	9.6	7.3	4.9		
Kenya	Signed	3/23/2007				12.7							0.9	11.8			
Kyrgyz Republic	Signed	3/14/2008					16.0						0.4	9.3	6.2		
Malawi	Signed	9/23/2005			20.9						6.2	6.9	6.3	1.5			
Moldova	Signed	12/15/2006				24.7						0.5	9.7	14.6			
Niger	Signed	3/17/2008					23.1							6.9	13.8	2.3	
Paraguay 1	Signed	5/8/2006			34.6					0.0	0.6	7.8	15.2	11.1			
Peru	Signed	6/9/2008					35.6							17.8	17.8		
Philippines	Signed	7/26/2006			20.7							2.1	9.4	9.2			
Rwanda	Signed	9/24/2008					24.7						0.0	7.4	14.8	2.5	
Sao Tome & Principe	Signed	11/9/2007		0.2			8.7			0.0	0.2		0.7	7.8	0.2		
Tanzania	Signed	5/3/2006			11.2						0.1	2.8	6.4	1.8			
Uganda	Signed	3/29/2007				10.4						0.0	3.3	7.1			
Ukraine	Signed	12/4/2006				45.0						1.3	14.4	29.3			
Zambia	Signed	5/22/2006			22.7						0.2	12.4	9.5	0.6			
Albania 2	Signed	9/29/2008					15.7							4.7	9.4	1.6	
Timor-Leste**	Compact Development					0.1						0.1					
Yemen†	Board Approved			0.1	0.0						0.0	0.1					
Paraguay 2††	Proposal in Development							30.0						9.0	18.0	3.0	
Sum				13.2	124.1	179.7	123.8	30.0		0.0	7.7	54.7	115.9	182.5	100.6	9.4	
*USAID Administrative Fee****				*0.9*	*8.7*	*12 6*	*8.1*	*2.1*									

*"Obligations" and "Disbursements" amounts include funding for technical assistance to develop threshold country plans and for independent monitoring and evaluation.

** Technical assistance was provided to develop Timor-Leste's threshold country plan in 2005, but funds were not obligated until FY 2007.

*** The USAID Administrative Fee is equal to 7 percent of the program cost for each threshold country except for Sao Tome and Principe, whose threshold program is being administered by the U.S. Department of Treasury.

****The projected obligations are notional and are likely to change after negotiations of the threshold program agreements. Projected disbursements are based on USAID and U.S. Department of Treasury estimates.

†Further action on the Yemen threshold program is on hold until further notice.
†† Paraguay 2 will use FY 2008 appropriations.

Office of Inspector General
for the
Millennium Challenge Corporation

November 17, 2008

Ambassador John J. Danilovich
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, N.W.
Washington, DC 20005-2203

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2008 and 2007
Report No. M-000-09-001-C

Dear Mr. Ambassador,

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, 2008. 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, *Audit Requirements for Federal Financial Statements,* and the GAO/PC E *Financial Audit Manual.*

In its audit of the MCC's financial statements for the period ending September 30, 2008 the auditors found:

- that the financial statements were fairly presented in conformity with U.S. Generally Accepted Accounting Principals.
- four significant deficiencies in the internal controls over financial reporting and its operation, one of which is considered a material weakness.
- no instances of material noncompliance with laws and regulations.

Significant deficiencies increase the risk of improper recording, unauthorized transactions, omissions, potential funds control violations and noncompliance with laws, regulations, contracts and grant agreements. Cotton & Company LLP reported the following internal control significant deficiencies:

1. Absence of quality controls over financial reporting (material weakness)
2. Authorization for personnel actions inconsistent with stated policies and procedures.
3. Transactions not recorded in the period they occurred, and
4. Lack of adequate review for accuracy and duplication prior to processing and recording transactions in General Ledger.

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, was not intended to enable the OIG to express, and we do not express, opinions on MCC's financial statements, or internal control; or on MCC's compliance with applicable laws and regulations. Cotton & Company, LLP is responsible for the attached auditor's report, dated November 14, 2008, 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 are making the following recommendations to MCC's management:

Recommendation No. 1 We recommend that the Millennium Challenge Corporation management

1.1. Perform detailed quality control reviews to ensure compliance with accounting standards and reporting guidance.

1.2. Review and revise written policies and procedures regarding the preparation of the financial statements and related footnote disclosures to ensure that all financial statement line items are reported accurately and properly supported, and that any adjustments are reviewed and approved before recording in the GL by NBC. Document the above processes to ensure that an audit trail is available for all line items and amounts reported.

1.3. Effectively coordinate with its service providers (USAID and NBC) to ensure timely and accurate receipt of final trial balance information sufficient to prepare complete financial statements in accordance with OMB Circular A-136.

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Recommendation No. 2 We recommend that the Millennium Challenge Corporation's management

Review and revise its process for requesting, authorizing, and certifying its personnel actions to ensure all actions are properly authorized, documented, and retained prior to the action being processed into the personnel database.

Recommendation No. 3 We recommend that the Millennium Challenge Corporation management

Develop and adhere to all policies and procedures related to quarterly and yearend reporting to ensure that all appropriate transactions are reviewed and a determination is made as to the amounts to accrue for the current period and the accrual amount is properly prepared, clearly documented, and supported and that it is reviewed by both the service provider, NBC, and MCC for completeness and accuracy prior to and subsequently after posting to the GL.

Recommendation No. 4 We recommend that the Millennium Challenge Corporation management

4.1. Ensure that procedures for reviewing accruals and adjustments recorded by NBC are effectively performed to ensure each is valid and has been properly recorded.

4.2. Require documentation to support the entry of a JV to avoid duplication of the transactions. In addition, use of a consistent naming convention when entering JVs should be required to avoid duplication.

4.3. Ensure that PP&E reconciliations are effectively performed each quarter and that amortization schedules are accurate and complete.

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 occurred for the audit recommendations. Please inform us when final action has been taken.

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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 or Richard J. Taylor, Director, Financial Audits Division, at (202) 216-6963, if you have any questions concerning this report.

Sincerely,

Alvin A. Brown /s/
Assistant Inspector General
Millennium Challenge Corporation

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TABLE OF CONTENTS

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Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT

We have audited the Balance Sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year 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 audit The financial statements of MCC as of September 30, 2007, were audited by other auditors whose report dated October 23, 2007, expressed an unqualified opinion on those statements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements* These standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCC as of September 30, 2008, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America

Management's Discussion and Analysis (MD&A) and other accompanying information are not required as part of MCC's basic financial statements For MD&A, which is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No 15, *Management's Discussion and Analysis*, 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 audit For other accompanying information, we compared information with the financial statements 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

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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 4, 2008, 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 audit

COTTON & COMPANY LLP

Colette Y Wilson, CPA
Partner

November 14, 2008
Alexandria, Virginia

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Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the Balance Sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended We have issued our report thereon dated November 4, 2008 We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit e uirements or edera inan ia Statements*

In planning and performing our audit, we considered MCC's internal control over financial reporting as a basis for designing audit 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 the MCC's internal control over financial reporting Accordingly, we do not express an opinion on the effectiveness of MCC's internal control over financial reporting

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

We noted four matters involving internal control and its operation that we consider to be significant deficiencies These matters are listed below and are detailed in the report

- Quality Control over Financial Reporting
- Authorization for Personnel Actions
- Proper Reporting Period
- Postings to the General Ledger

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control

Our consideration of internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses However, we consider the significant deficiency related to Quality Control over Financial Reporting to be a material weakness as defined above

UALIT CONTROL O ER INANCIAL REPORTIN

MCC's quality control over quarterly and yearend financial reporting is not sufficient to enable the agency to detect errors and misstatements and to make corrections in a timely manner During our interim test work and review of quarterly statements and trial balances, we identified several control deficiencies in financial reporting that contributed to a significant deficiency We brought these deficiencies to the attention of management

At the conclusion of yearend test work and after having received final statements and notes, we noted that deficiencies previously brought to management's attention remained uncorrected It is the combination and continuous nature of identified significant deficiencies that raised this finding to the level of a material weakness Specifically we found that:

- Despite frequent communications and early coordination with the United States Agency for International Development (USAID), MCC was unable to ensure timely submission of complete and accurate trial balance information and adjustments for reporting Threshold Program balances in its final financial statements, and lacked adequate cooperation from USAID We noted the following:
  - MCC prepared final FY 2007 statements with preliminary trial balance information from USAID USAID's FY 2007 Federal Agencies' Centralized Trial Balance System II (FACTS II) transmission was not completed in a timely manner sufficient for MCC reporting Subsequent adjustments for FACTS II reporting were included in FY 2008 beginning balances, thus creating differences in beginning and ending balances
  - MCC, in conjunction with its auditors, discussed the timing of final adjustments necessary for accurate and complete FY 2008 yearend reporting with USAID Final trial balances were due by October 20, and USAID submitted the final trial balance when due On November 6, however, USAID informed MCC that an additional budgetary adjustment of $5 2 million was being posted during the FACTS II revision period MCC had submitted final statements for audit on November 5
- MCC did not prepare comparable FYs 2008 and 2007 quarterly statements and FYs 2007 and 2006 audited statements These statements contained prior-year ending balances that did not tie to beginning balances for the current year We noted the following discrepancies
  - FY 2006 ending balances did not agree to FY 2007 beginning balances for the following line items:

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  - – Unobligated Balance differed by $25,114,174
    – Obligated Balance differed by $135,345,240
    – Cumulative Results of Operations (CRO) differed by $834
  - FY 2007 ending balances did not tie to beginning FY 2008 balances for the following line items:
    - – Unobligated Balance differed by $4,324 in the first- and second-quarter statements and by $3,437,077 in the third-quarter statements due to formula errors
    - – Obligated Balances (Unpaid) differed by $1,213,646 in the first- and second-quarter statements and by $4,646,399 in the third-quarter statements due to formula errors
    - – Unexpended Appropriations differed by $3,621,292
  - In addition, the following ending FY 2007 account balances did not tie to beginning FY 2008 balances
    - – FBWT differed by 3,969,761
    - – Advances differed by $72,105
    - – Accounts Payable 420,574

  MCC restated FY 2006 ending balances, and audit adjustments were proposed to correct FY 2008 balances in the current year

- MCC does not perform detailed quality control reviews over quarterly and yearend MCC trial balances and financial statements submitted for review and audit We noted the following:
  - The Excel file prepared by MCC's service provider, the National Business Center (NBC), and used to prepare FY 2008 third-quarter financial statements, contained errors in formulas and cell references According to MCC personnel, these errors were made when combining the MCC and USAID trial balances These errors were not detected by NBC personnel and were not detected or corrected by MCC personnel prior to submission to the auditors As a result of these errors, third-quarter statements contained incorrect and missing line item balances, and the trial balance showing the beginning balances did not net to zero Specifically:
    - – The Appropriations Used line items on the Statement of Changes in Net Position (SCNP) for CRO and Unexpended appropriations did not agree
    - – Rescissions of $12,611,700 at third quarter were recorded in the general ledger (GL), however it was not reported on the SCNP as a part of Unexpended Appropriations
  - MCC does not conduct a thorough review or analysis of USAID-prepared trial balances for MCC's Threshold Program before including these in the financial statements

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- The trial balance for the financial statement package submitted for audit on November 10 did not balance to zero for all program funds The balance of all GL accounts for Due Diligence funds totaled $156,399 The balance of GL accounts related to Program funds totaled $(126,214) Even with these differences, which net to $30,185, the total of all GL accounts for all funds was recorded as zero Proposed audit adjustments were not fully posted MCC did not post audit adjustments related to GL account 4610, *A otments ea i ed esour es*, and thus the trial balance did not balance

- While the statements are prepared electronically using Excel, the preparation lacks edit checks to ensure proper relationships exist among line items MCC and NBC do not perform sufficient reconciliations, analyses, and reviews to ensure that appropriate and/or reasonable relationships exist within GL accounts and financial statement line items, and that all footnote disclosures are complete and accurate per the financial statement line items For example:

  - Reporting of UDOs in MCC's footnotes only included amounts from GL account 4801, *n aid*, and thus was incomplete Balances in GL accounts 4802, *aid*, 4871, *o n ard Ad ustments*, and 4881, *ard Ad ustments*, were omitted, thus causing the footnote amount to be understated by more than $42 million

  - Testing related to the proper relationship existing between budgetary accounts payable and proprietary accounts payable at third quarter showed a difference of $5,117,519 Testing related to the proper relationship existing between budgetary expended authority and proprietary expenses at third quarter showed a difference of $149,836

  - The Statement of Financing (SOF) footnote did not properly reconcile MCC's Net Cost of Operations to its budgetary resources, because Gross Obligations did not agree with the amount reported on the Statement of Budgetary Resources

OMB Circular A-136, *orm and ontent o er orman e and A ounta i it e ort A* , 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
>
> With an allocation transfer All costs are then consolidated in the parent's financial statements in order to provide a complete cost of the parent's program Effective FY2007, the parent must report all budgetary and proprietary activity in its financial statements, whether material to the child, or not Receiving agencies with transfer appropriation accounts must submit a full USSGL trial balance with attributes to the parent no later than 12 calendar days following the end of the reporting period or a date required by the parent to meet its reporting and auditing deadlines, whichever comes first

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By not reviewing components comprising the financial statement line items, MCC may present statements that are not comparative, accurate, or in compliance with applicable requirements In addition, by not performing such reviews, MCC is not taking full ownership and responsibility of its financial statements

R

We recommend that MCC management:

- Perform detailed quality control reviews to ensure compliance with accounting standards and reporting guidance

- Review and revise written policies and procedures regarding the preparation of the financial statements and related footnote disclosures to ensure that all financial statement line items are reported accurately and properly supported, and that any adjustments are reviewed and approved before recording in the GL by NBC Document the above processes to ensure that an audit trail is available for all line items and amounts reported

- Effectively coordinate with its service providers (USAID and NBC) to ensure timely and accurate receipt of final trial balance information sufficient to prepare complete financial statements in accordance with OMB Circular A-136

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concurs it t e recommendations as u lis ed, in its F anual on Financial Re orting, Financial Audits, and erformance and Accounta ilit Re orts, F , rocedures regarding t e re aration of financial statements and footnote disclosures to ensure t at financial statement items are re orted accuratel and are ro erl su orted ill revise e and its ritten rocedures to include rocedures to erform detailed qualit control revie s to include revie ing ad ustments recorded to ensure eac is valid and as een ro erl recorded Furt er, ill develo and im lement rocedures and documentation t at rovides an audit trail su orting management revie and a roval stimated com letion date o later t an arc ,

as made ainsta ing efforts to mitigate t e re orting difficulties it SA in its ca acit as a service rovider uring t e last fiscal ear as met it SA on four different occasions to discuss, among ot er t ings, t e timing of deliver of its delivera les ur meetings too lace et een Se tem er and cto er , ur most recent meeting, eld in con unction it t e G, demonstrated t at ile SA ma es an effort to meet t e requirements of ircular A and our emorandum of nderstanding, t eir s stem of controls revents t em from ensuring e receive final delivera les timel ill continue its efforts to or it SA to eliminate t is ma or source of financial statement errors and misstatements

elieves it as ta en full o ners i and res onsi ilit for its financial statements converted its statements to com l it ircular A in advance of t e mandated date of Se tem er , n con unction it t is c ange assumed res onsi ilit for t e re aration of all of its footnote disclosures and associated e i its As stated a ove, ill e im lementing measures to im rove qualit control in accordance it t e auditors recommendations

Aut ori ation or Personnel Actions

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MCC's process of documenting requests and authorizations for personnel actions (SF-52s) is inconsistent with stated policies and procedures In lieu of authorizing signatures on the SF-52, MCC relies on emails for requests and approvals MCC also relies on systematic notifications from its performance management and staffing system, Avue, for requests and approvals related to promotions or internal transfers of its employees

During our testing of a sample of 45 employees, we noted:

- Twelve instances where SF-52s were not signed by the requesting official and/or the certifying official, nor was email documentation present in the Official Personnel File (OPF) or subsequently provided;
- Four instances where the OPF did not have either the SF-52 or email documentation authorizing the personnel action; and
- One instance where an employee was not systematically selected for hire in the Avue system at the time the SF-52 was created and processed

During our testing of a sample of 10 newly hired employees, we noted:

- Two instances where SF-52s were not signed by the requesting, authorizing, and/or certifying officials, nor were email documentation or Avue screenprints documented in the OPF or subsequently provided; and
- Three instances where SF-52s were not signed by the certifying official nor was email documentation present in the OPF or subsequently provided

Office of Personnel Management's (OPM), *e Guide to ro essing ersonne A tions*, Chapter 4, *e uesting and o umenting ersonne A tions*, Section 4c, *A rova o ersonne A tions*, states:

> Personnel actions must be approved by the appointing officer on or before their effective dates An appointment officer is an individual in whom the power of appointment is vested by law or to whom it has been legally delegated Only an appointment officer may sign and date the certification in Part C-2 of the Standard Form 52 the appointing officer is responsible for ensuring that each personnel action meets all legal and regulatory requirements

For personnel action requests, we noted that the requesting officials, authorizing officials, and approving officials did not sign in their designated area to document as validation and approval of for the action In cases where SF-52s are not signed or are not drafted, MCC's process is to rely on email authorizations from appropriate officials to serve as supporting documentation for actions to be processed Per our interview conducted with Human Resources (HR) personnel, email authorizations are placed in the employees' OPF as supporting documentation for processed personnel actions However, as noted above, email authorizations were not located in all OPFs nor were they maintained in a centralized location for subsequent access and retrieval

By not properly completing and processing personnel action requests with appropriately documented authorizations, there is increased risk that personnel actions could be falsely created and processed, or that personnel actions could be processed with incorrect legal and regulatory actions

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We recommend that MCC review and revise its process for requesting, authorizing, and certifying its personnel actions to ensure all actions are properly authorized, documented, and retained prior to the action being processed into the personnel database

Management Response

concurs it t is recommendation e uman Resources ivision R as recogni ed t e deficienc in documentation SF s in t e F s Since s conversion to t e com etitive iring rocess and as art of our elegating amining Aut orit , R s staffing s ecialists ave esta lis ed an electronic or flo a roval aut ori ation rocess it in Avue to include all ersonnel actions All staffing actions ill e electronicall signed off on and a arent on all SF s it in t e Avue s stem nce an action is com lete and signed off on t e ice resident, anager, Su ervisor, R , and Finance and udget ivision, t e ard co coded SF is no rinted and filed in eac em lo ees F e ave ta en t e formal a roval rocess one ste furt er to include t e ice resident, Administration and Finance, and t e ief of Staff, to our current electronic rocess is ill e u dated in t e current Avue s stem ecem er ,

- *e Recruit to Fill and romotions Reassignments Retention Request rocess outlines t e Avue ersonnel Action Request AR rocess t at ill record electronic a rovals and lead to a ard coded SF for filing in t e em lo ees Fs*
- *roug t e Avue s stem, R ill e a le to generate re orts for t e elegated amining nit Audit requests R as also esta lis ed and ill continue to u date our internal standard o erating rocedures S s for staffing and SF s rocessing*

Proper Reporting Period

During our testing of expenses, we noted transactions that were reported in Fiscal Year (FY) 2008, for several expenses that were actually incurred in FY 2007 Out of a sample of 61 expense transactions, we noted the following:

- One vendor payment to USAID did not have an accrual recorded in FY 2007 before payment was made in November 2007 (FY 2008) This resulted in an understatement of FY 2007 expenses and an overstatement of FY 2008 expenses of $1,176,360
- Purchase card transactions for August 2007 were not posted to the general ledger until March 2008, and an accrual was not posted to the General Ledger (GL) in FY 2007 This resulted in an understatement of FY 2007 expenses and an overstatement of FY 2008 expenses of $36,554
- Miscellaneous expenses related to refunds for expenses incurred in FY 2007, were posted in October 2007 (FY 2008) An accrual was not posted in FY 2007 to match the expense resulting in an overstatement of FY 2007 and an understatement of FY 2008 expenses in the amount of $18,214
- An accrual for a compact country utilizing the Common Payment System (CPS) was not posted in FY 2007; instead expenses that were incurred in FY 2007 were reported in FY 2008 We estimate that $383,332 of expenses recorded for Mali during the first two weeks of October 2007 (FY 2008) actually related to FY 2007 expenses

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In addition, during our testing of subsequent disbursements, we found 7 out of 24 sampled transactions that were paid in FY 2009, related to FY 2008 and did not have accruals posted Expenses were therefore understated by $1,597,587

Statements of Federal Financial Accounting Standards (SFFAS) No 5, *A ounting or ia ilities of t e Federal Government*, (p 22 and 23) requires that "a liability be 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 "

Office of Management and Budget (OMB) Circular A-136, *Form and ontent of t e erformance and Accounta ilit Re ort AR , alance S eet*, Section III 4 3 4 *ia ilities*, states that "liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources "

Although MCC does have a process in place for recording accruals on a quarterly and yearend basis, it did not adequately perform this review at yearend for interagency agreements and vendor contracts In addition, MCC did not have a process by which it reviewed amounts due from vendors for services already rendered in order to accrue for the refund and reduce the appropriate period's expenses

In FY 2007, MCC did not have a system in place to compute amounts owed, but not paid, for services rendered or goods accepted by MCC for countries utilizing CPS, as this was the first year of implementation and only one country (Mali) was using it

FY 2008 expenses were overstated by $1,578,032 due to lack of accruals in FY 2007 and understated by $1,597,586 due to lack of FY 2008 accruals

R

We recommend MCC management develop and adhere to policies and procedures related to quarterly and yearend reporting to ensure:

- All appropriate transactions are reviewed and a determination is made as to the amount to accrue for the current period; and
- The accrual amount is properly prepared, clearly documented, and supported and that it is reviewed by both the service provider, NBC, and MCC for completeness and accuracy prior to and subsequently after posting to the GL

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concurs it t e recommendation n ot F and , develo ed and utili ed com re ensive earend losing and ening olicies and rocedures t at, among ot er items, detailed accrual rocedures ese olicies and rocedures are u lis ed and disseminated eac ear ncor orating t ese recommendations results in an e anded sco e t at includes u dated rocedures t at ensure all a ro riate transactions are revie ed, and a determination is made as to t e amount to accrue for t e current eriod Additionall , accruals ill e revie ed and a roved rior to osting and ill e revie ed for accurac and com leteness after osting as ell

POSTIN TO T E ENERAL LED ER

Internal controls are not adequate to ensure that invoices, purchase orders, and journal vouchers (JV) are correct, accurate, and properly entered into MCC's GL During our testing we noted the following:

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- Two travel related accruals were posted twice in the GL NBC Accounting Technicians posted two accruals (MCC-2008-045 and MCC-2008-046 in the amounts of $302,384 and $72,187, respectively) on April 7, 2008; these two accruals were posted again on April 12th The first two entries were subsequently reversed in the next period In addition, a JV related to accruing expenses for MCC's Threshold program was posted twice in the amount of $739,817 NBC was unable to provide documentation or a reason as to why the JV accruals were posted twice MCC surmised that NBC did not realize or verify that the entries had already been posted
- Airfare for one trip was erroneously posted twice at different amounts Documentation provided for airfare posted on the centrally billed account showed that an initial amount of $13,640 was recorded but not reversed when the trip was changed to a subsequent day New airfare in the amount of $14,025 was charged when the trip was rebooked Based on inquiries with the Travel Coordinator regarding the airfare, it was determined that the duplication was not known until brought to management's attention by the auditors The erroneous amount was credited on a subsequent credit card statement
- Property, Plant and Equipment (PP&E) transactions were incorrectly recorded in the GL and were not corrected in a timely manner, as follows:
  - Accountable equipment purchases in the amount of $51,862 were recorded in BOCs for capitalized assets
  - A $7,875 invoice for capitalized leasehold improvements (LHI) was incorrectly recorded as an expense
  - Accumulated amortization on LHI was understated by $251,992 in the third-quarter financial statements The transactions to record amortization expense and accumulated amortization were posted as accruals instead of expenses; thus the amortization expense was systematically reversed, reducing accumulated amortization at June 30, 2008
  - A $1,033,429 invoice was recorded in the capitalized LHI account but was not recorded on the amortization schedule This resulted in amortization expense and accumulated amortization not being accounted for during the first three quarters of FY 2008

Government Accountability Office (GAO) Internal Control Standards for the Federal Government, GAO/AIMD-00-21 3 1 (11/90) states:

> Control activities occur at all levels and functions of the entity They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation Control activities may be applied in a computerized information system environment or through manual processes

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination All documentation and records should be properly managed and maintained

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While some of the discrepancies in property were discovered and known by MCC management, corrections were not made timely Transactions that are erroneously posted and not corrected in a timely manner increase the risk of financial misstatements As a result of erroneous postings, expenses and equipment balances were overstated in the second and third quarter financial statements All transactions were corrected by management in the 4th quarter

R

We recommend MCC management:

- Ensure that procedures for reviewing accruals and adjustments recorded by NBC are effectively performed to ensure each is valid and has been properly recorded
- Require documentation to support the entry of a JV to avoid duplication of the transaction In addition, use of a consistent naming convention when entering JVs should be required to avoid duplication
- Ensure that PP&E reconciliations are effectively performed each quarter and that amortization schedules are accurate and complete

Management Response

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

This report is intended solely for the information and use of USAID, MCC management, 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

November 14, 2008
Alexandria, Virginia

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Cotton & Company

Cotton & Company LLP
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Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

Independent Auditor's Report on
Co pliance it La s and Re ulations

We have audited the Balance Sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended We have issued our report thereon dated November 4, 2008 We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*

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 Bulletin 07-04 Providing an opinion on compliance with those provisions was not, however, an objective of our audit, and accordingly, we do not express such an opinion

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 07-04

This report is intended solely for the information and use of USAID, MCC management, 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 14, 2008
Alexandria, Virginia

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Millennium Challenge Corporation
United States of America

Memorandum

TO: Alvin A Brown
Assistant Inspector General

FROM: Michael Casella /s/
Acting Vice President, Administration and Finance

DATE: November 17, 2008

SUBJECT: Management Response to Draft Independent Auditor's Report on MCC's Financial Statements for Fiscal Years Ended September 30, 2008 and 2007, Respectively

We have received the subject draft report and are pleased to note that the independent auditors, Cotton & Company, LLP, are issuing an unqualified opinion on our principal financial statements, namely the Statements of:

Financial Position;
Net Costs;
Changes in Financial Position; and
Budgetary Resources

The Millennium Challenge Corporation's (MCC) management recognizes the importance of accountability, effective stewardship and public disclosures related to the resources entrusted to it Our goal is to achieve and maintain excellence in our financial management, financial reporting and internal control systems Accordingly, we will implement the recommendations as soon as possible to strengthen our systems of internal control and lend further credibility to our financial statements and overall financial operations

We wish to recognize and thank you, your team, and Cotton & Company for working closely with us during the audit process Any questions may be addressed to Mr Dennis Nolan, Deputy Chief Financial Officer, or to me

Following are our management decisions and responses to Cotton & Company's audit recommendations

15

C R

MCC's quality control over quarterly and yearend financial reporting is not sufficient to enable the agency to detect errors and misstatements and to make corrections in a timely manner

R N
We recommend that MCC management:

1 1 Perform detailed quality control reviews to ensure compliance with accounting standards and reporting guidance

1 2 Review and revise written policies and procedures regarding the preparation of the financial statements and related footnote disclosures to ensure that all financial statement line items are reported accurately and properly supported, and that any adjustments are reviewed and approved before recording in the GL by NBC Document the above processes to ensure that an audit trail is available for all line items and amounts reported

1 3 Effectively coordinate with its service providers (USAID and NBC) to ensure timely and accurate receipt of final trial balance information sufficient to prepare complete financial statements in accordance with OMB Circular A-136

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im ementing measures to im rove ua it ontro in a ordan e it t e auditors re ommendations

S D A P A

MCC's process of documenting requests and authorizations for personnel actions (SF-52s) is inconsistent with stated policies and procedures

R N

We recommend that MCC review and revise its process for requesting, authorizing, and certifying its personnel actions to ensure all actions are properly authorized, documented, and retained prior to the action being processed into the personnel database

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gn ant De en P ope Repo t ng Pe o

During our testing of expenses, we noted transactions that were reported in Fiscal Year (FY) 2008, for several expenses that were actually incurred in FY 2007

Re ommen at on No

We recommend MCC management develop and adhere to policies and procedures related to quarterly and yearend reporting to ensure:

3 1 All appropriate transactions are reviewed and a determination is made as to the amount to accrue for the current period; and

3 2 The accrual amount is properly prepared, clearly documented, and supported and that it is reviewed by both the service provider, NBC, and MCC for

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completeness and accuracy prior to and subsequently after posting to the GL

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concurs it t e recommendation n ot F and , develo ed and utili ed com re ensive earend losing and ening olicies and rocedures t at, among ot er items, detailed accrual rocedures ese olicies and rocedures are u lis ed and disseminated eac ear ncor orating t ese recommendations results in an e anded sco e t at includes u dated rocedures t at ensure all a ro riate transactions are revie ed, and a determination is made as to t e amount to accrue for t e current eriod Additionall , accruals ill e revie ed and a roved rior to osting and ill e revie ed for accurac and com leteness after osting as ell

S D P L

MCC's internal controls are not adequate to ensure that invoices, purchase orders, and journal vouchers (JV) are correct, accurate, and properly entered into MCC's GL

R N

We recommend MCC management:

4 1 Ensure that procedures for reviewing accruals and adjustments recorded by NBC are effectively performed to ensure each is valid and has been properly recorded

4 2 Require documentation to support the entry of a JV to avoid duplication of the transaction In addition, use of a consistent naming convention when entering JVs should be required to avoid duplication

Ensure that PP&E reconciliations are effectively performed each quarter and that amortization schedules are accurate and complete

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Balance Sheet

	FY 2008 (in dollars)	FY 2007 (in dollars)
Assets		
Intra-Governmental		
Fund Balance with Treasury *(Note 2)*	**$6,546,857,481**	**$5,549,289,597**
Total Intra-Governmental	6,546,857,481	5,549,289,597
Accounts Receivable *(Note 3)*	54,672	67,798
General Property, Plant, and Equipment *(Note 4)*	8,127,205	7,115,606
Other/Advances *(Note 1O, Note 5)*	42,578,652	32,243,157
Total Assets	**$6,597,618,010**	**$5,588,716,158**
Liabilities		
Intra-Governmental		
Other *(Note 1R)*	$383,270	($588,235)
Total Intra-Governmental	**383,270**	**(588,235)**
Accounts Payable *(Note 1F)*	35,341,439	39,176,698
Other/Accrued Funded Liabilities *(Note 1R)*	6,444,041	6,017,983
Total Liabilities	**$42,168,750**	**$44,606,446**
Net Position		
Unexpended Appropriations – Other Funds	$6,548,610,190	$5,536,714,361
Cumulative Results of Operations – Other Funds	6,839,070	7,395,351
Total Net Position	**$6,555,449,260**	**$5,544,109,712**
Total Liabilities and Net Position	**$6,597,618,010**	**$5,588,716,158**

The notes are an integral part of these financial statements

Statement of Budgetary Resources

	FY 2008 (in dollars)	FY 2007 (in dollars)
Budgetary Resources		
Unobligated Balance – Beginning of Period	$2,256,142,503	$2,671,372,416
Recoveries of Prior Years Obligations	504,898	15,930,609
Budget Authority:		
Appropriations	1,557,000,000	1,752,300,000
Nonexpenditure Transfers, Net, Anticipated and Actual	(10,810,404)	(9,415,980)
Permanently Not Available *(Note 8)*	(70,611,700)	
Total Budgetary Resources	**$3,732,225,297**	**$4,430,187,045**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$2,769,921,274	$2,174,044,542
Unobligated Balance Available	780,796,905	1,516,900,216
Unobligated Balance Not Available	181,507,118	739,242,287
Total Status of Budgetary Resources	**$3,732,225,297**	**$4,430,187,045**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2008		
Unpaid Obligations, Brought Forward, October 1	$3,287,907,145	$1,408,398,635
Obligations Incurred	$2,769,921,274	2,174,044,542
Gross Outlays	($473,979,346)	(278,605,423)
Recoveries of Prior Year Unpaid Obligations, Actual	($504,898)	(15,930,609)
Obligated Balance, Net – End of Period		
Unpaid obligations	$5,583,344,175	$3,287,907,145
Net Outlays		
Gross Outlays	$473,979,346	$278,605,423

The notes are an integral part of these financial statements

Statement of Net Costs

Program	2008 Total (in dollars)	2007 Total (in dollars)
Program Costs		
Compact		
Gross Costs *(Note)*	$226,498,265	$81,079,458
Less: Earned Revenue		
Net Program Costs	226,498,265	81,079,458
609 (g) Programs		
Gross Costs	9,768,972	17,172,113
Less: Earned Revenue		
Net Program Costs	9,768,972	17,172,113
Threshold Programs		
Gross Costs	118,903,902	75,766,215
Less: Earned Revenue		
Net Program Costs	118,903,902	75,766,215
Due Diligence Programs		
Gross Costs	17,338,771	32,789,662
Less: Earned Revenue		
Net Program Costs	17,338,771	32,789,662
Audit		
Gross Costs	2,304,181	2,865,820
Less: Earned Revenue		
Net Program Costs	2,304,181	2,865,820
Administrative		
Gross Costs	85,782,157	77,922,458
Less: Earned Revenue		
Net Program Costs	85,782,157	77,922,458
Program Costs – Net of All Programs	**$460,596,248**	**$287,595,725**
Net Costs of Operations	**$460,596,248**	**$287,595,725**

The notes are an integral part of these financial statements

Statement of Changes in Net Position

	FY 2008 (in dollars)	FY 2007 (in dollars)
Cumulative Results of Operations		
Beginning Balances	$7,395,351	$4,694,987
Adjustments *(Note)*	(1,671,357)	0
Beginning Balance, as Adjusted	$5,723,994	$4,694,987
Budgetary Financing Sources		
Appropriations Used	$460,060,774	$288,359,297
Other Financing Sources		
Donations and Forfeitures of Property	0	$123,750
Imputed Financing	1,650,550	1,813,042
Total Financing Sources	461,711,324	290,296,089
Net Cost of Operations	(460,596,248)	(287,595,725)
Net Change	1,115,076	2,700,364
Cumulative Results of Operations	**$6,839,070**	**$7,395,351**
Unexpended Appropriations		
Beginning Balance	$5,536,714,361	$4,082,189,638
Adjustments *(Note 8)*	(3,621,292)	
Beginning Balance, as Adjusted	$5,533,093,069	$4,082,189,638
Budgetary Financing Sources		
Appropriations Received	$1,557,000,000	$1,752,300,000
Appropriations Transferred In/Out	(10,810,404)	(9,415,980)
Other adjustments *(Note 8)*	(70,611,700)	0
Appropriations Used	(460,060,774)	(288,359,297)
Total Budgetary Financing Sources	1,015,517,122	1,454,524,723
Total Unexpended Appropriations	**$6,548,610,190**	**$5,536,714,361**
Net Position	**$6,555,449,260**	**$5,544,109,712**

The notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS (AS OF SEPTEMBER 30, 2008)

Note 1—Summary of Significant Accounting Policies

o e e t to

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 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 (FASAB)

MCC's principle financial statements are:

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

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

Re o t tt

MCC was formed in January 2004 pursuant to the Millennium Challenge Act of 2003 (Public Law 108-199) MCC's mission is to reduce poverty by supporting sustainable, transformative economic growth in developing countries which create and maintain sound policy environments The assistance is intended to provide economic growth and the alleviation of extreme poverty, strengthen good governance, encourage economic freedom, and promote investments in people

et et o t

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 was provided total appropriations of $1 557 billion and $1 752 billion in FY 2008 and FY 2007, 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 (SAE) and audit oversight, compact programs, due diligence programs, 609(g) programs and threshold programs 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 compact fund category at the beginning of the subsequent fiscal year

o o t

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 t e

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

o t e

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 FY 2008 and FY 2007 were $35 3 million and $39 2 million, respectively A significant portion of accounts payable reported ($24 4 million) for FY 2008 was from the USAID reported balances for Threshold programs

t t

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 Corporation 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 FY 2008 and FY 2007

e e e

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 leave

Net o t o

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

MCC made an adjustment to the FY 2008 beginning balance for cumulative results of operations to account for FY 2007 prior period adjustments These adjustments were identified as expense accruals for payments that were not properly accrued in FY 2007

F o e

Per note 1 C, 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

Ret e e t e e t

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 7 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 1 percent of basic pay to TSP and matches employee contributions up to an additional 4 percent of pay, for a maximum Corporation contribution amounting to 5 percent of pay Employees under CSRS may participate in the TSP, but will not receive either MCC's automatic or matching contributions

At the end of FY 2008, MCC made retirement contributions of $142,000 to CSRS, $2 66 million to FERS, and $998,130 to TSP

e o t te

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

o t e e

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 e t

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

to e e e te

Under current policy and procedures, MCC funds all compacts with other countries by advancing funds on a monthly basis to cover projected 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 and deposited into an account at the U S Treasury Such interest may not be retained or used by MCC, but periodically, is returned to the Treasury's general funds MCC had outstanding advances related to compact financing (Compact, Due Diligence and 609(g) funding) of approximately $32 6 million and $30 8 million on September 30, 2008 and 2007, respectively MCC received and deposited $1 61 million and $1 93 million in interest remittances on September 30, 2008 and 2007, respectively

o te e e

MCC may on occasion utilize donated services from other Federal agencies and private firms in the course of business operations MCC did not utilize donated services for FY 2008 The approximate fair market value of donated services for September 30, 2007 was $123,750

e t t e e e e e

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, budget appointments are derived MCC allocates funds, as the parent, to the United States Agency for International Development (USAID) In FY 2008 and 2007, MCC transferred budgetary authority of $110 million and $201 million, respectively to USAID for Threshold programs

R t e

MCC reclassified FY 2007 balances ($2 046 million) from Intragovernmental Liabilities to non-Intragovernmental liabilities in the column titled “Other/Accrued Funded Liabilities” for proper reporting with FY 2008 balances MCC noted that expense accruals reported in FY 2007 should not have been displayed as “Intragovernmental” and should have been denoted as liabilities from the “Public ” In order to ensure the FY 2007 expense accruals were properly reported in comparison with FY 2008 expense accruals, MCC reclassified this portion of the FY 2007 balance

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, 2008 and 2007 consisted of the amounts presented in Exhibit 53 The status of the general fund balances is summarized by obligated and unobligated balances in Exhibit 54

Exhibit 53: Fund Balance with Treasury as of September 30

	September 30, 2008 (in thousands)	September 30, 2007 (in thousands)
Fund Balances		
General Funds	$6,546,857	$5,549,290
Total	**$6,546,857**	**$5,549,290**

Exhibit 54: Status of Fund Balance with Treasury as of September 30

	September 30, 2008 (in thousands)	September 30, 2007 (in thousands)
Status of Fund Balances with Treasury		
Unobligated Balance		
Available	$782,006	$1,520,927
Unavailable	181,507	739,242
Obligated Balance	$5,583,344	$3,289,121
Total	**$6,546,857**	**$5,549,290**

Note 3—Accounts Receivable, Net

Accounts receivable reflects overpayments of payroll, travel and other MCC current and former employee expenses MCC does not record an allowance for doubtful accounts as these expenses are deemed wholly collectible Total receivables at the end of FY 2008 and 2007 were approximately $55,000 and $68,000, respectively

MCC reclassified its FY 2007 balances for Accounts Receivable from Intragovernmental Assets to non-Intragovernmental Assets for proper reporting with the FY 2008 balances MCC, in its previous A-136 financial statement reporting, has incorrectly classified its Accounts Receivable balances as “Intragovermental ” These balances were reviewed during FY 2008 and determined to be Accounts Receivable due from the “Public ”

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 at September 30, 2008 and 2007 was $10 9 million and $8 7 million, respectively Accumulated depreciation was $2 8 million and $1 5 million, respectively The current book value is valued at $8 1 million and $7 1 million for the periods ending September 30, 2008 and 2007, respectively The useful life of the improvements is based on the lease terms; 10 years for the Bowen building lease and 8 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 5 or more years 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 5 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 3 years or more These thresholds reduce MCC’s administrative costs associated with accounting for PP&E, and result in increased operational efficiency

Note 5—Other Assets

Advances reflect amounts provided to MCA compact countries and other federal agencies in accordance with formal compacts or inter-agency agreements MCC reported $42 6 million and $32 2 million in advances as of September 30, 2008 and 2007, respectively

Note 6—Leases

MCC leases office space in two adjacent locations in Washington, D C These leases are on 10 year (Bowen) and 8 year (City Center) lease terms that terminate on May 25 and May 26, 2015, respectively The Bowen building lease increases approximately 1 percent each year of the lease term The City Center building lease increases every three years through the lease term The increases for both buildings are depicted in Exhibit 55 below

Exhibit 55: Operating Leases

Future Lease Payments Due			
Fiscal Year	Bowen	City Center	Total
FY 2009	5,502,517	1,889,524	7,392,041
FY 2010	5,557,542	1,889,524	7,447,006
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
After 5 Years	11,624,232	3,990,458	15,614,690
Total Future Lease Payments (in dollars)	**$39,692,598**	**$13,596,634**	**$53,289,232**

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 specific programs Exhibit 56 shows the value of exchange transactions between the Corporation 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, on the other hand, relate to transactions between the MCC and non-Federal entities MCC does not have any exchange revenues

Exhibit 56: Intra-governmental Costs and Exchange Revenue

	Compact	609(g)	Threshold	Due Diligence	Audit	Administrative	FY 2008 Total (in thousands)	FY 2007 Total (in thousands)
Intra-Governmental	-	-	3,006	2,680	2,118	11,285	19,089	14,156
Public	226,498	9,769	115,898	14,659	186	74,497	441,507	273,439
Total - Program	**$226,498**	**$9,769**	**$118,904**	**$17,339**	**$2,304**	**$85,782**	**$460,596**	**$287,595**

Note 8—Adjustments to Beginning Balance of Budgetary Resources

At the beginning of FY 2008, $12 6 million of amounts appropriated under the Foreign Operations, Export Financing and Related Programs Appropriations Act were rescinded The rescission was part of the Across-the-Board rescission enacted for FY 2008 MCC was also subject to a mid fiscal year 2008 rescission of $58 million

MCC also made adjustments to its Unexpended Appropriations beginning balance to reflect the ending balance from FY 2007 This adjustment was due to untimely reporting of final FY 2007 ending balances from USAID for the Threshold program At the end of FY 2007, USAID made an additional adjustment to its account balances that was never reported and incorporated into MCC's consolidated financial statements This oversight was identified in FY 2008 and recorded as an adjustment to ensure that FY 2007 ending balances for Unexpended Appropriations equaled FY 2008 beginning balances for Unexpended Appropriations

Note 9—Explanation of Differences between the Statement of Budgetary Resources (SBR) 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 (SBR) for FY 2007 and the 2007 actual data reported in the President's 2009 budget submission Fiscal year 2008 actual data will be published in February 2009 within the 2010 Budget of the United States Material differences reported in the budgetary resources column ($2,679) represent unobligated balances reported on MCC's SBR and SF133, but not in the Budget of the U S Government See Exhibit 57

Exhibit 57: Material Differences Between the SBR and the President's Budget

	Budgetary Resources (in millions)	Obligations Incurred (in millions)	Distributed Offsetting Receipts (in millions)	Total Outlays (in millions)
Statement of Budgetary Resources	4,430	2,174		277
Unobligated Balance Carry forward from FY 2006	(2,679)			
Budget of the U.S. Government	1,751		(3)	277

Note 10—Undelivered Orders at the End of the Period

The reported net position consists of unexpended appropriations and cumulative results of operations, which reflects the difference between financing sources and expenses since MCC's inception Exhibit 58 presents Undelivered Orders as of September 30, 2008 and 2007

Exhibit 58: Undelivered Orders

Undelivered Orders	2008	2007
Administrative	27,302,437	27,939,653
Audit	2,180,340	1,466,325
609(g)	25,349,832	25,781,640
Due Diligence	49,203,177	33,829,978
Compact/CIF	5,242,750,204	2,956,809,299
Threshold	238,174,754	234,952,661
Total	**$5,584,960,744**	**$3,280,779,556**

Note 11—Reconciliation of Net Cost of Operations to Budget

Exhibit 59 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 59: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		Program Costs	
Budgetary Resources Obligated			
Gross obligations	2,769,921,274	**Gross Costs**	460,596,248
Recoveries of prior year unpaid obligations	(504,898)		
Other financing resources	1,650,550		
Total resources used to finance activities	2,771,066,926		
Total resources used to finance items not part of the net cost of operations	(2,306,454,323)	**Less: Earned Revenue**	-
Total components of net cost of operations that will not require or generate resources	1,147,968		
Other expenses not requiring budgetary resources	(5,164,323)		
Net Cost of Operations	**460,596,248**	**Net Cost of Operations**	**460,596,248**

ter in **Lesotho**. Improves potable water access in **El Salva**
Create agricultural business centers in **Madagascar**. Assis
ncrease drip irrigation usage in **Cape Verde**. Expand finan
ancial services in **Benin**. Strengthen public sector procure
ement capacity in **Ghana**. Construct a new airport passen
nger terminal in **Mali**. Farmer and enterprise training for
commercial agriculture in **Ghana**. Construct small and me
edium irrigation infrastructure in **Morocco**. Rehabilitate w
water treatment plants in **Tanzania**. Install animal shelters
in **Mongolia**. Provide technical assistance to farmers in **El**
Salvador. Modernize the commercial legal system in **Les**
Promote legal and regulatory reform in **Madagascar**. Rep
Decentralize land registration in **Benin**. Improve access to
o financial and market information in **Mali**. Designs, const
tructs, and rehabilitates secondary roads in **El Salvador**.
Provide support and training to promote gender equality
in **Lesotho**. Provides technical assistance to fish vendors
n **Morocco**. Increase rail traffic in **Mongolia**. Lay a subma
rine electric transmission cable in **Tanzania**. Construct wa
ater reservoirs in **Cape Verde**. Rehabilitate a primary road
in **Nicaragua**. Improve rural land tenure security in **Madag**
Construct a weight control system in **Mongolia**. Expand t
a water treatment plant in **Honduras**. Strengthens superv
vision of microfinance institutions in **Benin**. Expand irriga
tion infrastructure in **Mali**. Increase electricity coverage i
in **El Salvador**. Provide technical skills to youth and unem
mployed persons in **Mongolia**. Help financial institutions
loans in **Benin**. Expand total area under irrigation produc
erty through growth. **Millennium Challenge Corporation**.

Reducing Poverty Through Growth

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